



# Empire State Development Corporation

## Funding Commitments for Economic Development Projects

Report 2008-S-162



Thomas P. DiNapoli



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

December 3, 2009

Dennis M. Mullen  
Chairman  
Empire State Development Corporation  
633 Third Avenue  
New York, NY 10017

Dear Mr. Mullen:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Empire State Development Corporation's Funding Commitments for Economic Development Projects. The audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 6278 (3) of the New York State Unconsolidated Laws.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*





## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

#### **Audit Objectives**

Our objectives were to identify the Empire State Development Corporation's (ESDC) funding commitments for economic development projects as of November 3, 2008 and determine whether certain management information about those commitments was reliable for decision-making purposes.

#### **Audit Results - Summary**

ESDC is a public benefit corporation responsible for managing economic development projects for New York State. Its activities are funded through a combination of State appropriations, bond proceeds, and miscellaneous corporate revenues. ESDC offers grants and loans to businesses, not-for-profit organizations, and government entities. This funding is to be used on projects that create or retain jobs and otherwise promote economic development in the State. As of November 3, 2008, ESDC's records indicate actual and prospective funding commitments on such projects totaled \$2.4 billion, of which \$570 million had already been expended.

Information about the funding commitments is maintained in individual project files and centrally on ESDC's Project Tracking System (PTS). We tested the accuracy of the PTS information for 11 critical data fields and found a statistically significant number of errors in three of the fields. The other 8 critical data fields did not have a statistically significant number of errors. We also noted that almost 100 projects classified as "active" had in fact been completed or otherwise terminated. As a result, we identified at least \$2.4 million in State funding that was needlessly sitting idle waiting for these projects to be finished. We recommend that this funding be returned to the State. We also recommend steps that need to be taken to improve reliability of PTS.

ESDC officials agreed with our recommendations and indicated they have taken steps to implement them.

This report, dated December 3, 2009, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236



# Introduction

## Background

ESDC is a public benefit corporation that is responsible for managing many of New York State's economic development programs and initiatives. Its activities are funded through a combination of State appropriations, bond proceeds (ESDC is authorized by law to issue bonds in support of its economic development and job creation programs), and miscellaneous corporate revenues. ESDC has about 378 employees and is governed by a nine-member Board of Directors, two of whom serve ex-officio and seven of whom are appointed by the Governor.

In certain of its economic development programs, ESDC offers grants and loans to businesses, not-for-profit organizations, and government entities. Generally, the grants and loans are to be used to fund activities that attract businesses to the State, keep businesses in the State, and retain and create jobs throughout the State. Often, the funds are used to construct or renovate commercial or civic facilities, but they may also be used for training programs, productivity improvement initiatives, and other types of projects. In all cases, the economic benefit to the State is expected to exceed the cost of the grant or loan.

The grant or loan funding is to be used in accordance with a formal funding agreement between the recipient and ESDC. Under this agreement, the recipient is to use the funding for authorized purposes only, and may commit to create or retain a certain number of jobs in the State in a certain period of time. The recipient may also commit a certain amount of its own funding to the project. Most of the projects funded by ESDC are funded by grants, and the grant funding is generally used to reimburse the recipients for certain authorized project expenditures.

Some of the projects funded by ESDC are supported by discretionary funding and others are supported by non-discretionary funding. ESDC decides how discretionary funding is to be used; it identifies the projects that are to be funded, selects the particular funding recipients, and decides on the amount of each grant or loan. The State Legislature decides how non-discretionary funding is to be used, as it instructs ESDC to make certain amounts of funding available to certain recipients for certain projects. On both discretionary and non-discretionary projects, the funding must be used in accordance with all relevant statutory provisions.

On its discretionary projects, ESDC may target prospective funding recipients and discuss possible funding arrangements, or the recipients may reach out to ESDC through an origination and evaluation process. ESDC

negotiates the terms and conditions of each grant or loan, which is then detailed in an incentive proposal signed by ESDC and the prospective funding recipient.

The funding agreement is not finalized until the grant or loan is approved by the ESDC Board of Directors, which typically occurs after a prospective funding recipient has achieved investment and employment targets. Many capital projects, such as construction projects or machinery and equipment acquisition projects, may also require public hearings and authorization from the Public Authorities Control Board before agreements can be finalized. Once a project is approved, its funding agreement is finalized, and the funding recipient has met the required job and/or investment targets, the grant or loan funds can begin to be disbursed to the recipient. These disbursements are reviewed and signed off by project management staff in ESDC's Loans and Grants Department.

