January 2014

Performance Audit Recommendations and Corrective Actions for Audit: 08-8

Vermont Economic Growth Incentive Program Audit

Dated: 06/12/2008

Overview

The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, auditees or the General Assembly must implement these recommendations although we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be derived from our audit work.

In 2010, the SAO began to follow-up on the recommendations issued in our performance audits. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we perform our follow- up activities two and four years after the calendar year in which the audit report is issued (e.g., we followed up on recommendations contained in audit reports issued in calendar year 2008 in 2010 and 2012). Our annual performance reports summarize whether we are meeting our recommendation implementation targets.

Act 155 (2012) required that we post on our website "a summary of significant recommendations arising out of the…audit reports… and the dates on which corrective actions were taken related to these recommendations. Recommendation follow-up shall be conducted at least biennially and for at least four years from the date of the audit report."

This report addresses the requirements of Act 155 to post the results of our recommendation follow-up work on our website. The report does not include follow-up on recommendations issued as part of the state's financial statement audit and the federally mandated Single Audit, which are performed by a contractor. However, our new contract for this work requires the contractor to provide the results of its recommendation follow-up in the future. Accordingly, we expect that future reports will contain this data.

Audit No., Name & Date	Rec #	Recommendation	Follow-Up Date	Status and Date	Review Comments
08-8 Vermont Economic Growth Incentive Program Audit 06/12/2008	1	The Vermont Economic Progress Council (VEPC) should include a signed attestation statement on the application that signatories other than the president or CEO are authorized to sign on their behalf.	6/27/2012	Implemented 12/31/2008	Adoption of this recommendation was achieved by VEPC through technology and changes to the VEGI application system. Any person working on a VEGI application must create a protected user account that has an assigned role, such as authorizing official and senior authorizing official. The VEPC executive director ensures that the individuals who are assigned to these two roles meet the program definitions of top company official.
	2	The Vermont Economic Progress Council (VEPC) should consult with the Tax Department as to possible impacts of policy changes. VEPC should recalculate the incentive award to disallow activity occurring prior to the approval date of the final application so as to be in compliance with statute and do so for all affected applications.	6/27/2012	Partially Implemented 12/31/2009	The statutes and administrative rules have been changed to better define the controls over activity commencement dates. At the time of our audit in 2008, the VEGI statute did not allow for incented activity prior to final approval, however VEPC elected not to recalculate the incentive award for the specific cases in our report.
	3	The Vermont Economic Progress Council (VEPC) should impose a limit on the time an applicant is given to file the final application after the initial approval is given.	6/27/2012	Implemented 6/30/2009	The legislature changed the statute to require that the final VEPC approval must come before December 31 of the calendar year in which the economic activity commences. This action effectively reduced the risk of a company adjusting incentive targets to ensure targets were met.
	4	Verification of the calculations returned by EPRI should be done by the Vermont Economic Progress Council (VEPC) staff to ensure consistent methods are applied.	6/27/2012	Implemented 1/31/2010	The VEPC executive director prepares a series of spreadsheets using applicant data and compares the spreadsheets to the inputs and outputs from EPRI.
	5	The Legislature should consider revising the statute to require the wage threshold to remain at 160% of the current minimum wage through the entire award period.	6/27/2012	Not Implemented	The legislature requested a comprehensive study on VEGI in 2011, which included a review of the wage threshold. The review advised changes to the threshold, but the legislature did not act to change it.

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08-8 Vermont Economic Growth Incentive Program Audit 06/12/2008	6	The Vermont Economic Progress Council (VEPC) should consider the involvement of an independent public advocate for the State reviewing an applicant's "but for" statements and supporting documentation.	6/27/2012	Implemented 06/30/2009	The composition of the board was altered by the legislature after our 2008 audit. Adding representatives of the people from the legislative branch should increase the level of review and due diligence, and therefore the SAO believes that the intent of our recommendation has been implemented.
	7	The Vermont Economic Progress Council (VEPC) should use the correct background growth rate to recalculate the incentive award for this applicant. Also, VEPC should add recalculating the background growth rate as a control to their verification of the data going into the cost-benefit model per applicant and have the data rerun when an obvious discrepancy occurs.	6/27/2012	Not Implemented	VEPC declined to re-calculate the specific incentive award because the incentives were subsequently rescinded. It does not recalculate the background growth rate as an additional control to validate the data output from the cost-benefit model. VEPC chose not to update the cost-benefit model more than once annually, citing cost effectiveness and statutory restrictions (which require that a change to the cost benefit model be approved by the Joint Fiscal Committee).
	8	The Vermont Economic Progress Council (VEPC) should update the [regional] grouping annually or revise its operating guidelines to reflect the correct methodology.	6/27/2012	Implemented 06/30/2009	The VEGI administrative rules were amended to reflect the best practice suggested. The regional Differential Adjustment Factor has been reviewed annually and updated if economic conditions have changed enough to warrant any update.
	9	We recommend to the Legislature that these safeguards should be maintained for prudent fiscal management of the State's resources (1) annual cap of $10 million on the total incentives authorized yearly and (2) incentive ratio of 80% applied to the pre-incentive net fiscal benefit.	6/27/2012	Implemented 6/30/2010	The annual cap was debated during the 2010 session based upon a request by VEPC for an increase in the cap to accommodate potential projects which if approved would exceed the cap. The Joint Fiscal Committee (JFC) agreed to raise the cap for calendar year 2010 only, and the annual $10 million cap and the 80 percent ratio remain in place.

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08-8 Vermont Economic Growth Incentive Program Audit 06/12/2008	10	The Vermont Economic Progress Council (VEPC) and the Joint Fiscal Committee should use a company's historical rate of growth, if higher than industry average, in the cost-benefit model when it is available.	6/27/2012	Not Implemented	In January 2012, the Secretary of the Agency of Commerce and Community Development delivered a report to the legislature regarding the VEGI program. The report contains a discussion on the background growth rate. The current practice is to use 15 years of background growth, representing a standardized approach for all potential companies and providing a level playing field for all companies – large or small, an existing old, existing new, or start-up. The report states that measuring companies against industry benchmark is the most equitable and efficient solution. The report contends that using company specific information would require many rules and methodologies for each possible company situation. It also states that it would require subjective analysis because each company would have a different amount of historical data available. The SAO believes that using actual historical background rates is more accurate and ensures that when a company that is outpacing its peers applies for an incentive, a part of the normal growth of the company which can reasonably be expected to occur is not included in the incentive calculation.
	11	The Vermont Economic Progress Council (VEPC) should require that all the tools available to the staff be used, such as the "but for" checklist.	6/27/2012	Partially Implemented 12/31/2008	In lieu of using a "but for" checklist, in 2008 the VEGI program implemented a web-based software application and claims system. However, the effective use of this new system is lessened as a result of the VEPC executive director being the only staff member trained to review the technical aspect of the model.
	12	The Vermont Economic Progress Council (VEPC) should consider adopting a policy and process to bill the costs of additional due diligence, when deemed necessary, to a company's first-year payments through a reasonable bill back provision.	6/27/2012	Not Implemented	The statutes and administrative rules have been changed to better define the controls over activity commencement dates. At the time of our audit in 2008, the VEGI statute did not allow for incented activity prior to final approval, however VEPC elected not to recalculate the incentive award for the specific cases in our report.