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NEWS RELEASE

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FOR RELEASE September 28, 2016

Auditor of State Mary Mosiman today released a report on the High Quality Jobs Program (HQJP) and the Grow Iowa Values Fund (GIVF), administered by the Iowa Economic Development Authority (IEDA), previously known as the Department of Economic Development, for the period July 1, 2003 through June 30, 2014. The review was conducted to determine if IEDA has developed policies and procedures based on the findings and recommendations included in our report on the “Department of Economic Development Grow Iowa Values Fund” issued on February 28, 2007. We also reviewed IEDA’s administration of the programs to determine compliance with relevant sections of the *Code of Iowa*, the Iowa Administrative Code (IAC), and the IEDA policies and procedures.

According to the IEDA’s annual report issued in January 2015 for the period ended June 30, 2014 the IEDA has awarded a total of \$309,907,616 of State financial assistance to 987 projects. The Table below summarizes selected information included in the 2014 annual report for the period July 1, 2003 through June 30, 2014.

Project Status	Total Invested by the Businesses	State Financial Assistance	Contracted Jobs[^]	Final Jobs[^]
<u>Closed projects</u>				
Successful	\$ 2,955,877,437	\$ 58,712,312	8,625	8,647
Full recapture	1,216,970,843	35,318,600	5,519	87
Partial recapture	382,352,336	23,701,750	4,359	3,106
Subtotal	4,555,200,616	117,732,662	18,503	11,840
<u>Projects under contract</u>				
Performance period	7,662,295,172	58,831,454	10,049	-
Maintenance period	4,019,760,106	54,571,500	13,481	-
Awarded not reporting - too new	1,813,849,538	1,635,500	1,227	-
Subtotal	13,495,904,816	115,038,454	24,757	-
<u>Projects not proceeding</u>				
Contract declined/rescinded	5,783,866,350	62,402,000	9,657	-
Contract terminated	1,178,751,048	12,134,000	4,210	-
Projects in default	36,833,025	2,600,500	457	-
Subtotal	6,999,450,423	77,136,500	14,324	-
Total	\$ 25,050,555,855	\$ 309,907,616	57,584	11,840

[^] - The number of contracted and final jobs reported includes the number of jobs to be created and/or retained for the project.

The IEDA established 987 primary contracts (contracts) with businesses which included job obligations totaling 57,584 jobs, consisting of 42,261 jobs to be created and 15,323 jobs to be retained. As of June 30, 2014, 325 of the 987 contracts were closed out by the IEDA. According to IEDA records, the 325 projects created 7,806 jobs and retained 4,034 jobs.

Mosiman reported IEDA continues to improve its tracking and verification procedures related to the jobs being created and/or retained. However, it is important the IEDA verify the jobs reported as being created and/or retained are actual jobs created and/or retained and not jobs being shifted within a company, particularly for large corporations with multiple geographical locations.

Mosiman reported the annual report published by the IEDA did not include totals for the various project status categories including totals of the State financial assistance awarded, jobs to be created, and jobs actually created. For purposes of transparency, accountability, and evaluation of the programs, it is important the IEDA include totals by project status category, by county, and by business for the entire period of the report.

Mosiman also reported the IEDA's annual reports included several reporting errors. Specifically, the reports included:

- 26 projects totaling \$9,667,000 reported as “closed projects – full recapture” (all funds were repaid) and 2 projects totaling \$950,000 as “closed projects – partial recapture” (only a portion of the funds were repaid); however the IEDA's project database showed the 28 projects written off as uncollectible on dates ranging from November 2005 through June 2014.
- 32 projects totaling \$7,610,000 were reported in the annual report as “closed projects – full recapture.” However, according to the project database, 29 projects totaling \$7.1 million were shown as “in collection” and 3 projects totaling \$510,000 were shown as “in bankruptcy” in the project database.

IEDA reports the information based on what staff estimate will be collected from defaulted projects. Reporting projects as “recaptures” instead of “written off”, “in collection”, or “in bankruptcy” misleads the users of the report to believe funds have been recaptured and may be used to fund future projects. Instead, the State will not collect these funds and the funds will not be available for future projects. If funds are later collected on defaulted projects, IEDA could include the information in the next annual report.

In addition, the annual report does not include all sources of funds provide by the State and local governments for the projects. Using the amount of State Financial Assistance provided and the number of jobs contracted, the average cost per job is approximately \$5,392.00. This amount excludes tax credits provided to the various businesses. If the total tax credits are included with the \$309.9 million in financial assistance, the cost per job increases to approximately \$29,750.00. The cost per job shown does not include any local assistance provided, such as property tax relief or other local assistance.

Mosiman recommended the IEDA, in consultation with the Legislature and the Board, consider revising the annual report format and clarify the content to improve transparency and accountability, and to facilitate evaluation of the success of the use of State financial assistance awarded to businesses for the purpose of creating and retaining jobs in the State to help improve the State's economy. Also, the IEDA should display in the annual report overall summaries and totals of all project activities reported for each project status category, each program type, each business, and each county for the entire period reported.

A copy of the report is available for review in the Office of Auditor of State and on Auditor of State's web site at <https://auditor.iowa.gov/reports/1360-2690-0E00>.

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**A REVIEW OF THE HIGH QUALITY JOBS PROGRAM AND
THE GROW IOWA VALUES FUND ADMINISTERED BY
THE IOWA ECONOMIC DEVELOPMENT AUTHORITY**

**FOR THE PERIOD
JULY 1, 2003 THROUGH JUNE 30, 2014**

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Auditor's Transmittal Letter

To the Governor, Members of the General Assembly, Members of the Iowa Economic Development Authority Board, and the Director of the Iowa Economic Development Authority:

In conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa*, and as result of our report on the "Department of Economic Development Grow Iowa Values Fund" issued on February 28, 2007, we have conducted a review of the High Quality Jobs Program (HQJP) and the Grow Iowa Values Fund (GIVF) administered by the Iowa Economic Development Authority (IEDA) for the period July 1, 2003 through June 30, 2014, unless indicated otherwise. We reviewed the GIVF and the HQJP programs to determine whether the IEDA's administration of the programs complies with relevant sections of the *Code of Iowa*, the administrative rules of the Iowa Administrative Code (IAC), IEDA policies and procedures and determine if changes were implemented as a result of our prior report. In conducting our review, we performed the following procedures:

- (1) Reviewed applicable sections of the *Code of Iowa*, Administrative Rules, and the IEDA policies and procedures for the GIVF and HQJP programs to obtain an understanding of how the programs are administered.
- (2) Interviewed personnel from the IEDA to obtain an understanding of established policies and procedures related to the administration of the programs and changes implemented as a result of our prior report. Including the application, awarding, contracting, monitoring, reporting, and closeout procedures.
- (3) Evaluated internal controls over the application, contracting, monitoring, reporting, and closeout procedures to determine whether adequate policies and procedures were in place and operating effectively.
- (4) Reviewed procedures used by the IEDA for preparing the annual report for the periods ended June 30, 2013 and June 30, 2014 and compared the information reported to the supporting documentation to determine accuracy.
- (5) Reviewed the annual report published by the IEDA on January 31, 2014 and January 1, 2015 for the periods ended June 30, 2013 and June 30, 2014, respectively, to determine compliance with section 15.107B of the *Code of Iowa*.
- (6) Tested selected projects for the period July 1, 2003 through June 30, 2014 to determine compliance with applicable sections of the *Code*, Administrative Rules, and the IEDA guidelines.
- (7) Compared information recorded in the project database for selected projects to original records, including applications, contracts, project monitoring, and other relevant documents, to determine completeness and accuracy of the database.
- (8) Evaluated the current status of previously reported findings and recommendations included in the report on the Review of the Grow Iowa Values Fund dated February 28, 2007.

Based on these procedures, we determined the fiscal years 2013 and 2014 annual reports published by the IEDA did not provide a summary of overall totals of reported activity, including total jobs to be created, jobs actually created, and total State financial assistance awarded by project status category, by county, and by business. For purposes of transparency, accountability, and evaluation of the programs it is important the IEDA include totals by project status category, by county, and by business for the entire period reported.

We also determined the IEDA incorrectly reported 26 projects totaling \$9,667,000 as “closed projects – full recapture” and 2 projects totaling \$950,000 as “closed projects – partial recapture”. However, the IEDA’s project database showed the 28 projects written off as uncollectible on dates ranging from November 2005 through June 2014. In addition, the IEDA reported 32 projects totaling \$7,610,000 as “closed projects – full recapture.” However, according to the project database, 29 of the 32 projects totaling \$7.1 million were shown as “in collection” and the 3 remaining projects totaling \$510,000 were shown as “in bankruptcy” in the project database.

The IEDA continues to improve its tracking and verification procedures related to the jobs being created and/or retained. However, it is important the IEDA continue to verify the jobs reported as being created and/or retained are actual jobs created and/or retained and not jobs being shifted within a company, particularly for large corporations with multiple geographical locations.

In addition, we have developed certain recommendations and other relevant information we believe should be considered by the Iowa Economic Development Authority, the members of the Iowa Economic Development Authority Board, the Governor, and the General Assembly.

We extend our appreciation to the personnel of the Iowa Economic Development Authority for the courtesy, cooperation and assistance provided to us during our review.


MARY MOSIMAN, CPA
Auditor of State

February 19, 2016

Introduction

We previously issued a report on the “Department of Economic Development Grow Iowa Values Fund” dated February 28, 2007. As a result of our review, we identified several findings and recommendations to improve the administration of the financial assistance programs. The program was administered by the Iowa Department of Economic Development (DED). DED was subsequently renamed the Iowa Economic Development Authority (IEDA). For the purposes of this report, we will refer to the DED and IEDA as IEDA.

After the release of our report dated February 28, 2007, the GIVF program was revised by the Legislature multiple times. Effective July 1, 2012, the program is referred to as the High Quality Jobs Program (HQJP). **Table 1** lists the names by which the program has been referred to and the period during which the name was used.

Table 1

Program Name	Period
Grow Iowa Values Fund (GIVF)	July 1, 2003 – June 30, 2009 [^]
Grow Iowa Values Fund Financial Assistance Program (GIVFAP)	July 1, 2009 – June 30, 2012
High Quality Jobs Program (HQJP)	July 1, 2012 - present

[^] - The original GIVF program law was struck down by the Supreme Court and re-established during the 2005 legislation.

