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OSC Recommends Enhanced Monitoring Efforts for Tax Incentive Programs

TRENTON – State Comptroller Philip James Degnan today recommended that the New Jersey Economic Development Authority (EDA) take steps to improve the reporting requirements and monitoring of recipients of awards through New Jersey’s various tax incentive programs.

Over the past year, the Office of the New Jersey State Comptroller (OSC) has conducted a performance audit of five EDA-administered tax incentive programs: Grow New Jersey Assistance Program (GrowNJ), Economic Redevelopment and Growth Program (ERG), Business Employment Incentive Program (BEIP), Business Retention and Relocation and Assistance Grant Program (BRRAG), and the Urban Transit Hub Tax Credit Program (HUB). These programs, each with an individualized focus and unique requirements, have been critical tools in the State’s effort to retain and attract business enterprises to New Jersey. Under the specific requirements of each program, the State promises payments or incentives to qualified business enterprises who apply to and meet the eligibility criteria of a given program. In many cases, the promised incentives are tied to ongoing performance benchmarks that must be met to trigger the full value of the grants or incentives. Given the fact that some of these incentive programs have been in place for more than two decades and a significant portion of the related awards have yet to be paid, it is an appropriate time to examine the complexities of the administration of these various programs.

Through its audit, OSC found that improvements can be made to the administration of these programs and to the monitoring of ongoing benchmarks and obligations on the part of the awardees. These efforts are undoubtedly complicated by the sheer number of statutory schemes, regulations, streams of discordant data from the awardees, and personnel constraints. Notwithstanding those facts, the sheer amount of taxpayer funds tangentially related to each of the incentive programs necessitates that EDA devise proactive and creative monitoring programs to ensure that New Jersey is receiving the economic benefit contemplated by each of the awards in these five programs. If fully realized, these incentive

programs will result in approximately \$11 billion in awards and incentives, clearly warranting a robust, effective administration and monitoring effort.

In releasing today's audit report, Comptroller Degnan noted the cooperation that OSC received from EDA throughout this year-long audit engagement and commends EDA for the actions already taken to improve areas in which OSC has noted deficiencies. "Tax incentive programs can serve an important role in the highly competitive effort to attract and retain business in this State. Indeed, the historical results of these programs would suggest that each of these programs has played a role either in retaining businesses in New Jersey or in bringing new jobs to this State. With many of these programs reaching maturity and with a significant amount of incentives yet to be distributed through these programs, it is time to examine the manner in which these programs are administered and to make improvements to our monitoring efforts. This will ensure that the promised economic benefits are, in fact, delivered to New Jersey, while not detracting from other activities that promote economic growth, such as education, job training, and transportation," Comptroller Degnan said. "The requirements of these programs and the deliverables promised by the awardees are complex. As a result, it is not surprising that deficiencies were noted and we shared them with EDA throughout the course of the audit. To their credit, the leadership group at EDA has shown itself willing to make the necessary changes to fulfil its mission to properly administer these programs."

Specifically, OSC found deficiencies in the following areas:

- Inadequate monitoring, insufficient oversight, and non-existent policies and procedures that have created control deficiencies that weaken the transparency and accountability of the incentive programs and their success.
- The lack of an adequate process to assess accomplishments and effectiveness of the incentive programs or to determine whether the state has realized the economic benefits asserted by the applicants.
- The lack of adequate policies and procedures to monitor awardees' performance (i.e., number of jobs created, etc.) and insufficient documentation requirements for awardees to report specific accomplishments with regard to their performance. These failures resulted in inaccurate representations of awardee performance to stakeholders and taxpayers.
- A failure to properly analyze recipient performance data to determine whether the incented jobs were actually created or retained pursuant to the award terms. These failures resulted in 2,993 reported jobs that were not substantiated as having been created or retained.
- Inadequate accounting processes and lack of appropriate controls to ensure that the fees were appropriately assessed, collected, and recorded.

In each of these areas, OSC has presented recommendations designed to address the noted deficiencies.

OSC is an independent state agency that conducts audits and investigations of government agencies throughout New Jersey. The Office also reviews certain government contracts and works to detect and prevent Medicaid Fraud. The Office strives to enhance the efficiency and transparency of government and to ensure that public funds are spent effectively and efficiently.

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Click [here](#) to view the complete report and [here](#) to view the Executive Summary.

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