EXECUTIVE SUMMARY

The New Jersey Economic Development Authority (EDA) is an independent State agency that provides financial assistance to qualified companies (hereinafter referred to as awardee or recipient) for the purpose of maintaining and expanding employment opportunities in the state and increasing tax ratables in underserved communities. EDA administers tax incentive programs that have job creation or retention requirements, provide financing for certain business activities, and revitalize communities through redevelopment initiatives.

Over the past year, the Office of the New Jersey State Comptroller (OSC) has engaged in an audit of five incentive programs administered by EDA: the Business Retention and Relocation Assistance Grant Program (BRRAG), the Business Employment Incentive Program (BEIP), the Urban Transit Hub Tax Credit Program (HUB), the Grow New Jersey Assistance Program (GrowNJ), and the Economic Redevelopment and Growth Grant Program (ERG). Each of these programs is governed by a web of enabling statutes, regulations, policies and procedures, and legal considerations. Notwithstanding that, EDA is responsible for ensuring that these programs are administered in accordance with their respective guidelines and that the almost $11 billion in grants and incentives result in the promised economic benefit to the State and its taxpayers.

While the complexities associated with EDA's role cannot be discounted, the amount of money at issue and the importance of these incentive programs as a component of New Jersey's strategy for economic expansion warrant a careful, unvarnished examination of EDA's administration of the five programs listed above. While deficiencies have been found, EDA's willingness to make changes and the value of the incentive payouts that have yet to be realized will allow New Jersey to deliver on the promises made to the business enterprises who sought to participate in these programs while also delivering on State government's obligation to the taxpayers of New Jersey to safeguard tax dollars.

Within that context, this audit – *New Jersey Economic Development Authority: A Performance Audit of Selected State Tax Incentive Programs* – reports our findings and makes recommendations for corrective action designed to promote the effective administration of these tax incentive programs. In general, our audit found that EDA did not properly administer the incentive programs in accordance with governing statutes and regulations, its policies and procedures, and the terms of the award agreements within the sample that OSC examined. While acknowledging that our performance audit examined only a sample of incentive grants across the five programs, the number and frequency of the exceptions noted suggest that the issues that were identified exist throughout the five programs and, at the very least, warrant systemic changes within EDA to address OSC's findings. In many – but not all -- instances, EDA agrees with our findings and notes certain areas where change has already begun but disputes certain findings as well. EDA's formal response to the complete audit is attached thereto. While OSC does not believe that EDA's objections invalidate any of our audit findings, EDA's response should be considered in any complete reading of our audit report.

Overall, OSC has concluded, among other things, that EDA currently lacks an adequate monitoring system to assess an awardee's performance to ensure that the incented jobs were realized, failed to develop an evaluation of the incentive programs to assess their effectiveness in improving economic development in New Jersey, and reported information about incented jobs that was not accurate and was misleading with regard to the accomplishments. EDA's current monitoring and oversight process lacks sufficiently detailed data to confirm whether the jobs were actually created or retained and has led to overstated and overpaid incentive awards. Specifically, EDA did not: establish relevant or sufficient policies and procedures for all aspects of administering and managing the incentive programs; consistently comply with all statutory, program and EDA regulations, and internal policies and procedures; or adequately monitor and oversee the incentive awards.

Given these shortcomings, EDA is not in a position to verify and confirm that incented jobs were actually created or retained. EDA's reliance on recipient certifications and reported data as accurate without any independent verification of the data with supporting documentation or confirmation from the Department of Labor and Workforce

Development or the Department of Treasury, Division of Taxation is insufficient. Moreover, EDA failed to require or collect sufficiently detailed information about existing employees, salary and hours worked, statewide employment, employment history, and trends from all applicants in the year before the application, making it impossible to assess whether the awardees created or retained the jobs or maintained their pre-award levels of statewide employment. This pre-award information would have established the baseline of the existing employees and would have ensured that the award was approved for the appropriate number of jobs pursuant to the program goals.

These deficiencies weaken EDA's ability to perform adequate and appropriate monitoring of a recipient's performance and further impact its ability to ensure the transparency, integrity, and accountability of the incentive awards. In addition, these deficiencies resulted in the approval of incentive awards that were not thoroughly assessed for program eligibility pursuant to statutory requirements. When examined in comparison to the associated incentive awards, OSC finds that these exceptions resulted in improperly awarded incentives of $179 million, overpaid incentives of $6.6 million, and over-certified incentive awards totaling $5.2 million, that unless corrected will result in overpayments. In addition, 2,993 jobs were not substantiated as having been created or retained.