The Grow Iowa Values Fund (GIVF) was created by the Legislature in 2003 as a new funding source for multiple programs which previously existed and allowed companies to apply for assistance to fund projects which would create and/or retain jobs and create business infrastructure. The programs included:

- Community Economic Betterment Account (CEBA) – CEBA was established in fiscal year 1986 to assist communities and rural areas of the State with their economic development efforts and to increase employment opportunities for Iowans by increasing the level of economic activity and development within the State. The IEDA provided State financial assistance under CEBA to businesses which require assistance in order to create new job opportunities or retain existing jobs which are in jeopardy.
- Entrepreneurial Venture Assistance Program (EVAP) – EVAP was established in fiscal year 1997 to encourage the development of entrepreneurial venture planning and managerial skills in conjunction with the delivery of a State financial assistance program for business start-ups and expansions.
- Physical Infrastructure Assistance Program (PIAP) – PIAP was established in fiscal year 1996 to provide State financial assistance for the physical infrastructure necessary to aid in community or business development or redevelopment projects which involve substantial investment; provide for the opportunity for creating quality, high-wage jobs; and have statewide impact.
- Value Added Agricultural Program (VAAP) – VAAP was established in fiscal year 1990 to encourage the increased utilization of agricultural commodities produced in the State. It was also to assist in efforts to revitalize rural regions of the State by committing resources to provide State financial assistance to new or existing value-added production facilities.
- Loan and Credit Guarantee Program (LCGP) - LCGP was established in fiscal year 2003 to create incentives and assistance to increase the flow of private capital to targeted industry businesses to promote industrial modernization and technology adoption, to encourage the retention and creation of jobs, and to encourage the export of goods and services sold by Iowa businesses in national and international markets.

GIVF funds appropriated to the IEDA were to be awarded to successful applicants for the following purposes.

- business start-ups
- business expansion
- business modernization
- research and development
- business attraction
- business retention
- marketing

As a result of legislative actions effective July 1, 2009, the GIVF program was repealed and the Grow Iowa Values Fund Financial Assistance Program (GIVFAP) was established. The new GIVFAP program simplified the State financial assistance programs and repealed a number of the State financial assistance programs administered by the IEDA including, CEBA, EVAP, LCGP, PIAP, and VAAP. In accordance with the legislation, projects awarded funding by one of the repealed programs will continue to follow the program's rules until the project is completed and closed by the IEDA staff.

GIVFAP included 6 funding components for awarding State financial assistance. The components were as follows:

- 130% wage component – businesses must demonstrate the created and/or retained jobs will pay at least 130% of the qualifying wage threshold by the project completion date, and at least 130% of the qualifying wage threshold throughout the maintenance period. The business must also provide a sufficient benefits package to each employee holding a created and/or retained job. The administrative rules defined sufficient benefit package as when a business pays one of the following: 80% of the premium cost for a standard medical and dental plan with a \$750 maximum deductible, or 50% of the premium cost for a standard medical and dental plan with a \$1,500 maximum deductible, or the monetary equivalent of one of the previous options in a supplemental employee benefit.
- 100% wage component – businesses must demonstrate the created and/or retained jobs will pay at least 100% of the qualifying wage threshold throughout both the project completion period and the maintenance period. The business must also provide a sufficient benefits package to each employee holding a created and/or retained job.
- Entrepreneurial component – encourages the development of early-stage businesses.
- Infrastructure component – businesses must be engaged in a physical infrastructure project which creates necessary infrastructure for economic success in the State, provides the foundation for job creation/retention, and involves the investment of a substantial amount of capital.
- Value-added agriculture component – encourages increased utilization of agricultural commodities produced in the State and assists in efforts to revitalize rural regions by providing financial assistance to new or existing value-added production facilities.
- Disaster recovery component – allows business affected by a disaster in a federally declared disaster area to receive financial assistance.

During the 2012 Legislative session, the Legislature repealed the GIVFAP program and created the High Quality Jobs Program (HQJP) effective July 1, 2012.

Under HQJP, business may receive assistance in the form of a loan, forgivable loan, tax credits, or a combination of these. The amount awarded to a project is based on the number of jobs the business will create and/or retain under a contract entered into with IEDA. HQJP did not establish any specific job creation and/or retention goals as part of the legislation or administrative rules created for the program. However, HQJP legislation did establish wage rate requirements, as follows.

- Created jobs must pay at least 100% of the qualifying wage threshold at the start of the project and 120% of the qualifying wage threshold by the project completion date and throughout the project maintenance period unless the business is located in an economically distressed area, in which case the business must pay at least 100% of the qualifying wage threshold throughout the entire contract period.
- Retained jobs must pay at least 120% of the qualifying wage threshold throughout the project completion and maintenance periods, unless the business is located in an economically distressed area, in which case the business must pay at least 100% of the qualifying wage threshold throughout the entire contract period.

HQJP Project Administration – The IEDA developed administrative rules including standard definitions for wage and benefit requirements, investment requirements, application and approval procedures, contracting procedures, contract compliance and job counting procedures, and annual reporting procedures. The basic process currently used by the IEDA for administering a project is as follows.

- Businesses submit a State financial assistance project questionnaire and an application to the IEDA. IEDA staff reviews the applications and considers the businesses' level of need, quality of the jobs, percentage of jobs created defined as high quality jobs, and the economic impact of the project. Once reviewed, the applications are ranked and recommendations, including the amount and type of award, are made to the Board during their monthly meeting. High quality jobs must meet the requirements shown in the above bullets.
- The Board reviews the recommendations and determines which projects to approve. Once approved, a project agreement (contract) is negotiated. Contracts are established for a 5 year period, consisting of:
 - 3-year project completion period - the period of time between the date of the award and the project completion date.
 - 2-year maintenance period - the 2 years following the project completion date during which the project must continue to meet the job creation and/or retention goals and other requirements of the contract.
- During the 5 year life of the project, the businesses must submit an annual report including data about base employment, qualifying wages, benefits, project costs, capital investment, and jobs created and/or retained.
- The IEDA is required to submit an annual report to the Legislature which includes the contracts funded under HQJP and prior programs.
- IEDA staff monitors the businesses' project activities to ensure the projects are completed and the jobs created and/or retained are in accordance with the contract following the project completion date and at the end of the maintenance period.

Funding – The Legislature annually appropriates funding for HQJP program. The appropriations for GIVFAP and HQJP for fiscal years 2008 through 2014 are summarized in **Table 2**.

Table 2

Fiscal Year	Program	Appropriation
2008	GIVFAP	\$ 30,000,000
2009	GIVFAP	30,000,000
2010	GIVFAP	23,000,000
2011	GIVFAP	38,000,000
2012	GIVFAP	15,000,000
2013	HQJP	15,000,000
2014	HQJP	16,900,000
Total		<u>\$ 167,900,000</u>

As demonstrated by the **Table**, the IEDA received a total of \$167.9 million from fiscal years 2008 through 2014. The **Table** shows the fiscal year 2012 appropriation decreased by \$23 million from the fiscal year 2011 appropriation. The decrease was the result of budget reductions made by the Legislature.

Chapter 15.355B of the *Code of Iowa* allows IEDA to use repayments received from projects to provide awards to new projects. IEDA has received approximately \$52 million in repayments during fiscal years 2008 through 2014.

We previously issued a “Report on the Review of the Grow Iowa Values Fund” dated February 28, 2007 which included the following findings related to the administration of the financial assistance programs:

- “Project Status Report” - The report issued by the IEDA did not contain sufficient detail to meet the requirements of the *Code*. The report was prepared using the information provided by the companies which was not verified by IEDA personnel.
- Project files did not always include the required information, such as a signed application, rating sheets, and documentation of compliance with applicable administrative rules.
- Errors were identified in the calculation of the base employment data used to evaluate the success of several projects.
- The IEDA only required 1 on-site visit during the contract period and performed limited review of the information submitted by the companies.

In addition to the findings and recommendations, the report included several items to be considered by State officials. The items identified are as follows:

- “The average annual wage, *including benefits* [emphasis added], of new jobs created must be equal to or greater than 130% of the average county wage.” According to IEDA staff we spoke with, if the hourly wage reported by a company does not equal or exceed 130% of the average county wage (which does not include benefits), the value of the benefits of the created and/or retained jobs is added to the hourly wage the company pays. The combined amount is then compared to the same 130% requirement. While this practice complies with the requirements of the GIVF program, it is possible for the new jobs to have an actual wage less than or equal to 100% of the average county wage. The Legislature should consider whether this wage rate requirement results in the quality of jobs intended.
- The purpose of the business development programs administered by the IEDA is to attract new businesses and to keep existing businesses in Iowa. Because the purpose of the programs is the same, regardless of the funding source, the Legislature should

consider establishing a single set of requirements under which the programs would operate.

- Based on discussions with the IEDA and IWD personnel, a methodology is not in place to determine if an employee filling a new job created under the project transferred from within the company, came from out of state or from another position within Iowa. The Legislature should consider whether the IEDA and IWD have the authority and appropriate means by which to gather the data necessary to determine if the jobs created by the business development programs actually increased the number of people employed within the State.
- Job creation and/or retention requirements established in the contracts include the location where the jobs are to be created and/or retained. However, the residence of the workers filling the jobs is not addressed. For example, jobs may be created at a company in Council Bluffs but the jobs may be filled by workers who reside in Nebraska. As a result, the State does not fully benefit from the residual effects of creating jobs in Iowa.

As a result of the changes to the GIVF program and the findings included in our report dated February 28, 2007 (previous report), we reviewed the HQJP program to determine if the program is being administered in accordance with legislation, and administrative rules and if findings identified in our prior report have been corrected.

Objectives, Scope and Methodology

Our review of the HQJP was conducted to determine if:

- Sufficient controls are in place, including the application and contracting process, monitoring, and reporting procedures.
- The IEDA has complied with relevant laws, administrative rules, and IEDA guidelines.
- Findings and recommendations included in the previous report have been addressed.
- The IEDA reported the project status for all projects which received financial assistance under HQJP and prior programs in compliance with section 15.107B of the *Code of Iowa*.

To gain an understanding of the HQJP, we:

- Reviewed relevant sections of the *Code*, administrative rules, and the IEDA guidelines established for the State financial assistance programs funded by HQJP.
- Interviewed personnel from the IEDA to obtain an understanding of established policies and procedures to administer the programs, including the application, contracting, monitoring, reporting, and closeout processes.
- Evaluated internal controls over the application, monitoring, closeout, and reporting processes to determine if policies and procedures were in place and operating effectively.
- Reviewed procedures used by the IEDA for preparing the annual report for the periods ended June 30, 2013 and June 30, 2014, and compared the information reported to the supporting documentation to determine accuracy and if the report complied with section 15.107B of the *Code*.

- Tested selected projects for the period July 1, 2003 through June 30, 2014 to determine compliance with relevant laws, rules, and the IEDA policies and procedures.
- Compared information recorded in the project database for selected projects to original records, including applications, project contracts (contracts), project monitoring, and other relevant documents, to determine completeness and accuracy of the database.
- Compared the jobs required to be created and/or retained by the contract to payroll information submitted by the companies to IEDA.
- Determined the status of previously reported findings and recommendations included in the report on the Review of the Grow Iowa Values Fund dated February 28, 2007.

Detailed Findings

In our previous report we made recommendations regarding the application, determination of base employment, contracting procedures, project monitoring during the maintenance period, file maintenance, project database, and project reporting. Because many of the projects had not reached their final closeout date we did not review the closeout procedures or closed projects.