ESDC tracks the status of each project, from origination through completion, on its Project Tracking System (PTS), an online database managed by the Loans and Grants Department. Origination and project management staff are responsible for recording certain milestones for each project, and for entering timely and accurate financial and other data about each project. Officials throughout ESDC can access PTS for information about a project's history and current status, its expected total cost, its expected job creations and/or retentions, its various funding sources, ESDC's funding commitment, and ESDC's total disbursements to date.

ESDC makes grant and loan disbursements from an account established for that purpose. As of March 31, 2009, the balance in this account was \$378.3 million. State appropriations accounted for \$287.8 million of this amount (76 percent) and ESDC's corporate revenues and other miscellaneous revenues accounted for \$90.5 million (24 percent).

**Audit  
Scope and  
Methodology**

We audited ESDC's inventory of active loan and grant projects as of November 3, 2008, as well as selected aspects of ESDC's administration of such projects through January 15, 2009. To accomplish our objectives, we met with ESDC officials to confirm and enhance our understanding of their practices for maintaining PTS and allocating funding resources. We also reviewed policies and procedures, as well as rules and regulations pertaining to project origination and management, and related ESDC reports and documents.

We aged all projects entered on PTS, as of November 3, 2008, that had been approved by the Board, and judgmentally selected two samples of projects to verify that they were really active. One sample consisted of 68 of 266 active projects where the recipient had accepted ESDC's incentive

proposal and for which between two and seven years had elapsed since Board approval. The second sample consisted of 51 of 1,035 active projects that did not require an incentive proposal and had between five and ten years elapsed since Board approval.

To test the accuracy of ESDC's inventory of active loan and grant projects as of November 3, 2008, we reviewed the minutes for the ESDC Board of Directors meetings for 2006, 2007, and 2008 (through October) and selected a random sample of 80 projects, for which we reviewed the corresponding files to determine whether the information in the files had been accurately entered on PTS. We used statistical sampling techniques to design our sample and analyze our results.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

**Authority**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 6278 (3) of McKinney's Unconsolidated Laws of New York (L 1968, ch 174, §1[§28]).

**Reporting Requirements**

A draft copy of this report was provided to ESDC officials for their review and comment. Their comments were considered in preparing this report and are included in their entirety at the end of this report. Our rejoinders to ESDC's comments are included thereafter in our State Comptroller's comments.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Empire State Development

Corporation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

**Contributors  
to the Report**

Major contributors to this report include Frank Houston, John Buyce, Myron Goldmeer, Jeremy Mack, Linda Thipvoratrum, Michael Sulem, Adele Banks, and Dana Newhouse.

## Audit Findings and Recommendations

### **Outstanding Funding Commitments**

According to the information on PTS, as of November 3, 2008, ESDC was managing 1,925 active grant or loan projects that were expected to cost \$19.5 billion. ESDC grants and loans were slated to cover \$2.4 billion of these costs (12.3 percent), with other funding sources covering the remaining \$17.1 billion (87.7 percent).

Of the 1,925 active projects, 1,301 representing \$1.86 billion in grants and loans, had been formally approved by ESDC's Board of Directors. About \$570 million of these funds had already been expended. The other 624 projects, which total \$556 million, had not yet progressed to the point of being formally authorized. Further, 1,033 of the 1,925 projects were discretionary allocations of ESDC program funds, while 892 represented the non-discretionary pass through of specific State appropriations. The discretionary projects accounted for about \$707 million of ESDC funding, while the non-discretionary projects accounted for \$1.7 billion.

About two-thirds of the active projects receive less than \$300,000 in funding from ESDC. For example, in one typical project, a locality received a grant of up to \$50,000 to cover part of the cost of converting a former municipal garage into a modern, state-of-the-art library. In another typical project, a not-for-profit corporation received a grant of up to \$197,400 to cover part of the cost of renovating and marketing certain buildings in a business and technology park.

