

REPORT OF AUDIT SURVEY

**Survey of Selected
Department of Economic Development
Operations**

June 25, 2013



**Montgomery County, Maryland
Office of the Inspector General**

Office of the Inspector General

Report of Audit Survey Survey of Selected Department of Economic Development Operations

June 25, 2013

The Office of the Inspector General (OIG) has completed the subject audit survey. Our primary objective was to survey the Department of Economic Development (DED)'s operations in making grants and loans, principally the fiscal impact information provided to the County Council in support of proposed Economic Development Fund (EDF) grants and loans.

Objectives, Scope, and Methodology

A survey is directed toward identifying potential problem areas, verifying the internal control systems employed in those areas, and determining the need for and potential benefits to be derived from a detailed audit. During the survey phase, auditors obtain sufficient information to outline the scope of a possible audit, develop an audit plan, and prepare a detailed audit verification phase program (if warranted), including time and resource needs. At the conclusion of the survey phase, the audit team will recommend to the Inspector General a "Go" or "No Go" decision regarding the audit verification phase.

The objectives of this survey were to:

1. Determine whether existing procedures and related internal controls over the fiscal impact information provided to the Council are sufficiently documented, effective as designed, and consistently implemented,
2. Identify significant procedural or control deficiencies, if any, and
3. Recommend corrective actions.

We conducted our audit survey in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Our survey procedures included, with respect to a sample of 23 EDF grants or loans approved from fiscal years 1996 through 2013:

- Scanning 21 Fiscal Impact Analyses. As to the remaining two, DED did not use the standard Fiscal Impact Model.
- Reviewing 21 EDF Decision Memoranda, including the County Executive's approvals. As to the remaining two, DED had not yet issued Decision Memoranda.

While we were conducting this test work, Bill No. 14-12, amending County Code § 20-75, became effective. Among other things, the amended Code required that the Council be provided

with all fiscal analyses and other supporting documents for any proposed offer of assistance to a private employer valued at more than \$100,000. The supporting documents must include... each assumption, variable, and model used to generate estimates of employment and tax revenue gains.¹

For proposed offers of assistance valued at more than \$100,000, DED's typical practice is to provide an analysis of the expected County benefits and costs, using a spreadsheet-based Fiscal Impact Model developed by the Department of Finance (DOF). Estimates supplied by the applicant are used in this model. Typically, these include the expected number of employees, the average salaries, and expenditures on the business' real and personal property. We observed that DED's Financial Assistance Request Data Form, which applicants are required to complete, requires in Item B.11, "Past three years of financial statements and company's latest annual report must be submitted. Also submit a copy of Maryland Unemployment Insurance Quarterly Contribution Report (O.U.I. 15 & O.U.I. 16) for the last 2 quarters." This type of information can be used to validate the estimates. In the final analysis, estimates used in the model rely largely on DED staff's judgments of business trends and market conditions.

We gained an in-depth understanding of the assumptions² supporting the standard Fiscal Impact Model. Most of these assumptions are not apparent from simply reading the printout of the model's results. Many assumptions are embedded in the formulas used to populate each cell. The embedded assumptions include, for example:

- The average home value for potential new employees is 5 x the combined salaries of the household.
- The taxable salary of potential new employees is 80% of gross pay.
- 60% of the potential new employees will live in Montgomery County, causing new investment in County home ownership.
- A secondary employee (a spouse or other additional employee in a household) will earn 80% of the salary of the new employee, causing new County income tax revenue.
- In estimating future costs, there will be .4 MCPS students per household.

¹ Montgomery County Code §20-75(b). Because of timing, only a few of the grants and loans selected in our survey for testing may have been required to comply with §20-75(b), as amended.

² The assumptions discussed here might alternatively be categorized as variables or models, but, in any case, we believe that they fall within the requirements of §20-75(b), as amended.

All of the assumptions embedded in the standard Fiscal Impact Model are subject to change on any specific proposal. We understand that the determination of the proper assumptions to use in each analysis is the responsibility of DOF. We believe the more significant embedded assumptions used in any specific fiscal impact analysis should be communicated to the Council, in keeping with County Code §20-75(b), as amended.

We provided our understanding of each embedded assumption supporting the standard Fiscal Impact Model to DED staff, who forwarded it to DOF. These departments may wish to analyze this information and consider it in meeting the disclosures of assumptions to the Council required by County Code §20-75(b), as amended.

Audit Survey Results

Our survey resulted in no formal findings or recommendations related to the fiscal impact information provided to the Council. We do not plan to enter the verification phase of our audit at this time. However, we may wish to perform audit verification in the future, after DED has submitted several grant and loan proposals under County Code §20-75(b), as amended.

Chief Administrative Officer's Response

The Chief Administrative Officer (CAO) had no disagreements with our report. The response of the CAO is included as an Appendix to this report. The CAO believes that DED and DOF are working together to fully satisfy the requirements of Bill No. 14-12.

We thank DED and DOF staff for their assistance during the course of this survey.

Appendix: Chief Administrative Officer's Response



OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

June 7, 2013

Timothy L. Firestine
Chief Administrative Officer

TO: Edward L. Blansitt III, Inspector General

FROM: Timothy L. Firestine, Chief Administrative Officer *Timothy L. Firestine*

SUBJECT: Final Draft Report of Audit Survey of Selected Department of Economic Development Operations—Economic Development Fund Program

I am in receipt of your memo dated May 13, 2013, regarding the audit survey of the Economic Development Fund (EDF), administered by the Department of Economic Development (DED).

I am encouraged that your survey resulted in no formal findings or recommendations relating to DED's operations in making grants and loans, and the content of the fiscal impact information provided to the County Council to analyze the impact of proposed EDF grants and loans.

As your memo points out, Bill 14-12, Economic Development Fund-- Amendments, became effective during your audit survey process. The Bill does require more detailed project related information to be provided to the County Council for EDF transactions over \$100,000, in addition to, or as a part of the fiscal impact analysis. Since we did not have any sample of information provided to the County Council to meet the requirements of Bill 14-12 during your audit survey, I am providing you a sample fiscal impact and project summary that were recently provided to the County Council during a recent closed session on EDF transactions. I believe the sample documents demonstrate that DED and the Department of Finance are working together to fully satisfy the requirements of Bill 14-12.

Thank you for the opportunity to respond to your Audit Survey and your advice on how to better comply with Bill 14-12. If you have any questions, please feel free to contact me or Assistant Chief Administrative Officer Fariba Kassiri, who can be reached at 240-777-2512 or Fariba.Kassiri@montgomerycountymd.gov.

TLF:pb

Attachments

cc: Fariba Kassiri, Assistant Chief Administrative Officer
Steve Silverman, Director, Department of Economic Development
Joseph Beach, Director, Department of Finance
Jennifer Hughes, Director, Office of Management and Budget

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