We performed the procedures listed in the Auditor of State report to determine if the IEDA implemented policies and procedures to improve the administration of projects funded by the GIVF and the HQJP. In addition, we performed procedures to determine if the IEDA implemented sufficient procedures to closeout projects.

Project administration - Prior to July 1, 2012, the IEDA administered the GIVF and the GIVFAP. As previously stated, as a result of legislative actions effective July 1, 2009, the GIVF was repealed and the GIVFAP was established. The GIVFAP program simplified the State financial assistance programs and repealed a number of the State financial assistance programs administered by the IEDA including, CEBA, EVAP, LCGP, PIAP, and VAAP. Under the legislation, projects funded by one of the repealed programs continue to follow those program rules until the project is completed and closed by the IEDA staff.

As of July 1, 2012, all businesses which apply for and receive funding do so under the HQJP program. Under the previous programs and HQJP, the IEDA may award assistance through the methods listed below.

- Traditional loans – the award is required to be repaid at a low rate of interest or without interest.
- Forgivable loans – the award is not required to be repaid if the project fulfills the terms of the contract.
- Royalty agreements – the award is repaid based on a set percentage of the business’s gross sales. These agreements are primarily used for projects funded from the entrepreneurial assistance program which focuses on the development and marketing of new products.
- Loan guarantees - The IEDA guarantees the repayment of a loan from a financial institution in case the business fails to make the required payments. The business is required to repay the IEDA for any payments made by the IEDA under the loan guarantee program.

- Grants – the award is not required to be repaid regardless of the outcome of the project. Grants are used mostly for providing technical assistance to businesses. Technical assistance may include funds for web development, a marketing plan, overall business strategy and plan development. This assistance is usually provided under contract from a third party. According to IEDA staff we spoke with, the IEDA does not use grants when awarding financial assistance under these programs.

Projects approved for funding usually receive a financial assistance package which includes both a traditional and a forgivable loan. In addition, projects may also receive tax credits from other State programs and incentives from local governments as part of the overall funding package. We did not address tax credits issued or other funding received by projects as part of our evaluation of the HQJP program.

Once a business' application is approved for funding, the IEDA staff forward their recommendations to the Board. After review and approval by the Board, the IEDA and the business enter into a contract. The contract includes various deadlines and benchmarks which the business must meet in order to avoid defaulting. The IDEA staff monitors progress during the course of the projects to determine compliance with the terms of the contract and applicable program requirements. If the contract terms have been fulfilled, the forgivable loans are forgiven.

In addition to job creation and retention goals, the contract for projects awarded a forgivable loan may also have additional criteria, such as a specified amount of a product to be sold or produced. A project will not be required to repay the forgivable loan if all the terms of the contract are met. If the project fails to meet the contract terms, IEDA staff will negotiate the repayment of the forgivable loan, or a portion of the loan if the project fulfilled some of the contract terms.

If the project meets at least 50% of the job creation and/or retention goal, the company will have to pay back a portion of the forgivable loan based on the percentage of jobs created/retained. For example, if a project creates 60 jobs of the 100 jobs included in the contract, the company would be required to repay 40% of the forgivable loan plus interest. Not all projects funded under the GIVF were required to create and/or retain jobs. Several of the GIVF programs provided loans for the development of infrastructure such as a parking ramp.

IEDA uses a database to track all projects which apply for funding. The database includes a large number of data fields, including the project name, location, amount awarded, number of contracted jobs to be created and/or retained, and number of actual jobs created and/or retained.

As of June 30, 2014, the IEDA's project database includes 987 primary contracts. **Table 3** summarizes the number of businesses and total State financial assistance provided to businesses by project status category, as recorded in the project database.

Table 3

Project Status per Project Database	Number of Businesses	Total Financial Assistance Awarded
<u>Closed contracts</u>		
Successful	157	\$ 58,712,312
Full recapture (<i>repayment</i>)	116	27,756,500
Partial recapture (<i>repayment</i>)	52	22,806,750
<u>Under contract</u>		
In performance	198	58,831,454
In maintenance	166	54,571,500
Declined or rescinded	181	62,402,000
Contract terminated	41	12,134,000
In contract negotiations	14	825,000
Too new to report	18	810,500
In collections	29	7,052,100
In default	8	2,600,500
In Settlement	4	895,000
Bankruptcy	3	510,000
Total	987	\$ 309,907,616

Project files - The IEDA maintains project files for all State financial assistance contracts in order to demonstrate compliance with relevant laws, administrative rules and the IEDA guidelines. The project files consist of 3 separate folders:

- Application folder – includes the application, a signed project summary, the application review form, current payroll documents, the base employment calculation, financial statements, and the Fiscal Impact Ratio (FIR) summary.

The FIR is a tool used by the IEDA during the negotiation process. The FIR calculates the economic benefit to the State compared to the assistance provided. Multiple FIR's may be calculated using different types of awards and different levels of funding. According to an IEDA representative, the IEDA's general goal is for a project to have at least a 2-to-1 FIR ratio. The final FIR is presented to the Board when a project is recommended for approval.

- Contracts/monitoring folder – includes signed contracts, job obligations exhibit, project budget, and contract monitoring documents, including letters of non-compliance.
- Disbursement, project completion and project closeout folder – Includes documents such as award disbursement, project completion letter, project maintenance letter, project monitoring, and project closeout documents, such as the closeout letter, due diligence checklist, and closeout checklist.

In addition, the IEDA's Administrative Services Division maintains documentation related to State financial assistance awards, such as copies of contracts, loan repayment records, defaults, legal documents, collections records, and a list of projects written off and approved by the Board.

Application, Determination of Base Employment, and Contracting Procedures – The application and contracting procedures recommendations of the previous report were as follows. The IEDA should implement procedures to ensure:

- Project files include a signed application in the project file. The application should include all the required information for the program(s) being used to fund the project. If applicable, a copy of the Board approval indicating an extension was granted in order to determine compliance with the 120 day signing requirement.
- Project files contain the required rating sheets and should consistently document how the review was completed.
- Compliance with all applicable administrative rules and to ensure compliance is properly documented in project files.
- Written procedures are established for the calculation and documentation of baseline data. Specifically, the written procedures should address how to handle employees who commute from another state to Iowa to work. These employees will be shown on the payroll information submitted by the businesses but may not be readily identifiable without knowing their place of residence.
- Procedures used to calculate baseline data should be documented in a manner that allows another independent reviewer to reach the same conclusions regarding the baseline data and job creation and/or retention information.

To determine the current status of the recommendations, we met with IEDA staff and discussed the revised procedures implemented to address the recommendations. In addition, we reviewed the application procedures, including eligibility, approval, the determination of the employment base procedures, and the contracting procedures implemented and used by the IEDA. The following paragraphs include a description of our findings.

Application procedures - We determined the IEDA implemented improved procedures and administrative rules for the State financial assistance programs funded by the GIVF and the HQJP, including but not limited to, a standard application and a standard application review and approval process.

Specifically, in June 2007, the IEDA implemented a 2-step application process for businesses seeking financial assistance which is still used for the HQJP program. The 2-step application process includes the "Iowa Project Questionnaire" (IPQ) and the standard "Business Financial Assistance Application" (the application).

The IPQ provides summary information related to a business project, including:

- whether the business is expanding an Iowa business or has a new location in Iowa;
- a description of the business, its products and customer base, the specific project, and a project budget;
- employment information, including the number of employees by job category and the pay scale that would result from the project;
- employee benefit information demonstrating the business provides a certain level of medical insurance to full-time, permanent employees; and
- whether the project is included in an enterprise zone.

The IPQ enables IEDA staff to become involved with business project proposals in the early development stage and perform an initial assessment of the business' eligibility. By evaluating the project early, the IEDA staff can provide assistance and guidance to ensure access to programs which best fit the needs of a business. After the IPQ is reviewed, the business submits the application which provides additional background on the business and the project, the impact of the project on current employees if the project does not proceed, employee benefits, a listing of jobs to be created and/or retained, and wage information for these positions.

In addition to the IPQ and standard application, the IEDA implemented new administrative rules, Chapter 261-68 of the Iowa Administrative Code (IAC), which are used by the IEDA to administer projects awarded financial assistance. The new rules were effective July 1, 2012 and include:

- standard definitions (Chapter 261-173),
- wage, benefit, and investment requirements (Chapter 261-174),
- application review and approval procedures, including standard program requirements (Chapter 261-175),
- contracting (Chapter 261-187),
- contract compliance and job counting (Chapter 261-188), and
- annual reporting (Chapter 261-189).

According to IEDA staff we spoke with, the new rules implemented a standard process to be followed when issuing financial assistance under the HQJP program. For previous programs, there were different rules for each program under GIVF.

Eligibility - To qualify for assistance under the HQJP, businesses must meet eligibility requirements established for the program. The more significant requirements are as follows:

- Award amounts – actual award amounts must be based on the business' level of need, the quality of the jobs, the percentage of created or retained jobs defined as high-quality, and the economic impact of the project.
- Wage threshold requirements. The HQJP must utilize the "laborshed wages" to determine program eligibility rather than the county or regional average wages. The "Laborshed Wage" is the wage level represented by those wages within 2 standard deviations from the mean wage within the laborshed area in which the eligible business is located. The "Laborshed Wage" is calculated by the IEDA using the most current covered wage and employment data available from the Iowa Workforce Development (IWD) for the laborshed area. The laborshed area is the geographic area surrounding an employment center from which the center draws its commuting workers. When determining the applicable laborshed wage, the IEDA uses the closest laborshed area, as determined by road distance between the employment center and the zip code of the project location.
- Created jobs must pay at least 100% of the qualifying wage threshold at the start of the project and 120% of the qualifying wage threshold by project completion and throughout the project maintenance period unless the project is located in an economically distressed area. Economically distressed area means a county that ranks among the bottom 25 of all Iowa counties, as measured by either the average monthly unemployment level for the most recent 12-month period or the average annualized unemployment level for the most recent 5-year period. For projects in counties determined to be in an economically distressed area, jobs only need to meet the 100% laborshed wage threshold through the life of the project.
- Retained jobs must pay at least 120% of the qualifying wage threshold throughout the project completion and the project maintenance periods.
- The business must provide a sufficient benefits package to each full time employee, as defined by rule 261-173.2 of the IAC.

IEDA also determines the applicant's compliance with rule 261-175.3 of the IAC regarding sustained operations, including relocations within the State and reductions in operations, and the specific eligibility requirements of rule 261-68.2 of the IAC including relocations and reductions in operations, as follows:

- The business must not be solely relocating operations from one area of the State while seeking financial assistance. A project which does not create new jobs or involve a substantial amount of new capital investment will be presumed to be a relocation. In determining whether a business is solely relocating operations for purposes, the IEDA will consider whether a letter of support for the move has been provided from the affected local community.
- The business must not be in the process of reducing operations in one community while simultaneously applying for financial assistance for another location. A reduction in operations within 12 months before or after an application for financial assistance is submitted to the IEDA will be presumed to be a reduction in operations while simultaneously applying for financial assistance.