While funding levels for projects vary greatly based on project size, economic impact and other factors, a small number of projects are funded at considerably higher levels. At the time of our review, there were 16 projects (14 of which were non-discretionary) slated to receive \$25 million or more in funding from ESDC. For example, in one of these projects, the State University of New York at Albany is to receive a grant of up to \$300 million to cover part of the cost of constructing a center for nanoelectronics (the total expected cost of this project is \$600 million).

### **Accuracy of Project Information**

If ESDC management is to rely on the information on PTS for monitoring and decision-making purposes, it is imperative that the information be accurate. We tested the accuracy of the PTS information and found a significant number of errors in some critical data elements relating to project status, project cost, and ESDC's funding commitment to individual projects. As a result, certain parts of this information should not be relied upon for monitoring or decision making purposes until these errors are corrected.

### *Project Status*

PTS shows the current status of each project by tracking when particular project milestones, such as Board approval, have occurred. It also indicates whether each project is active or inactive, and further distinguishes whether the active projects are considered to be on hold and whether inactive projects have been closed (completed) or terminated (unexpectedly ended).

We analyzed the status data for all projects that were reportedly active on November 3, 2008. We found that the status of some projects had not changed for years. We determined that at least 98 of the projects were not active, and should have been terminated or closed. For example, PTS showed that 80 projects were listed as active, but “on hold,” nine of which had been in this status for between two and seven years. We reviewed the actual status of the 80 projects with ESDC project managers and found that only seven were correctly classified. We determined that 12 were in fact active and moving forward, while the remaining 61 were no longer active and should either have been terminated or closed. We also selected 119 active projects for which between two and ten years had elapsed since their initial Board approval. ESDC officials agreed that 37 of these projects were no longer active and should have been terminated or closed.

Because some projects were incorrectly classified as active, the undisbursed funds on those projects sat idle in ESDC’s account, waiting for the projects to be completed. If the projects’ actual status had been known, they could have been closed or terminated and the funds could have been returned to the State for other uses. We identified a total of \$2.4 million in such undisbursed funds, relating to 24 of the 98 inactive projects whose status was incorrectly recorded on PTS. Six of these projects (all incorrectly recorded as being on hold) accounted for \$1.6 of the \$2.4 million. We recommend ESDC remit these funds to the State and review its project records to determine whether any other such funds should be remitted. (In response to our preliminary observations, ESDC officials indicate that they have worked with the Division of the Budget to reallocate over \$2.6 million in funds from terminated projects to active projects as funds are needed for disbursement.)

We note that, in December 2006, ESDC changed its project funding practices, and as a result of this change, is now less likely to accumulate large amounts of undisbursed funds for individual projects. Prior to that time, ESDC obtained all the grant or loan funds for a project up front, in one lump sum. It then deposited the funds in its account and made disbursements as the project progressed. Now, ESDC does not obtain the funding for a project until the funding recipient has completed a significant amount of the work specified in the funding agreement. To further prevent

similar problems, ESDC needs to develop computer edits for identifying potentially inaccurate/out-of-date entries on PTS (e.g., all projects that have been on hold for more than one year), and regularly follow up on such entries to determine whether they are valid.

### **Project Cost and Funding**

We also selected a random sample of 80 active projects and used statistical methodologies to evaluate the accuracy of certain critical data on PTS by verifying the information to individual project files and other original records. Our tests covered the following 11 pieces of data, each of which we considered potentially critical for decision making purposes:

- Total project costs expected to be incurred by all parties;
- ESDC funding committed toward total project costs;
- Current status of the project (active, on hold, or inactive);
- County in which the project is located;
- Number of jobs in place at the start of the project;
- Number of new jobs expected to be created as a result of the project;
- Number of jobs expected to be saved as a result of the project;
- Number of jobs expected to be in place at the completion of the project;
- Amount of grant or loan funds paid out by ESDC to date;
- Date when ESDC's funding proposal was accepted by the recipient; and
- Date when the funding proposal was approved by ESDC's Board.

We found a statistically significant number of errors in three of these fields: total expected project costs, ESDC's total funding commitment, and the current project status.

The data field with the greatest number of errors was the total expected project cost, where the latest cost estimate in the project files differed for 17 of the 80 projects in our sample. For 13 of these projects, the total estimated cost was understated by as much as \$129 million. On the basis of our sample results, we estimate that this information on PTS is incorrect for about 409 projects (about 21 percent), with a projected range of errors between 273 (14.2 percent) and 576 (29.9 percent) cases.

