



# Indiana Economic Development Corporation Incentive Program Review December 6, 2011

## Executive Summary – Project Approach

- The Incentive Program Review consisted of the following activities:
  - A high-level review of internal, IEDC policies and procedures of the Development Finance Office (DFO), Audit, and Compliance / Legal departments
  - Confirmation of our understanding of the business processes of the DFO, Audit and Compliance / Legal departments
  - Interviews with current staff in the DFO, Audit and Compliance / Legal departments
  - A review and comparison of job projections contained in Annual Reports and IEDC source documentation
  - A small sample review of company annual certification data submitted by companies and certified by IEDC
  - A review of key considerations from the 2010 incentive program review and the progress of implementing changes based on those considerations

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## Topics

- Executive Summary
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- Status of Projects by Year 2005 – 2010
- Review of Job Numbers

## Executive Summary – Findings and Considerations

- Based upon review of the 2010 IEDC Annual Report data, there is no evidence that the IEDC has inflated job projections or project figures
- When the IEDC gathers informal job numbers, we recommend the following:
  - Consistently use a cut off date to capture informal job numbers
  - Specify an as-of date to align informal jobs to a specific year
  - Consistently use a standard call and/or email script when IEDC staff contact companies for informal job numbers
- The IEDC provides periodic updates of job numbers to the IEDC Board of Directors
  - We recommend selecting a specific time each year to provide an update of job numbers to the IEDC Board of Directors to create consistency when comparing data across multiple years

## Executive Summary – Findings and Considerations (cont.)

- On an annual basis, the IEDC reviews projects that have statuses between the acceptance and contract stages
  - We recommend defining a specific time each year (in alignment with gathering job numbers) to review these projects and make decisions to cancel or keep projects active
- The IEDC Net New Jobs<sup>1</sup> numbers include certified, prior or current year informal jobs for all reporting projects regardless of whether a project has a performance goal for the year under review
  - We recommend including only job numbers for projects that have a performance goal for the year under review
  - We recommend clarifying the Net New Jobs numbers in charts provided to the IEDC Board of Directors as the Net New Jobs numbers include current year informal jobs numbers which are gathered based on a point in time and do not indicate the year in which jobs were created

<sup>1</sup> Net New Jobs are determined by calculating the difference between the permanent, full time Indiana resident employees at a project location reported by the company and the base employment at that location at the time of contract.

## Executive Summary – Findings and Considerations (cont.)

- Based on interviews with IEDC staff, the IEDC and Indiana Department of Revenue (IDOR) are working together to improve processes to certify tax credits by leveraging technology and coordinating site visits to companies
- The job numbers published in the IEDC Annual Report represent job commitments based on the pre-commit documentation for all competitive projects during a given year
  - We recommend publishing the contracted commitment numbers for projects that have a signed contract, when available, in order to provide the most recent, agreed-upon job commitment numbers in IEDC Annual Reports
- We recommend identifying and tracking job numbers by adding a field in the IEDC Source System to indicate the IEDC Annual Report in which the project is listed

## Executive Summary – Findings and Considerations (cont.)

- We recommend documenting the process staff use to gather job commitment numbers when developing the IEDC Annual Report and providing periodic updates to the IEDC Board of Directors
- Upon review of the 2010 Annual Report, we found one instance where a project was listed as a competitive project in the Annual Report, but listed as a non-competitive project in the IEDC Source System
  - We recommend developing a process to regularly monitor and update project records and documentation in IEDC's Source System
  - We recommend implementing a validation check of those records prior to publishing the IEDC Annual Report
  - Upon review of this recommendation and the details of the project, the IEDC reviewed and updated the Source System to accurately reflect the 2010 Annual Report

## Executive Summary – Review of 2010 Considerations

*The 2011 review included a review of the considerations posed to the IEDC in 2010. A summary of those considerations and the IEDC's progress of implementing changes to address those considerations is listed below:*

- We recommended finalizing and leveraging the written policies and procedures manual
  - Upon review, we found that the internal policy and procedures manual is still in development and has expanded to include processes from multiple departments (e.g., DFO, Audit and Compliance / Legal departments)
    - We recommend finalizing the manual and including processes and procedures from the Business Development and Marketing departments to create a comprehensive manual for IEDC staff
- We recommended clarifying the job numbers used in IEDC reports (e.g., actual jobs versus projected jobs; certified numbers versus informal numbers; the point in time job numbers are gathered and reported)
  - The 2010 Annual Report included clarification of how incentives are certified and tax credits are awarded to companies for job creation
    - We recommend defining the terms “competitive projects” and “job commitments” in future IEDC Annual Reports

## Executive Summary – Review of 2010 Considerations (cont.)

- We recommended clarification of terminology internally and externally by developing a glossary of standard terms and definitions used by IEDC staff to evaluate and report job numbers
  - We recommend developing a glossary of standard terms and definitions in the internal policy and procedures manual
  - The glossary of terms should match the terms and definitions used in the IEDC Source System
  