A business may also pledge under a contract to create other jobs that do not meet the qualifying wage. However, in accordance with rule 261-188.3 of the IAC, only created or retained jobs that meet or exceed the qualifying wage thresholds will count toward the business's contract job obligations.

The IEDA's contract compliance staff reviews the business' IPQ and application submitted for the project to determine eligibility and whether to recommend the project for financial assistance. The IEDA's contract compliance staff considers additional eligibility factors for the business' project, including:

- past or current performance of the business,
- community approval of the project,
- not a retail or service business,
- has sufficient fiscal impact, and
- the impact on competition in the area.

As part of its procedures, the IEDA's contract compliance staff performs a due diligence review, including but not limited to, lien searches, reports of violations, lawsuits, reports on environmental law compliance, reports on violations of law and other relevant information about the applicant.

Determination of base employment – As a result of the previous report and changes in legislation, the IEDA reviewed and implemented written procedures for the determination of base employment contained in Chapter 261-188 of the IAC. In accordance with rule 188.4, a business' employment base is defined as the number of jobs the business and the IEDA have established as the job base for a project at the time of application. The number of jobs a business has pledged to create and retain under a project is in addition to the business' employment base. If the contract calls for jobs to be retained, these jobs are included in the base calculation and the job positions to be retained are specifically identified in the contract. The standard rules define the business' employment base as follows:

- The employment base must be project-specific. In most situations, this includes the number of full-time employees working at the facility receiving funding.
- If a project is awarded funds, and the project includes multiple locations, the project's employment base includes the total number of full-time employees working at the identified locations.
- If there are multiple awards made in different years to the same location, the business' employment base must be calculated using the payroll document from the oldest award that is open. Over time, the job obligations from each new award must be added to this base to calculate the new employment base.

In accordance with rule 261-188.4(4), the business' employment base is calculated as part of the application process and is determined before an award is made. The rules define and describe requirements for the determination of base employment, job counting using base employment analysis, tracking jobs, and wage determination for contract compliance purposes. The rules also include procedures to address projects involving more than 2 physical locations or involving more than 500 employees.

The IEDA establishes and verifies the baseline employment number using payroll records submitted with a project's application. The payroll document must include a unique identification for each employee, such as name, employer ID number, or social security number, and the hourly rate of pay for each employee. The payroll records must be signed and certified by a representative of the company. Using the payroll records submitted by the business, IEDA staff verifies the following data points regarding a business' employment base at the time of application:

- The total number of fulltime equivalent employees (FTEs) at the funded facility.
- The average wage of all FTEs.
- The qualifying wage and value of benefits used in the award.
- The total number of FTEs at the funded facility that are currently at or above the qualifying wage.
- The average wage of the FTEs that are currently at or above the qualifying wage.
- The total number of FTEs at the funded facility currently at or above the qualifying wage after the benefit value has been added.
- The average wage of the FTEs that are currently at or above the qualifying wage after the benefit value has been added.

For example, the base jobs for a Des Moines area business would be established using the business' certified payroll documents and the IWD "Quarterly Iowa Employer's Contribution and Payroll Report" for the past year, including the monthly employment totals. The verified payroll information is then used by the IEDA to arrive at job numbers to be included in the job obligation exhibit of the contract.

Table 4 summarizes an example of what the IEDA does to track and monitor the change in a business' employment base when the business receives multiple awards of financial assistance made in different years for projects.

Table 4

Award #	Award Date	# of Actual FTEs	Original Base Employment	# of Qualified Jobs	# of Other Jobs[^]	Total Adjusted Base
1	07/01/12	100	100	10	10	120
2	07/01/13	107	120	25	-	145
3	07/01/14	140	145	20	-	165

[^] - The number of other jobs includes jobs to be created by the business based on the contract, but the jobs do not meet the qualifying wage.

As demonstrated by the **Table**, the business' employment base verified by the IEDA is 100 FTEs for award 1. If a business receives multiple awards, the IEDA adjusts the employment base using the original employment base plus the additional jobs required to be created under the subsequent contracts for awards 2 and 3. After the payroll is reviewed by the IEDA, the actual number of FTEs at the facility is 107, but the IEDA uses 120 (original base of 100 plus the 20 jobs obligated under award 1) as the business' employment base for award 2 and so on.

As identified in our previous report, IEDA had not established written procedures on how the baseline data was determined. Based on our review of the current procedures used to calculate and document the baseline data, the supporting documentation maintained allows another independent reviewer to reach the same conclusions regarding the baseline data and job creation and/or retention information.

Contracting - After reviewing the project, the IEDA review committee prepares recommendations to the Board to approve or deny the application. Board approval is required for all projects awarded financial assistance. When negotiations with the business are finalized, the IEDA notifies the business in writing of the financial assistance award, including any conditions and terms of the approval.

Once the project is approved by the Board for financial assistance, the business has 120 days to enter into a contract with the IEDA. The IEDA may extend the time period if the business can provide support showing an extension is warranted. If a business fails to enter into a contract within the time period set by the IEDA, the award may be rescinded. The contract includes provisions, such as:

- a description of the project and the project budget;
- the number of jobs to be created and/or retained;
- award amounts and the terms for each loan, forgivable loan, and tax credits;
- the project duration, the completion date, maintenance period completion date;
- the process to request disbursement of award funds and documents which must be submitted by the business; and
- events of default, notice and opportunity to cure, and remedies available to the IEDA.

Once the terms of the contract have been negotiated and the contract has been approved, the business may request the funds awarded.

Project file testing - In addition to reviewing the revised procedures implemented by the IEDA, we selected 125 project files from the IEDA's project database to test compliance with the relevant sections of the *Code*, administrative rules, and the IEDA's application and contracting procedures. Documentation considered in the review of project files included:

- the application and supporting documentation including payroll documents to support the number of jobs created and or/retained under the contract;
- documentation of the IEDA's review of project eligibility and award calculations (rating sheets);
- correspondence with the applicant, including but not limited to, documentation of negotiations;
- the IEDA's project report and FIR summary submitted to the Board for approval;
- project approval and notification letters;
- signed contracts, and amendments;
- annual reports submitted to the IEDA;
- site visit documentation related to the project completion and project maintenance dates, including evidence of IEDA review and verification of jobs created and/or retained;
- project completion and project maintenance site visit reports and the project closeout letter, as applicable;

- documents such as the end of project report, loan repayment schedule, notice of default and settlement agreements; and
- repayment records in the Loan Repayment Database (LRD system), and other records such as collection files and legal files, as applicable.

The IEDA was unable to locate 3 of the 125 project files selected. The 3 projects included 2 CEBA project files and 1 VAAP project file. We reviewed the 122 files located to determine if the IEDA maintained sufficient documentation to demonstrate compliance with the requirements of the programs. Based on our review of the 122 files, we determined the IEDA maintained sufficient documentation in each project file to demonstrate compliance with the relevant sections of the *Code*, administrative rules, and the IEDA guidelines.

For the 3 project files IEDA was unable to locate, we were able to perform limited testing using copies of contracts, project maintenance monitoring reports, closeout reports, default letters and other documents maintained by the Administrative Services Division of the IEDA. The limited testing included a review of copies of contracts, project completion, project maintenance, project closeout documents, various letters, default documents, legal documents, and repayment activity recorded in the LRD system. As a result, we determined the IEDA maintained sufficient documentation for the 3 selected projects demonstrating compliance with the contracting, project completion, project maintenance, and project closeout requirements.

However, because comprehensive project files for the 3 selected projects were not available we were unable to review the application, project approval documentation, the payroll documentation used by the IEDA to verify number of jobs for the 2 CEBA projects, and the supporting documentation regarding the value-added agriculture products and processes agreed to by the business under the VAAP contract. In addition, because the application documentation was not available for the 3 projects, we were unable to test compliance with administrative rules in effect for the application, review, and approval process at the time of the financial assistance award. See **Finding A**.

Based on our review of the IEDA's revised application and contracting procedures and our review of 122 available files, we determined the IEDA has implemented procedures which sufficiently address the application and contracting recommendations in the previous report. Although the IEDA implemented improvements regarding the procedures for determining the base employment, the IEDA should still consider if jobs identified by the business previously existed within the business but may have been unfilled or transferred from other locations. See **Finding B**.

Project Monitoring and Maintenance Period – The previous report included recommendations over project monitoring. The recommendations are summarized as follows.

- The IEDA should establish specific written procedures regarding the proper and periodic monitoring of a project over the term of the contract. Procedures should include provisions for on-site visits during the construction phase, at the project completion date and maintenance date. In addition, on-site monitoring visits should be periodically performed as needed between construction and project completion or between project completion and maintenance dates.
- Procedures should address how the reviewer would determine if jobs identified by the business previously existed within the business but may have been unfilled or transferred from elsewhere within the business.
- Procedures performed should be documented in a manner that allows another independent reviewer to reach the same conclusions regarding the information submitted by the business and tested by the original reviewer.

- The IEDA, in consultation with the Legislature, should establish administrative rules requiring a maintenance period for each funding source or program with a job creation requirement. The rules should provide specific guidance on determining the required length of the maintenance period.

To determine the current status of the findings, we interviewed IEDA staff to identify the changes made and implemented by the IEDA to address the recommendations. In addition, we tested the 125 selected projects to determine whether the IEDA maintains sufficient evidence of project monitoring.

As previously stated, we determined the IEDA implemented improved procedures for contracting in the HQJP and the standard rules of the IAC. According to the previous report, the IEDA did not have rules in place to address the maintenance period and the IEDA used a maintenance period for projects varying from 2 years to 6 years. In response to the recommendations of the report, the IEDA implemented guidance in Chapter 261-173 and Chapter 187.3 of the IAC related to the project completion date and the maintenance period completion date. The guidance included a standard length of time to be used for all projects. These periods are defined in the following paragraphs.

- Project completion date – means the date by which the project must be completed in accordance with the contract and the terms of the program. This is a 3-year period from the date the contract is effective. IEDA staff evaluates the project as of the project completion date to determine if the terms of the contract have been fulfilled or not.

If the IEDA staff determines a business failed to fulfill the terms of the contract, the job creation and/or retention period may be extended if the business can show good cause and the Board approves the extension. Two of the most common reasons for extending the completion period are delays in construction and problems finding qualified workers. An extension is usually granted for a period of 6 to 12 months. The most common reason for not approving an extension is when the Board determines it is not reasonable the contract obligations would be met even if an extension were granted. For example, if a company was to create 100 jobs but had not created any at the time the extension was requested.