The second data field with material errors was the total funding commitment from ESDC. The latest ESDC grant/loan amounts in the project files did not agree with the PTS data for 5 of the 80 projects in our sample. The funding amounts were overstated for four, and understated for one, of these projects. On the basis of our sample results, we estimate that the ESDC funding commitment shown on PTS is incorrect for about 120 projects, with a projected range between 50 (2.6 percent) and 241 (12.5 percent) actual errors.

We also determined that an increased risk of significant errors still exists in the data field for project status, even after ESDC had corrected the status errors discussed in the previous section of this report. The status shown on PTS was still incorrect for 2 of the 80 projects in our sample, both of which were classified as active, even though one had actually been closed and the other had been terminated. On the basis of our sample results, we estimate that the project status shown on PTS is still likely to be incorrect for 48 projects, with the projected range of errors somewhere between 9 (.5 percent) and 145 (7.5 percent) projects.

#### *Other Data Accuracy Issues*

Before selecting our sample, we analyzed the list of active projects, as of November 3, 2008, to assess the overall reasonableness of the data. In doing so, we identified certain errors which ESDC officials corrected. For example, one project was listed twice under different project numbers and the grant amounts for 13 other projects exceeded the total expected cost of the projects. According to ESDC officials, these errors were mainly attributable to data entry problems or data that had not been properly updated.

We also identified 13 projects that were active as of November 3, 2008, but were not included on the list of 1,925 active projects generated by a PTS database query that was written by ESDC at our request. We identified these 13 missing projects by comparing the PTS data to a list of projects that had been approved by the Board during our audit period. We confirmed that all 13 projects were included on PTS, and therefore, should have been included on the listing generated by the database query.

ESDC officials could not explain why the projects were excluded from the listing, but believed it was likely the result of how the database query was written. They said that this was the first time they had attempted to produce such a listing. Since such listings could help ESDC monitor its projects more effectively, we recommend ESDC develop a database query that can be relied upon to identify all active projects as of a certain date.

- Recommendations**
1. Remit to the State the \$2.4 million in undisbursed grant funds from completed and terminated projects, and review project records to determine whether any other such funds should be refunded.

(ESDC officials agreed with our recommendation and reported they have worked with the Division of Budget (DOB) to reallocate all funds except one project, which is a member item and cannot be reallocated at the discretion of ESDC and DOB officials.)

2. Monitor project information to ensure that the data in PTS is current, accurate and valid, particularly for project status, project cost, and ESDC funding levels.
3. Develop routine database reports capable of identifying all active projects as of a certain date and use these reports to facilitate management's monitoring and analysis of outstanding funding commitments.

(ESDC officials agreed with Recommendations 2 and 3 and indicate they actively monitor PTS accuracy through automated checks, reports, and review of information at key steps in the ESDC approval and disbursement process.)



## Agency Comments



**Anita W. Laremont**  
Senior Vice President - Legal  
and General Counsel

November 16, 2009

Mr. Frank J. Houston  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street, 21<sup>st</sup> Floor  
New York, NY 10038-3804

Re: Audit Report #2008-S-162

Dear Mr. Houston:

Attached please find Empire State Development Corporation's response to the draft audit report regarding the Empire State Development Corporation's funding commitments for economic development projects. Please let me know if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Anita W. Laremont (adb)".

Anita W. Laremont

Enclosure

cc: Dennis M. Mullen  
Douglas Wehrle  
Susan Shaffer

**Empire State Development Corporation**  
633 Third Avenue New York, New York 10017-6754 Tel 212 803 3750 Fax 212 803 3775

**RESPONSE TO OFFICE OF THE STATE COMPTROLLER'S DRAFT  
AUDIT 2008-S-162**

**DISCUSSION**

The draft audit prepared by the Comptroller's offices exaggerates the degree to which the Empire State Development Corporation ("ESD") Project Tracking System ("PTS") database information was inaccurate at the time of the audit. The draft audit needlessly creates the unnecessary concern that PTS has significant errors and cannot be relied upon. This is in direct conflict with preliminary findings previously reviewed by ESD and with previous discussions with Office of the State Comptroller ("OSC") staff.