- In 2010, the IEDC developed new processes to streamline the auditing and monitoring of companies on an annual basis
  - Process documentation is still in development as part of the internal policy and procedures manual
    - We recommend finalizing this documentation and communicating these processes internally and externally, as appropriate

## Executive Summary – Review of 2010 Considerations (cont.)

- We recommended optimizing internal tracking in IEDC’s Source System by tracking the year in which jobs from a project can be attributed
  - Upon review, we found that the IEDC developed and currently uses the “Accepted Deals List Year” field in their Source System to track that data
- We recommended reconciling prior year job projections (back to 2005) in aggregate and report adjustments in IEDC Annual Reports
  - Based on review of the 2010 Annual Report, the IEDC reconciles prior year job projections in aggregate and adjustments were reported in the 2010 Annual Report
- The following formula-based logic was developed in 2010 and recommended to IEDC when calculating Net New Jobs:
  - The logic should be applied in the following order: 1) Company-submitted / IEDC certified data; 2) Current year informal numbers if available; 3) Previous year informal numbers if available; 4) If none of those exist, zero should be used
  - Based on the 2011 review of job numbers, the IEDC has implemented this logic to calculate Net New Jobs

## Status of Projects by Year (2005 – 2010)

Year of Transaction	Total Projects	Canceled Projects	Completed Projects	Non-Reporting Projects	Closed Projects	Active Reporting Projects
2005	137	38	11	1	0	87
2006	188	48	29	1	2	108
2007	152	34	24	0	2	92
2008	147	32	18	2	2	93
2009	158	17	6	0	0	135
2010	198	15	0	0	0	183
<b>Total</b>	<b>980</b>	<b>184</b>	<b>88</b>	<b>4</b>	<b>6</b>	<b>698</b>

\* This chart represents data in the IEDC Source System as of November 29, 2011.

\*\* No discrepancy was found with the status of projects the IEDC has reported to the IEDC Board of Directors.

## 2010 Job Actualization

Year of Transaction	Number of Projects	Total Expected New Jobs by 2010	Net New Jobs Reported in 2010	Percent Realization
2005	87	8,882	6,795	77%
2006	108	12,935	10,445	81%
2007	92	11,171	6,874	62%
2008	93	7,294	5,052	69%
2009	135	10,504	8,502	81%
2010	162	4,124	6,754	164%
<b>Total</b>	<b>677</b>	<b>54,910</b>	<b>44,422</b>	<b>81%</b>

\* This chart represents data in the IEDC Source System as of November 29, 2011.

\*\* Companies with accepted deals that were required, but did not report, are not included in the Number of Projects. The Number of Projects includes companies not required to report.

\*\*\* Logic applied to determine IEDC Net New Jobs is as follows: If available, used company-submitted / IEDC certified data first; then informal 2011 numbers if available; then informal 2010 numbers if available. If none of those exist, zero was used.

\*\*\*\* Informal jobs are collected throughout the year by IEDC staff. Informal jobs represent a point in time headcount of employees. Unless a standard point in time date is used to gather informal job numbers, the year in which jobs were created by a project cannot be determined.

## 2010 Job Actualization – IEDC Numbers

<b>Year of Transaction</b>	<b>Number of Projects</b> From Accepted Reporting Projects	<b>Total Expected New Jobs by 2010</b> From Accepted Reporting Projects	<b>Net New Jobs Reported in 2010</b> From Accepted Reporting Projects	<b>Percentage Realization</b> From Accepted Reporting Projects
<b>2005</b>	87	8,882	6,795	77%
<b>2006</b>	108	12,935	10,445	81%
<b>2007</b>	92	11,171	6,874	62%
<b>2008</b>	93	7,294	5,052	69%
<b>2009</b>	135	10,504	8,502	81%
<b>2010</b>	162	4,124	6,754	164%
<b>TOTAL</b>	<b>677</b>	<b>54,910</b>	<b>44,422</b>	<b>81%</b>

\* This chart represents data in the IEDC Source System as of November 29, 2011.

## 2010 Certified Jobs

Year of Transaction	Number of Projects	Total Expected New Jobs by 2010	Certified Net New Jobs for 2010	Percent Certified (Certified Jobs Only)
2005	87	8,882	4,630	52%
2006	108	12,935	8,353	65%
2007	92	11,171	4,134	37%
2008	93	7,294	3,492	48%
2009	135	10,504	4,564	43%
2010	162	4,124	1,642	40%
<b>Total</b>	<b>677</b>	<b>54,910</b>	<b>26,815</b>	<b>49%</b>

\* This chart represents data in the IEDC Source System as of November 29, 2011.

\*\* Companies with accepted deals that were required, but did not report, are not included in the Number of Projects. The Number of Projects includes companies not required to report.

\*\*\* The IEDC certifies jobs annually. Only companies with certified jobs are eligible to receive tax credits.