- Maintenance period completion date – means the date when the maintenance period ends. This date is usually 2 years after the project completion date. The maintenance period completion date is used by the IEDA to establish the period of time during which the project, the created jobs, and the retained jobs must be maintained.

According to representatives of the IEDA, allowances are made for the business' fluctuations in the number of created and/or retained jobs during the maintenance period as a result of normal employee turnover. However, if a business experiences a downward trend during the maintenance period or has a large decline in the number of jobs created and retained, the IEDA staff contact the business to determine the reason for the change and whether further action is necessary to renegotiate the contract or initiate actions to recover funds.

Previously, the IEDA required only 1 on-site visit at the project site. Under the new rules established by the IEDA in accordance with section 261-188.2 of the IAC and effective July 1, 2007, the IEDA requires 2 on-site visits during the contract period; 1 after the project completion date and 1 after the end of the maintenance period to determine contract compliance. As previously stated, these visits are when IEDA staff determines if a project complied with the contract terms or is in default.

IEDA contract compliance staff performs the on-site visits and other monitoring procedures to ensure the business has completed the project as agreed to in the contract, met its jobs obligations, paid the wages in accordance with the wage threshold requirements, provided the

required benefits, met its capital investment obligations, and otherwise satisfied all contract conditions.

Contract compliance staff may also perform on-site monitoring prior to the project completion date to determine if the project is on schedule or if an extension may be needed. In addition to on-site monitoring, the IEDA developed project monitoring procedures including specific job verification and annual reporting requirements for businesses. These procedures are performed as part of the desk review monitoring process. Staff also maintain and analyze the project database, prepare reports for the Board on the status of projects, and correspond with businesses as needed.

As previously stated, if IEDA staff determine a project is not in compliance with the contract, IEDA may negotiate an extension of the completion date, or determine the project is in default of the contract terms and begin the process of recovering the financial assistance provided to the project. This may include negotiating the full repayment or partial repayment of the assistance, or in the case of bankruptcy or failure to repay the assistance in accordance with the terms of the contract, IEDA may turn the contract over to collections or contract with a law firm to pursue collection.

Annual reporting by businesses – Under the GIVF program, IEDA required businesses to submit semi-annual reports which included the number of jobs created and retained, the amount expended for the project, amounts of funds used for research and development, whether the project is on schedule, and a summary of employee information. Under the new HQJP administrative rules, the IEDA implemented revised reporting requirements to require businesses report annually.

The annual reports must include data about base employment, qualifying wages, benefits, project costs, capital investment, and the status of the project. As previously stated, at the time of application, a baseline employment number is established using the business' payroll records. Changes in the baseline employment numbers are collected and analyzed to identify jobs which are replacing vacancies and should not be included in the job creation goal, or in the case of a project with job retention goals, the jobs are being retained and not eliminated.

Job verification – The IEDA implemented procedures for determining contract compliance and job counting procedures in Chapter 188 of the IAC. In accordance with rule 261-188.5 of the IAC, the IEDA collects, analyzes, and verifies the business' baseline employment numbers at the time of application. As previously stated, IEDA staff establish and verify the baseline employment number for the contract when a project is approved using certified payroll information submitted by the business. The certified information includes number of employees at each location, each position or level at each of the locations, and the specific types of jobs being created and/or retained for the project.

IEDA staff also analyze changes in the baseline employment numbers using the annual reports and on-site monitoring performed at the project completion and project maintenance dates. Only jobs that meet or exceed the qualifying wage thresholds count toward the business' job obligations agreed to in the contract.

IEDA also analyzes the base employment and jobs created and/or retained annually using reports submitted by the business, during on-site monitoring, at the project completion date, and the project maintenance date. IEDA will not request detailed payroll records unless they become aware of issues related to the staff layoffs, closing facilities, or relocating staff within the State.

Businesses are required to submit certified payroll information to the IEDA each year for the specific location of the project. Businesses may submit the information in hard copy form or electronically. The IEDA is emphasizing to businesses that submission of payroll detail in an Excel® spreadsheet makes the process more efficient. The IEDA uses the information to perform calculations, analyses, and verify the jobs created and/or retained. In addition, each business

must acknowledge being informed in writing of the fact that it is a criminal violation under Iowa law to provide false information for the purpose of procuring State financial assistance.

Most businesses which apply for funding have a single location. For businesses with multiple locations, IEDA staff track the specific job types at the project location, using the certified payroll information. However, IEDA will only request headcounts for the remaining locations in order to identify jobs which are moving between locations and not actually creating new jobs. Regardless whether the project has a single location or multiple locations, IEDA staff verify payroll information during on-site visits at the project location. In addition, the IEDA monitors businesses' news releases showing operational changes, job additions/reductions, change in locations, and other significant information. IEDA will only request detailed payroll information for all locations when they are aware of staff layoffs, closing facilities, or relocating staff within the State.

According to an IEDA representative, each contract is handled on an individual basis. IEDA staff follow the procedures included in the administrative rules for all businesses, but may elect to expand the number of jobs verified if there are multiple locations, request additional information concerning wages and benefits if issues are identified, or request information for jobs which have been eliminated and not replaced, or appear to be transfers between the project's multiple locations. For example, if it is reported a company lays off 500 staff in an area as a result of a downturn in the economy, IEDA staff may meet with project officials to determine the impact on the baseline employment, job creation/retention goals, and how the business plans to meet the goals included in the contract by the time the project is completed.

The administrative rules also require "projects involving more than two physical locations or more than 500 employees, an independent auditing service set the business' employment base and provide payroll analysis." The data-points to be verified by the independent auditing service are the same of those previously stated regarding establishing the business' employment base. However, according to a representative of the IEDA, only 2 businesses have used an independent auditing service to set their employment base and provide payroll analysis. Both of those businesses subsequently worked with the IEDA to set the employment base and payroll analysis rather than continuing to use an independent auditing service. The use of an independent party to verify the number of jobs created and/or retained provides a strong level of oversight to ensure the jobs created and/or retained are valid. Concerns regarding job creation and retention include the possibility jobs are being moved from one location to another or jobs are eliminated but the employee moves to a new position at the project location. There is also a possibility an employee may be terminated from employment at a location and added to the payroll at a new location with a new employee identification number.

We discussed the rule requiring use of an independent auditing service with an IEDA representative. According to the IEDA representative, they believe the administrative rule should read "an independent auditing service may be used" instead requiring an independent auditing service be used to verify the jobs.

According to IEDA staff, there were other projects with multiple locations which were under-way when the rule was written and should have used an independent auditing service, but IEDA did not require these businesses to use a service. Part of the decision to not require businesses to use an independent service was the concern over the cost since the business is required to pay for the independent audit of the base employment and payroll analysis. As a result, IEDA is not complying with its own administrative rules. See **Finding B**.

The IEDA also obtains copies of the business' Iowa Workforce Development (IWD) "Quarterly Iowa Employer's Contribution and Payroll Report" for the past year, including the monthly employment totals from IWD. IEDA staff attempted to use the report to help verify jobs created and/or retained. However, according to IEDA representatives, there is no value in using the "Quarterly Iowa Employer's Contribution and Payroll Report" for verification of the specific jobs created and

retained by a business because IWD's report does not include information specific enough to correlate to the jobs under contract.

Our previous report identified the IEDA required only 1 on-site visit for each project, including verification of jobs created and retained. Under the IEDA's new policies and procedures, the IEDA verifies the number of jobs created and/or retained by each business awarded financial assistance at least 3 times, including at the time of application, the project completion date, and the project maintenance date.

We reviewed IEDA's written procedures used to determine a business' compliance with the contract and job verification procedures for determining base employment and verifying the jobs created and/or retained. In addition, we performed the following procedures for the 122 selected projects using the certified payroll information include in the files:

- Recalculated IEDA's determination of the baseline employment,
- Recalculated IEDA's determination of the number of jobs created and/or retained and the related average qualifying wages as of the project completion and project maintenance dates, or default date, if applicable, and
- Compared the number of job created and/or retained to IEDA's project completion, project maintenance, and project closeout letters, and/or to default documents, as applicable.

As a result, we determined:

- IEDA maintained documentation of the business' payroll related to the application which was used to determine the employment base. The payroll documentation included in the project file supports the number of jobs summarized in the job obligation portion of the contract and evidence of IEDA review of payroll and calculation of the employment base, including wage rates, prior to entering into the project contract with the business.
- IEDA maintained documentation demonstrating determination of whether the project job obligations were met by project completion date, including the notice of project completion site visit and the site visit report which summarizes the results of the visit. In addition, we determined IEDA maintained copies of the business' payroll documents which support IEDA's calculations of jobs created and/or retained by project completion date, and the corresponding average wage of the qualifying jobs.
- The job numbers and wage amounts verified and reported by IEDA in the project closeout letter or default documents are accurate by comparing the amounts to the payroll documents submitted by the business.
- IEDA maintained documentation of monitoring project maintenance and closeout procedures including documentation demonstrating IEDA's verification of the actual jobs created and/or retained.
- IEDA maintained a copy of the business' annual project status reports in project files which includes the status of job obligations.
- IEDA maintained adequate documentation of the determination of default, such as the business not meeting its job obligations. The documentation included follow-up procedures performed by IEDA to resolve the default and/or collect the unpaid business loan amounts.

We identified a concern with projects which have multiple locations in Iowa. For 2 of the 122 selected projects, we verified IEDA's calculation of the jobs created at the specified location in the contract. However, we were unable to determine if IEDA had requested or received all the payroll records related to the locations in Iowa. Therefore, we cannot determine the statewide impact on the baseline employment number, or determine if the number of jobs were created and/or retained. We cannot easily determine if jobs were moved between locations, and/or had a change in position or level because company-wide payroll records were not available. According to IEDA staff, they continue to look for ways to ensure job numbers reported by contracted businesses are accurate, especially the large corporations with multiple locations. See **Finding B**.

Default – In accordance with the IEDA's administrative rules, if a business defaults, the IEDA must take prompt, appropriate, and aggressive debt collection action to recover funds from the business. If a business defaults and was awarded a forgivable loan, the IEDA requires the business to sign a promissory note converting the forgivable loan to a traditional loan. In addition, the IEDA may assess interest and penalties, negotiate alternative repayment schedules, or take other appropriate action the Board deems necessary to collect the amount due.

If IEDA collection attempts fail, the IEDA will work with the contracted law firm on an appropriate resolution to collect the amounts owed. Negotiated settlements, write-offs or discontinuance of collections efforts are subject to final review and approval by the Director and the Board. We did not identify any concerns with the files tested for the default procedures.

Loan repayment - The IEDA staff monitors whether loans have been repaid by the businesses according to the contract terms. If the project includes a traditional loan component, the loan must be repaid by the business according to the contract terms. The majority of the loans awarded are at a 0% interest rate. If a project fails to meet the terms of the contract, the IEDA may increase the interest rate retroactive to the date funds were disbursed to the project. The rate may be as high as 6%.