\*  
Comment  
1

The previously reviewed preliminary findings clearly stated "Information about the funding commitments is maintained on ESD's project tracking system. **We tested the accuracy of this information and found that, for the most part, it was accurate and reliable for decision-making purposes.**" This statement does not appear in the draft audit, which leads the report's readers to conclude that the PTS database is largely inaccurate, rather than largely accurate, which ESD asserts is very much the case. **It is vital for any reader of this audit to clearly understand that the overall database is reliable and can be used for decision-making.**

\*  
Comment  
2

In addition, it is misleading that the Executive Summary and Audit Results – Summary indicate only the small amount of errors, not the overwhelmingly large percentage of correct information or the large the scope of information audited. Given an audit of 1925 projects with 11 data fields each, for a total of 21,175 fields, and a total grant and loan amount of \$2.4 billion dollars, the small number of errors found certainly are not "significant," as the audit repeatedly states.

**Given the constantly changing landscape of the State's economic development activities and limited ESD staff resources, ESD is extremely satisfied with the overall accuracy of PTS and finds that the audit misses the overall picture, focusing instead only on a small amount of data that has little, if any, impact on ESD's decision-making and day-to-day activities.**

\* See State Comptroller's Comments on page 25

## Primary Report Issues

ESD strongly asserts that OSC's language is misleading in the following four primary areas of discussion outlined below. These issues appear in several places in the draft audit report:

1. Number of errors

"a significant number of errors in some critical data fields"

This statement is misleading and provides no context of the amount of information audited. Specifically, "some" is misleading, as 8 of 11 fields tested had no errors at all, and 2 of 11 fields tested had low error rates (2.5% and 6.2%, as noted in preliminary audit). "Significant" is also misleading, as only one field had a "significant" number of errors (Total Project Cost). See point 4 below.

\*  
Comment  
1

2. Incorrectly classified active projects

"Almost 100 projects classified as active had in fact been completed or otherwise terminated."

This statement is misleading, as it gives no perspective regarding how this number of projects relates to the scope of the audit. To put this number in an appropriate context, note that this is less than 5% of total projects audited. 98 out of 1925 projects were incorrectly classified as "active," out of which 80 of 98 were "on hold," which indicates that ESD was aware that the projects were not actively moving forward at the time. In addition, only 2.5% of the sample of 80 projects audited were classified incorrectly.

ESD acknowledges that some projects could have been more aggressively terminated, some projects were not automatically closed by the PTS system due to a remaining balance of funds, and some projects were closed through normal ESD review processes during the course of the OSC audit. ESD also notes that it is better for ESD to allow a project to remain on hold or active with a small balance than to close or terminate a project that is still active, thereby indicating that funds are available for reallocation and could be taken away from a Grantee which could still request funds.

3. Funds remaining in ESD accounts for inactive projects

"at least \$2.4 million in State funding that was needlessly sitting idle"

This statement is misleading, as ESD cannot decide to reallocate funds on its own. ESD funds can only be reallocated with the permission of the Division of the Budget ("DOB"), a process conducted on an as-needed basis and which considers all projects in a specific time frame (ex: approved prior to a certain date) or with a specific status (ex: no GDA executed). Considering that the audit covered \$2.4 billion in funding, a balance of \$2.4 million (only .1%) is not "significant."

\*  
Comment  
3

Note that this \$2.4 million in funding has already been reallocated through working with DOB, with the exception of a member item that ESD cannot reallocate prior to receipt of legislator's directive.

\* See State Comptroller's Comments on page 25.

4. Reliability of information

"In addition to errors in project status, our tests showed that PTS data on total project cost and the amount of ESD's funding commitment for individual projects was inaccurate or outdated for a significant number of projects. As a result, this PTS information cannot be relied upon until these errors have been corrected."