We identified examples of IEDA increasing the interest rate for businesses which defaulted on a project. For example, the interest rate for a project was increased from 0% to 6% because the business defaulted on the number of jobs to be created and retained under the contract. Another example is the business created only a portion of the jobs included in the contract. In this case, IEDA increased the interest rate from 0% to 3% for the remainder of the loan amount due.

Based on our review of the IEDA's project monitoring and maintenance period procedures, and the related procedures implemented by the IEDA, and the results of testing selected project files, there is adequate evidence of the IEDA's monitoring of the projects, including the IEDA's determination of the businesses' compliance with the contracts, the relevant sections of the *Code*, the rules of the IAC, and IEDA guidelines.

Project and contract closeout process – As previously stated, we did not include a review of the closeout procedures or closed projects in the previous report because many of the projects had not reached the end of the maintenance period. Because many of the projects have now been completed, we have included a review of the contract closeout process.

The closeout process has 2 distinct phases. The first occurs at the project completion date and the second is after the completion of the project. As previously stated, the monitoring performed at the completion date verifies if the project has met the terms of the contract. After the completion date, the project must continue to maintain the created and/or retained jobs until the end of the maintenance period.

When a project reaches the maintenance completion date, IEDA staff review the project for compliance with the terms of the contract for a final time using procedures established in the administrative code, the IEDA compliance guide, and additional procedures as warranted. The review included verification procedures to ensure the business completed the project as proposed,

met its job creation and/or retention goal, paid the required wages, provided the required benefits, met its capital investment requirement, and otherwise met the contract conditions.

Once the IEDA determines the business complied with the contract, the IEDA sends the business written notice of the final contract closeout. The letter is issued after the project maintenance period has been reached, the business has reported project information to the IEDA, and the reported information is verified by the IEDA.

If all requirements of the contract have been successfully met, steps are taken to forgive any forgivable loan(s) established for the project. If a business has not created and/or retained the jobs required by the contract, the IEDA staff negotiates repayment terms of the forgivable loan. If the project meets at least 50% of the job creation and/or retention goal, the business is only required to pay back only a portion of the forgivable loan based on the percentage of jobs created and/or retained.

Because traditional loans are typically a 5-year term and lag several months after the award date, a loan balance may remain as of final contract closeout. If a loan balance remains, the amount is acknowledged in the contract closeout letter and the business is required to continue payments until the loan is paid off. Upon final payment, the IEDA notifies the business, and any associated loan security instruments, such as promissory notes, are canceled.

We did not identify any issues with the 105 closed project files tested for the closeout process. The files contained documentation showing the project complied with the contract terms for the number of jobs to be created and/or retained and any other requirements.

Project Database and Annual Reporting – The following paragraphs include a review of the IEDA's procedures for maintaining a project database and preparing an annual report to the Legislature.

To determine the status of our prior recommendations for the project database and annual reporting, we met with IEDA representatives, reviewed the revised procedures, and reviewed 125 selected project files. We used the information in the files to determine whether fiscal years 2013 and 2014 IEDA annual reports were supported by the project database and the project files.

Project database – The previous report recommended the databases be combined so authorized staff involved in the business development programs have access to the same information to prevent duplication of information and the possibility of data being updated in one system and not the others.

The IEDA implemented a comprehensive project database to record and track all State financial assistance awards and related contract project activities, such as the award amounts, contracted qualifying wage rates, projected jobs, contracted jobs, reported jobs, final jobs, project completion date, and project maintenance date. In addition, the IEDA uses the LRD system to maintain financial information regarding outstanding balances, repayment histories of the project, and amount of write-offs for each project. We determined the information contained in the project database is consistent with documentation maintained in the project files selected for testing and sufficient loan status information is maintained in the LRD system and related collection and legal files.

Annual reporting by the IEDA – Our previous report included a recommendation the IEDA implement procedures to ensure compliance with reporting requirements found in the *Code* for the GIVF, and provided reports to the General Assembly with the appropriate information to determine the results and progress of projects funded by the GIVF. In order to verify compliance with the reporting requirements, we reviewed the procedures established for the HOJP program and the 2014 and 2015 annual reports.

As previously stated, the GIVF was replaced with the HQJP program. As part of the HQJP program the IEDA, in conjunction with the Legislature, implemented revised reporting requirements within section 15.107B of the Code, including an annual reporting requirement by the IEDA rather than a semi-annual requirement, as follows.

“On or before January 31 of each year, the director shall submit to the authority board and the general assembly a report that describes the activities of the authority during the preceding fiscal year. The report shall include detailed information about jobs created, capital invested, wages paid, and awards made under the programs the authority administers. The report may include such other information as the director deems necessary or as otherwise required by law. Subsequent to submitting the report and within the same session of the general assembly, the director shall discuss and review the report with the general assembly’s standing committees on economic growth and rebuild Iowa.”

The IEDA prepares the annual report based on the information reported by the businesses, the information recorded in the project database, and information maintained in the project files. The report summarizes the status of all businesses’ projects awarded assistance through June 30 of the preceding fiscal year. The IEDA included a summary of all projects awarded financial assistance under the HQJP and the previous programs. The annual report displays consolidated activity under the primary contract for each business rather than reporting multiple contract numbers for a business. In addition, the annual report includes a schedule of projects by county.

Project activity included in the annual reports is classified under 3 main headings; Award, Projected Jobs, and Contracted Jobs. The report also includes the Completion and Maintenance Date. The following bullets provide a brief description of the significant areas under each classification:

- Award
 - Total project cost – includes total capital investment, State financial assistance, and maximum tax credit.
 - Direct funding – the amount awarded by the IEDA.
- Projected jobs
 - Created – expected number of jobs to be created by the project at the time the award is made.
 - Retained - expected number of jobs to be retained by the project at the time the award is made.
 - Other – additional jobs which will be created as a result of the project. The IEDA reports these jobs but the project is not contractually obligated for these jobs.
- Contracts jobs – The jobs which the project must create and/or retain in order to not be in default of the contract. These usually coincide with the projected jobs.
 - Created - contracted number of jobs to be created.
 - Retained - contracted number of jobs to be retained.
 - Qualifying wage – the threshold wage rate (including benefits) the created and/or retained jobs must pay in order to meet the terms of the contract.

The IEDA has expanded the number of categories used to classify projects in order to provide better information on the status. The project status categories are defined by the IEDA as follows:

- Projects Awarded but not Reporting - includes those projects which have received an award but at the time of the report were still in contract negotiations or were not required to submit a report because the project was too new. This category usually encompasses the most recent awards made prior to the annual report cut-off date of June 30, 2014. These projects are reported under a heading titled “Too New” and include only the initial project information.
- Projects not Proceeding –includes declined, rescinded, or terminated awards.
- Projects under Contract – includes projects with a signed contract which are in the “performance” period or “maintenance” period. These projects are displayed under the heading “Performance Period” or “Maintenance Period”.
- Projects in Default - includes projects “in default” of their contract terms at the time of the annual report. Reasons for being considered “in default” range from not filing required reports to not creating the obligated jobs or investment required by the contract. The status of “in default” is temporary. Under the program policies, a business is allowed a contractually designated cure period to correct the default. If at the end of the cure period the business is still in default, IEDA will begin collection efforts.
- Closed Projects – includes projects which are considered completed and have been evaluated to determine the project has met the terms of their contract. These projects are displayed under the following headings:
 - Successful – Projects which fulfilled all the requirements of the contract.
 - Full Recapture – Projects which did not fulfill all the terms of the contract and the IEDA recaptured all the assistance awarded.
 - Partial Recapture - Projects which did not fulfill all the terms of the contract and the IEDA was able to negotiate to recapture a portion of the assistance provided.

We analyzed the fiscal years 2013 and 2014 annual reports to determine if the project status was properly reported and if the project status categories, as defined by the IEDA, present an accurate picture. The 2013 and 2014 reports include only projects from July 1, 2011 through June 30 of the report period.

As previously stated, the June 30, 2014 annual report did not include projects prior to fiscal year 2011. In order to present a more complete picture of the activity of the programs included in our previous report through the June 30, 2104 IEDA report, we used the IEDA database to calculate and summarize the total investment made by the businesses, financial assistance provided by the State, contracted jobs, and final jobs for the period July 1, 2003 through June 30, 2014. **Table 5** summarizes this information.

Table 5

Project Status	Total Invested by the Businesses	State Financial Assistance	Number of Contracted Jobs*	Number of Created/Retained Jobs*
<u>Closed projects</u>				
Successful	\$ 2,955,877,437	58,712,312	8,625	8,647
Full recapture	1,216,970,843	35,318,600	5,519	87
Partial recapture	382,352,336	23,701,750	4,249	3,106
<u>Projects under contract</u>				
Performance period	7,662,295,172	58,831,454	10,049	-
Maintenance period	4,019,760,106	54,571,500	13,481	-
Projects awarded not reporting – too new	1,813,849,538	1,635,500	1,227	-
<u>Projects not proceeding</u>				
Contract declined/rescinded	5,783,866,350	62,402,000	9,657	-
Contract terminated	1,178,751,048	12,134,000	4,210	-
Projects in default	36,833,025	2,600,500	457	-
Total	\$ 25,050,555,855	309,907,616	57,474	11,840

*- The contracted and final jobs include created and/or retained jobs which have been verified by the IEDA.

The **Table** shows 11,840 (64.4%) of the 18,393 contracted jobs were created and/or retained for the closed projects. In total, the State Financial Assistance provided under the various programs is 1.2% of the total invested by the businesses. Using the amount of State Financial Assistance provided and the number of jobs contracted, the average cost per job is approximately \$5,392.00.

In addition to the \$309.9 million of State financial assistance summarized in the **Table**, the projects funded as of June 30, 2014 were awarded a total of more than \$1.4 billion of State tax per the IEDA's database. As previously stated, tax credits were not included in the scope of our review. If total tax credits are included with the \$309.9 million in financial assistance, the cost per job increases to approximately \$29,750.00.

The annual report only includes the State financial assistance awarded by IEDA. The report does not include funds awarded by other State departments, such as the Department of Transportation, or local funding such as property tax relief. As a result, the report does not include the total cost of a project and the cost per job is not readily determinable.

Schedule 1 summarizes the number of contracts, the number of primary contracts, the total State financial assistance awarded, the number of contracted jobs, and the number of final jobs by project status as recorded by the IEDA in the project database as of June 30, 2014.

We compared the total financial assistance reported by project status in the annual report to the financial assistance recorded by project status included in the IEDA's project database to determine if the amounts reported are supported by the project database. **Table 6** summarizes this comparison as of June 30, 2014.

Table 6

Project Status	Per Database	Per Report
Closed contracts - successful	\$ 58,712,312	58,712,312
Closed contracts - full recapture	27,756,500	
In collections	7,052,100	
Bankruptcy	510,000	
Closed projects - full recapture	35,318,600	35,318,600
Closed contracts – partial recapture	22,806,750	
In settlement	895,000	
Closed projects - partial recapture	23,701,750	23,701,750
Projects Under contract – in performance period	58,831,454	58,831,454
Projects Under contract – in maintenance period	54,571,500	54,571,500
Too new to report	810,500	
In contract negotiations	825,000	
Projects awarded not reporting – too new	1,635,500	1,635,500
Projects not proceeding – declined/rescinded	62,402,000	62,402,000
Projects not proceeding - contract terminated	12,134,000	12,134,000
Projects in default	2,600,500	2,600,500
Total	\$ 309,907,616	309,907,616

As demonstrated by the **Table**, the IEDA combined project status categories in the project database to arrive at the totals reported in the fiscal year 2014 annual report. Some of the project status categories were combined and included under a category which is not appropriate. For example, the \$35,318,000 reported as “closed projects – full recapture” includes projects which are in collection or in bankruptcy.

It is misleading to report \$7,052,100 in the project database as “in collections” as full recapture, because the projects have not yet been paid. IEDA has contracted with a law firm to pursue legal action to collect the remaining balance on these loans. The remaining balance may not be fully recaptured depending on negotiations. The project database includes 16 businesses recorded as “in collections” which are making payments on outstanding loan balances totaling only \$4,075,100. The project database also includes 10 projects recorded as “in collections” which have been referred to outside counsel to pursue collection of \$2,605,000. In addition there were 3 projects totaling \$372,000 shown as in-collections. The project database does include the balance actually owed for any projects. To determine what is actually owed, the IEDA uses the LRD system which is used to track all repayments and amounts written off.

The 2014 annual report also includes 3 projects totaling \$510,000 which are recorded in the project database as in “bankruptcy” as “closed projects - full recapture”. It is not appropriate for the IEDA to report the projects which are in “bankruptcy” as “closed projects – full recapture” projects because the funds may not be recaptured.

Our report also includes 28 projects totaling \$10,617,000 which are recorded in the database as written off as uncollectible. The project dates ranged from November 2005 through June 2014. The 28 projects were reported in the fiscal year 2014 annual report as:

- 26 projects totaling \$9,667,000 as “closed projects – full recapture”
- 2 projects totaling \$950,000 as “closed projects – partial recapture”.

IEDA classifies the project in the database as “in default” when the project does not comply with the terms of its contract. However, when IEDA staff prepare the report they evaluate the projects in default to determine whether the projects have been closed out and/or are in collections. If the amount due is in collections, IEDA reports the project under closed projects – full recapture. If the project has not been closed out and/or is not in collections as of June 30 of the fiscal year reported on, IEDA reports the project as “in default.”

For example, projects classified as “closed projects – full recapture” are projects in which IEDA intends to receive full repayment of the award, even though in the financial system database it is shown as written off.

It is misleading to report projects which have been written off as either “closed projects – full recapture” or “closed projects – partial recapture” because the 28 projects did not repay some or all of the financial assistance received by the time the report was prepared. It would be more transparent to report the projects as in default. If a business subsequently fully repays or partially repays the award, IEDA can include information in a subsequent report. See **Finding C**.

We also reviewed the 125 project files selected to determine whether the IEDA correctly reported the projects’ activity and status in the annual report. **Schedule 2** summarizes the differences between what the project file contained and how it was reported

As demonstrated by the **Schedule**, the project status for 29 of the 125 projects selected for testing (23%) were incorrectly reported in the fiscal year 2014 annual report. Examples of the incorrectly reported projects are as follows:

- A business contracted to retain 84 jobs in exchange for a \$300,000 traditional loan under a CEBA contract in fiscal year 2004. In March 2007 the business filed for bankruptcy and as a result defaulted. Under the terms of the contract, the business was required to repay the \$300,000. Prior to the bankruptcy, the business had repaid \$15,000 of the \$300,000 loan. IEDA staff attempted but failed to collect the remaining loan balance of \$285,000. As a result of the default, the remaining \$285,000 loan balance was written off as uncollectible by the IEDA Board in June 2012 and the 84 contracted jobs were not retained.
- A business received a total of \$400,000 in the form of a \$300,000 traditional loan and a \$100,000 forgivable loan in fiscal year 2006. Under the contract, the business was to create 30 new jobs. The business defaulted on the VAAP contract and filed for bankruptcy. Prior to the bankruptcy the business repaid \$60,000 of the \$300,000 loan. After trying to collect the balance, IEDA staff recommended and the Board approved writing off the remaining \$340,000, consisting of the \$240,000 loan balance and the \$100,000 forgivable loan. As a result of the default, the 30 contracted jobs were not created.

The 2 projects listed above were incorrectly reported as “closed projects – full recapture” because a portion of the loan amounts due was collected. In addition, the unpaid loan balances written off were not disclosed.

We also determined if the annual reports complied with the requirements of section 15.107B of the *Code* and rule 261-189.2 of the IAC. The IEDA submitted the annual reports in compliance with the current requirements of the *Code* and the administrative rules. However, the annual

reporting requirements of the *Code* and the administrative rules are vague and do not emphasize the importance of transparency and accountability of reported information.

It is important for transparency and accountability that reports published by IEDA present an accurate picture of the program. The report should clearly define the project status categories and other terminology used in the annual report. Under the IEDA's current method of reporting, users of report do not know the amount of financial assistance written off as uncollectible or the number of jobs which were not created and/or retained by the businesses because they defaulted on the contract.

In order to improve the transparency and accountability of the report, IEDA could include:

- information by award type,
- a list of all projects funded under HQJP and the prior versions of the program such as GIVF, CEBA, VAAP, etc.,
- businesses which have defaulted on the projects and the amount written off as uncollectible,
- the total amount of awards forgiven as a result of successful projects, and
- the total repaid by businesses.

In addition, we determined the IEDA does not include sufficient summary information to allow users to consider and/or evaluate the overall impact of the projects, including but not limited to the creation and retention of jobs in the State. See **Finding C**.

Findings and Recommendations

We reviewed State financial assistance awarded to businesses through programs funded by the Grow Iowa Values Fund (GIVF) and the High Quality Jobs Program (HQJP) to determine compliance with relevant sections of the *Code of Iowa*, administrative rules, and the IEDA guidelines. As a result, we identified certain findings and recommendations related to the State financial assistance awarded which should be considered by the Legislature, the Governor, the Board, and the IEDA.

FINDING A – Project File Maintenance

The IEDA maintains project files for all financial assistance contracts entered into by the IEDA with businesses to demonstrate compliance with relevant laws, administrative rules and the IEDA guidelines. The project files consist of 3 separate folders; an application folder, a contracts and monitoring folder, and a disbursement, project completion, and project closeout folder. In addition, the IEDA's administrative services division maintains documentation related to State financial assistance awards, such as copies of contracts, loan repayment records, defaults, legal documents, collections records, and a write-off notebook, including Board approvals.

We determined 3 of the 125 project files selected for testing could not be located, including 2 CEBA project files and 1 VAAP project file. Because the 3 project files were missing, we were unable to review the payroll documentation used by the IEDA to verify the number of jobs for the 2 CEBA projects, and we were unable to review application documentation supporting the value-added agriculture products and processes agreed to by the business under the VAAP contract. We were able to test compliance of the 3 projects with the IEDA's requirements for project completion, project maintenance, and project closeout because copies of relevant documents for the 3 projects were available from the administrative services division of the IEDA.

Recommendation – The IEDA should ensure project files are maintained for each project awarded State financial assistance. The project files should contain all significant documents to allow a

determination of compliance with relevant *Code* sections, administrative rules, and the IEDA guidelines.

Response – The Compliance Team of the Authority currently manages hundreds of financial assistance files ranging from small Innovation Platform awards to major financial incentives to businesses that create/retain jobs and make substantial investments in infrastructure. These files are sometimes touched by numerous staff within the administration division from accounting and finance, collections, front office and the compliance team. Conceivably, files can on occasion be misplaced or misfiled. The Authority will increase its diligence in this area to ensure proper handling and filing of all financial assistance awardee files. The IEDA’s long term goal is to have all files in an electronic format in addition to the paper file copies, which we have been implementing on awards made in the last five years. The misfiled items were awarded before this electronic back-up was put in place.

Conclusion – Response accepted.

FINDING B – Determination of Base Employment and Job Counting

IEDA has implemented written procedures which must be followed by the IEDA’s contract compliance staff for determining contract compliance, base employment, and job verification. Under the new administrative rules, “a project involving more than 2 physical locations or involving more than 500 employees, the business must use an independent auditing service to set the business’ employment base and provide payroll analysis.”

According to a representative of the IEDA, only 2 businesses have used an independent auditing service to set their employment base and provide payroll analysis. After the first year of the project, both of those businesses worked with the IEDA to set the employment base and payroll analysis rather than using an independent auditing service. According to IEDA staff, they do not require companies to use an independent auditing service because of the cost incurred by the business for this service. As a result, IEDA is not in compliance with its administrative rules.

We reviewed 2 project files for business with multiple locations in Iowa. Based on the information in the files, we could not determine if IEDA had received or requested statewide payroll information for the projects. As a result, we could not determine if the project created and/or retained the jobs on a statewide basis. The agreements focus on the number of jobs to be created at the project location. As a result, there is still a concern a company with multiple locations may be able to move jobs from one location to another and the number of jobs at a location may be created and/or retained, but on a statewide basis the total number of jobs may decline.

Recommendation – IEDA staff should ensure they receive or request statewide payroll information in order to determine if jobs are being created and/or retained on a statewide basis. In addition, IEDA should ensure companies with 2 or more locations or with more than 500 employees use an independent auditing service to verify the baseline employment and the jobs created and/or retained as required by the administrative rules.

Response – The Authority will increase its efforts to ensure that businesses with two or more locations within Iowa provide sufficient documentation which will enable the IEDA to determine and establish the base employment levels at each location. Independent auditing services will be utilized when IEDA is unable to make the determination. In addition, the IEDA will re-visit this particular rule in order to provide discretion in requiring companies to use an independent accounting firm.

Conclusion – Response accepted.

FINDING C – Annual Report

We reviewed the IEDA’s annual reports for fiscal years 2013 and 2014 and selected 125 projects to determine if the IEDA reported projects in accordance with section 15.107B of the *Code* and the

administrative rules, and determined whether the IEDA correctly reported the selected projects' activity and project status. As a result, we identified the following findings regarding the annual report as follows.

The IEDA combined some of the project status categories in the project database to arrive at totals displayed in the fiscal year 2014 annual report. Of the 125 projects selected to determine if the projects were correctly reported, we identified 29 of the projects were incorrectly reported in the annual report.