This statement is very misleading overall as well as specifically misleading with regard to the following:

- The ESD funding amount field had an error rate of only 6.2% in the sample pool of projects (5 of 80 projects). This field was previously a "locked" field (prior to 2008) that was based on the original grant amount entered in PTS. One project (approved in 2004) had not been updated after the field had been modified to allow manual edits and reflected one of two possible grant amounts stated in the project terms, only approximately 10% greater than the final grant amount. The other four projects, none of which were Loans and Grants projects, all had correct funding amounts in the PTS ESD Approval milestone, which indicated that the project had been monitored for accuracy of Grant amount. These 4 projects had a difference of less than \$20,000.
- For the Total Project Cost field, ESD agrees that this field has a significant error rate of 21.2%. However, it should be noted that this is an estimate entered in PTS at the beginning of a project and may or may not be updated later, as it is not a key decision-making field. Given limited resources, ESD staff has focused on the most important fields rather than those which are not critical. However, ESD is now performing checks on this field at the time a project is approved by the presented to the ESD Board in ensure that the field is updated from the initial estimate. It is impossible to perform an exhaustive check on all previously approved projects, though a summer intern did begin this process in 2009.

\*  
Comment  
1

**Secondary Report Issues**

Several additional areas show an incomplete understanding of the ESD project management process.

All funding disbursements undergo a thorough review; after Loans and Grant staff review disbursement requests, requests are then reviewed by ESD's Contracts Administration, which includes another detailed audit and a check of available funding with OSC and DOB. Prior to payment, payment requisitions are signed off by the Senior Vice President of Loans and Grants, and depending upon amount of the disbursement request, by other senior ESD management outside of the Loans and Grant department,

Of the 16 projects receiving \$25 million or more in funding, 14 are member items as noted; in addition, it should be noted that the other two projects do not use ESD funds. Therefore, ESD had not awarded its discretionary funds to any of these projects.

\* See State Comptroller's Comments on page 25.

## Recommendations

ESD's response to the recommendations must be strongly underscored by emphasizing ESD's commitment to PTS database functionality and accuracy. The PTS system was created almost 10 years ago and received no in-depth system updates until a dedicated PTS Management Information Systems staff member was hired in 2007. Since then, ESD staff has made drastic improvements in system functionality and data accuracy, as seen in the overall accuracy of this database. PTS contains over 16,000 projects, each with approximately 100 fields, milestones, and documents. Some information, such as when a project is closed, or a change in grant amount, was previously automatically programmed into the PTS system; some projects are anomalies that do not fit with the standard PTS steps and fields. Therefore, ESD acknowledges that some discrepancies may always be present in PTS, which, given the amount of data, is to be expected; there will always be cases where projects may not have been updated or have areas that are still undergoing system improvements.

ESD is strongly committed to the constant improvement of the PTS system and data, which this audit does not acknowledge. Thousands of hours have been dedicated to improving overall PTS system functionality and data accuracy, and this effort is ongoing. ESD will use the audit as a tool for prompting even deeper data verification, given staff availability.

1. *Remit to the State the \$2.4 million in undisbursed grant funds from completed and terminated projects, and review project records to determine whether any other such funds should be refunded.*

ESD has already worked with DOB to reallocate all funds except for one project, which is a member item and cannot be reallocated at the discretion of ESD and DOB.

2. *Monitor project information to ensure that the data in PTS is current, accurate and valid, particularly for project status, project cost, and ESD funding levels.*

ESD agrees and actively continues to focus on constant monitoring of PTS accuracy through automated checks, reports, and review of information at key steps in the ESD approval and disbursement process.

3. *Develop routine database reports capable of identifying all active projects as of a certain date and use these reports to facilitate management's monitoring and analysis of outstanding funding commitments.*

To restate, ESD agrees and actively continues to focus on constant monitoring of PTS accuracy through automated checks, reports, and review of information at key steps in the ESD approval and disbursement process.



## **State Comptroller's Comments**

1. Our sample identified a statistically significant number of errors in 3 of the 11 critical fields of PTS data tested, with the possible number of errors projected as high as 7.5 percent, 12.5 percent and almost 30 percent. In our opinion, this level of error is too high for management to rely on the information from these fields to make decisions.
2. We have revised our report to clarify how many of the critical data fields in PTS contained a statistically significant number of errors, as well as how many data fields did not contain a statistically significant number of errors and, therefore, were reliable.
3. By not properly classifying these projects as inactive, management failed to notify DOB that these State funds, which had been advanced to ESDC, were available to be reallocated for other uses. The fact that ESDC indicates DOB reallocated most of these State funds very soon after we identified the errors is evidence that the funds were unnecessarily sitting idle.