- 18 projects with awards totaling \$4,760,900 are incorrectly reported as “closed projects - full recapture”; however, the businesses defaulted on the contracts and only a portion of the amount required to be repaid was collected by the IEDA. Therefore, the 18 projects should be reported as “closed projects - partial recapture”.
- 2 projects with awards totaling \$6,160,000 are incorrectly reported as “closed projects - full recapture”; however, the businesses defaulted on the contracts and IEDA is pursuing collections and potential legal action. Therefore, the 2 projects should be reported as “projects in default”.
- 1 project awarded \$236,250 is incorrectly reported as “closed projects - full recapture”; however, the business did not proceed with the project, IEDA did not disburse funds to the business, and the contract was terminated. Therefore, the project should be reported as “projects not proceeding- contract terminated”.
- 1 project awarded \$250,000 is incorrectly reported as “closed projects – full recapture” however, the business did not proceed with the project and the contract was not signed by the business and IEDA. Therefore, the project should be reported as “projects not proceeding – declined/rescinded”.
- 1 project awarded \$150,000 is reported under “closed projects - partial recapture” but should be reported under “closed projects - full recapture” because the entire amount due from the business was collected.
- 1 project awarded \$40,000 is reported under “projects not proceeding – contract terminated” but should be reported under “closed projects – full recapture”.
- 1 project awarded \$1,000,000 is reported under “closed projects – successful” but should be reported under “projects not proceeding – contract terminated”.
- 1 project has an incorrect amount of State financial assistance reported. The IEDA agreed and corrected the \$2,007,500 to \$1,000,000 in the project database.
- 1 project awarded \$60,000 has final job numbers that are over-stated by 7 jobs. The IEDA agreed and corrected the job numbers in the project database.
- 1 project awarded \$250,000 is reported correctly as “closed projects – partial recapture”, but the unpaid loan balance written off was not disclosed in the annual report.
- 1 project awarded \$75,000 is correctly reported under “projects not proceeding – declined/rescinded” but prior to the contract being rescinded the IEDA disbursed to the business a \$50,000 loan. The business was later dissolved, and the unpaid loan balance was written off by the IEDA. The amount written off is not disclosed in the annual report.

In addition, 10 of the 18 projects incorrectly reported as “closed projects - full recapture” were recorded by the IEDA in the project database as accounts written off. However, the unpaid loan amounts were not disclosed in the annual report by the IEDA.

We also determined the annual reports published by the IEDA did not provide detailed information necessary to help users evaluate the program including:

- A summary of overall totals of reported activity, including total jobs to be created, jobs actually created, and total State financial assistance awarded by project status category, by county, and by business for the entire reporting period.
- IEDA recorded 28 projects with awards totaling \$10,617,000 as accounts written off as uncollectible in its project database. However, in the annual report, the IEDA reported 26 of the 28 projects as “closed projects – full recapture” and 2 of the 28 projects as “closed projects – partial recapture” and did not disclose the actual amounts of unpaid loan balances written off.
- As previously stated, IEDA reported in its annual report a total of \$35,318,600 as “closed projects – full recapture”. The total included 29 projects with awards totaling \$7,052,100 recorded in the project database as “in collections” and 3 projects with awards totaling \$510,000 recorded in the project database as in “bankruptcy”.

Recommendation – The IEDA should consider revising the annual report format and clarify the content to improve transparency and accountability, and to facilitate evaluation of the success of the use of State financial assistance awarded to businesses for the purpose of creating and retaining jobs in the State including but not limited to the following:

- Display in the annual report overall summaries and totals of all project activity reported for each project status category, each program type, each business, and each county for the entire period reported on.
- Revise and clearly define in the project database and the annual report the project status categories to more clearly reflect the actual status of the projects, such as.
 - Revise the current “closed projects - full recapture” category included in the project database and the annual report to “closed project – paid in full” or “closed projects – defaulted and paid in full”, as appropriate under the circumstances.
 - Revise the current “closed projects – partial recapture” category included in the project database and the annual report to “closed project – partially repaid”, “closed projects – defaulted and partially repaid” and “closed project – defaulted, partially repaid, and balance due is written off”, as appropriate under the circumstances.
 - For projects recorded in the database as “closed project – defaulted, partially repaid, and balance due is written off”, the actual amounts written off by the IEDA for each relevant business should be recorded in the project database and disclosed in the annual report.
 - For businesses which have defaulted on a project, entered into a settlement agreement, and repaid a portion of the amount due the IEDA, such information should be recorded in the project database and included in the annual report in a project status category such as “closed projects – defaulted and in settlement”.
 - For businesses which have defaulted on a project and repaid a portion of the amount due to the IEDA should be recorded in the project database and included in the annual report in a project status category such as “closed project – partially repaid”, “closed project – defaulted and partially repaid” and “closed project – defaulted, partially repaid, and balance due is written off”, as appropriate under the circumstances.
 - For projects which do not have funds disbursed, the project should be recorded in the project database and included in the annual report in a new project status category such as “project awarded assistance, but no funds were disbursed”.

- Display in the annual report the project status and project activity using the revised and clarified project status categories included in the project database.

Response – IEDA is currently participating in the development of a new application that will allow for greater flexibility in the standardization and clarification of each project’s status and provide more options in regards to providing more categorical totals.

Conclusion – Response accepted.

Schedules

Report on a Review of the
High Quality Jobs Program and the Grow Iowa Values Fund

Summary of State Financial Assistance Award Information, Number of
Contracted Jobs, and Number of Final Actual Jobs per Project Database
For the period July 1, 2003 through June 30, 2014

Project Status	Award Information		
	Number of Businesses	Number of Primary Contracts	Total State Financial Assistance Awarded
<u>Closed contracts:</u>			
Successful	157	157	\$ 58,712,312
Full recapture	116	116	27,756,500
Partial recapture	52	52	22,806,750
<u>Under contract:</u>			
In performance	198	198	58,831,454
In maintenance	166	166	54,571,500
Declined or rescinded	181	181	62,402,000
Contract terminated	41	41	12,134,000
In contract negotiations	14	14	825,000
Too new to report	18	18	810,500
In collections	29	29	7,052,100
In default	8	8	2,600,500
In settlement	4	4	895,000
Bankruptcy	3	3	510,000
Total	987	987	\$ 309,907,616

- ^ - "Other Contracted Jobs" means the number of other jobs to be created as defined in the contracts.
- * - As demonstrated by **Table 5**, IEDA reported in the fiscal year 2014 annual report a total of 11,840 jobs as related to closed projects only. Therefore, IEDA did not include in the annual report the 121 "Under contract: In performance" jobs and the 123 "Under contract: In maintenance" jobs because the "final" job numbers reported by the businesses were not yet verified by IEDA and the contracts were not yet closed out by IEDA as of June 30, 2014. In addition, IEDA did not include in the annual report the 202 "In default" reported by the businesses because the status of "In default" is temporary because the businesses are allowed a contractually designated cure period to correct the default.
- # - The "In settlement" projects are reported by IEDA in the annual report under the "Closed contracts: Partial recapture" project status category.

Number of Contracted Jobs				Number of Final Actual Jobs			
Created	Retained	Other^	Total	Created	Retained	Other^	Total
3,404	3,918	1,303	8,625	4,285	3,248	1,114	8,647
3,390	556	482	4,428	68	-	19	87
2,708	754	703	4,165	2,134	541	399	3,074
6,001	1,827	2,221	10,049	121	-	-	121 *
7,808	3,377	2,296	13,481	123	-	-	123 *
6,217	1,330	2,110	9,657	-	-	-	-
1,100	1,884	1,226	4,210	-	-	-	-
161	73	34	268	-	-	-	-
507	68	384	959	-	-	-	-
791	20	161	972	-	-	-	-
422	4	31	457	202	-	-	202 *
108	8	78	194	32	-	-	32 #
61	20	38	119	-	-	-	-
32,678	13,839	11,067	57,584	6,965	3,789	1,532	12,286 *

Report on a Review of the
High Quality Jobs Program and the Grow Iowa Values Fund

Summary of Differences in the Project Status Reported by IEDA compared to the Project File
For the period July 1, 2003 through June 30, 2014

Description	CEBA		PIAP	
	Number of Projects	Total of Award Amounts	Number of Projects	Total of Award Amounts
Total number of and award amount for projects tested	47	\$14,899,500	22	\$27,153,500
<u>Findings regarding incorrect reporting of project status:</u>				
Reported as full recapture / business defaulted and only a portion of the amount required to be repaid was collected by the Department / should be partial recapture	6	2,317,000	1	300,000
Reported as full recapture / business was in default so the project should be reported as projects in default	-	-	-	-
Reported as full recapture / should be reported as contract terminated because the business did not proceed with the project, IEDA did not disburse funds to the business, and the contract was terminated	-	-	-	-
Reported as full recapture but should be reported as projects not proceeding - declined/rescinded because a contract was not signed and no funds were disbursed	-	-	-	-
Reported as partial recapture / should be full recapture because the entire amount due from the business was collected	-	-	-	-
Reported as project not proceeding – contract terminated / should be full recapture	1	40,000	-	-
Reported as closed project – successful / should be project not proceeding - contract terminated	-	-	1	1,000,000
Reported incorrect amount of State financial assistance / should be \$1 million	1	2,007,500	-	-
Final job numbers reported are over-stated by 7	-	-	-	-
Reported correctly as closed projects - partial recapture, but the amount written off is not disclosed	-	-	-	-
Reported correctly as projects not proceeding – declined/rescinded, but the amount written off is not disclosed	-	-	-	-
Total project status category findings	<u>8</u>	<u>\$ 4,364,500</u>	<u>2</u>	<u>\$ 1,300,000</u>
<u>In addition, the unpaid loan amount written off is not disclosed for 10 of the 18 projects incorrectly reported as full</u>				
Unpaid loan amount written off but not disclosed in the annual report for the above	<u>2</u>	<u>\$ 339,318</u>	<u>1</u>	<u>\$ 300,000</u>

Note: The award amounts related to write-offs not disclosed are moved down to avoid duplication of the award amounts.

VAAP		Other		Total	
Number of Projects	Total of Award Amounts	Number of Projects	Total of Award Amounts	Number of Projects	Total of Award Amounts
38	\$7,175,900	18	\$26,573,565	125	\$75,802,465
8	1,893,900	3	250,000	18	4,760,900
-	-	2	6,160,000	2	6,160,000
-	-	1	236,250	1	236,250
-	-	1	250,000	1	250,000
1	150,000	-	-	1	150,000
-	-	-	-	1	40,000
-	-	-	-	1	1,000,000
-	-	-	-	1	2,007,500
1	60,000	-	-	1	60,000
1	250,000	-	-	1	250,000
-	-	1	75,000	1	75,000
<u>11</u>	<u>\$2,353,900</u>	<u>8</u>	<u>\$ 6,971,250</u>	<u>29</u>	<u>\$14,989,650</u>
<u>4</u>	<u>\$ 733,284</u>	<u>3</u>	<u>\$ 240,000</u>	<u>10</u>	<u>\$ 1,612,602</u>

A Review of the High Quality Jobs Program
and the Grow Iowa Values Fund

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