Office of the New York State Comptroller

Division of Local Government & School Accountability

Putnam County Industrial Development Agency

Management Practices

Report of Examination

Period Covered:

January 1, 2012 — May 3, 2013

2013M-257

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

March 2014

Dear Agency Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Putnam County Industrial Development Agency, entitled Management Practices. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Industrial development agencies (IDAs) are independent public benefit corporations whose goal is to advance the job opportunities, health, general prosperity and economic welfare of the people of the State. The Putnam County Industrial Development Agency (PCIDA) was established in 1995 and is governed by a Board which comprises seven members who are appointed by the Putnam County Legislature. The Board is responsible for the general management and control of the PCIDA's financial and operational affairs. The PCIDA appointed a chief executive officer and a chief financial officer to manage its operations. The PCIDA offers benefits to businesses (e.g., sales tax exemptions and real property tax abatements) and provides general payment in lieu of taxes (PILOT) agreements, which result in real property tax abatements for business owners. The PCIDA reported 14 active industrial development projects in 2012.

Scope and Objective

The objective of our audit was to evaluate PCIDA management practices for the period January 1, 2012 to May 3, 2013. Our audit addressed the following related question:

- Did the Board have an adequate system to select applicants, and monitor and evaluate benefits and incentives granted to firms or businesses?

Audit Results

In 1996, the PCIDA Board established criteria for approving projects, and for evaluating and recapturing benefits from projects that fail to meet their goals. However, the policy has not been evaluated since, and therefore does not reflect changes made by the Board to the recapture provisions that the Board should follow. PCIDA officials do not have project approval criteria that is specific to Putnam County, and they approve individual projects despite a lack of information such as the additional police or emergency services required, the number of existing jobs or a cost-benefit analysis. Officials also do not conduct annual visitations to businesses to determine if projects meet their goals or recapture benefits when they do not. Officials also do not obtain sales tax exemption or capital investment amounts annually, and therefore cannot determine if projects are meeting their related goals or accurately reporting this information. As a result, there is an increased risk that businesses will receive unnecessary financial assistance and that the businesses will not provide the public benefits that have been promised.

Comments of Local Officials

The results of our audit and recommendations have been discussed with PCIDA officials and their comments, which appear in Appendix A, have been considered in preparing this report. PCIDA officials generally agreed with our recommendations and indicated they planned to take corrective action.

Introduction

Background

Industrial development agencies (IDAs) are independent public benefit corporations whose purpose is to promote, develop and assist industrial, manufacturing, warehousing, commercial, research and recreation facilities. The overall goal of IDAs is to advance the job opportunities, health, general prosperity and economic welfare of the people of the State. The powers and duties of IDAs are set forth under Article 18-A of General Municipal Law (GML). Typically, projects that receive IDA benefits involve the acquisition, construction or major renovations of buildings or other structures and generate short-term and long-term employment in construction and operations related jobs.

The Putnam County Industrial Development Agency (PCIDA) was established in 1995 and is governed by a Board which comprises seven members who are appointed by the Putnam County Legislature. The Board is responsible for the general management and control of the PCIDA's financial and operational affairs. The PCIDA appointed a chief executive officer and a chief financial officer to manage its operations. The PCIDA reported 14 active industrial development projects in its 2012 annual report submitted to the Office of the State Comptroller.

The PCIDA generally assumes the title of the real and/or personal property owned by the businesses that are involved in the PCIDA's approved projects, which allows the PCIDA to offer benefits to these businesses (e.g., sales tax exemptions and real property tax abatements). The PCIDA is not required to pay taxes or assessments on any property that it acquires or that is under its jurisdiction, control, or supervision. It provides a general payment in lieu of taxes (PILOT) agreement to approved businesses, which results in real property tax abatements for the business owners. These PILOT agreements are governed by the PCIDA's uniform tax exemption policy (UTEP), which outlines, among other things, the process of recapturing benefits if a company receiving a PILOT does not meet anticipated performance.

Objective

The objective of our audit was to evaluate PCIDA management practices. Our audit addressed the following related question:

- Did the Board have an adequate system to select applicants, and monitor and evaluate benefits and incentives granted to firms or businesses?

Scope and Methodology

We examined project approval and monitoring practices of the PCIDA for the period January 1, 2012 to May 3, 2013. For selected projects, we extended the audit period to September 1, 2008 to include all project activities from the date of their inception.[1]

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with PCIDA officials and their comments, which appear in Appendix A, have been considered in preparing this report. PCIDA officials generally agreed with our recommendations and indicated they planned to take corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Secretary's office.

[1] To include all project activities from the date of their inception we extended the audit period from September 1, 2008 to May 3, 2013 for the following projects: Brewster Plastic (two projects), Broad Reach (two projects), Mahopac Fire District Seven Sutton Place and United Cerebral Palsy of Putnam & Southern Dutchess (three projects).

Project Approval and Monitoring

To further the intended goals of an IDA, all approved projects should advance job opportunities and the health, general prosperity, and economic welfare of the people within the IDA's geographic area. These public benefits are achieved through financial assistance in the form of low-interest financing, exemption from real property tax, exemption from sales tax, and/or exemption from mortgage recording tax. Each project should be evaluated for the benefits it will provide relative to the assistance it will need. The Board is responsible for establishing specific criteria for project evaluation, and for ensuring that it has all the necessary and accurate information to make an evaluation. The information provided on project applications also serves as a base measurement of project employment and other factors for the IDA to use in monitoring the projects' ongoing progress toward achieving its stated goals, and in decisions for recapturing benefits in the event it fails to achieve its goals.

In 1996, the PCIDA Board established criteria for approving projects, and for evaluating and recapturing benefits from projects that fail to meet their goals. However, the policy has not been evaluated since, and therefore does not reflect changes made by the Board to the recapture provisions that the Board should follow. PCIDA officials do not have project approval criteria that is specific to the County, and they approve individual projects despite a lack of information such as the additional police or emergency services required, the number of existing jobs, or a cost-benefit analysis. Officials also do not conduct annual visitations to businesses to determine if projects meet their goals or recapture benefits when they do not. Officials also do not obtain sales tax exemption or capital investment amounts annually, and therefore cannot determine if projects are meeting their related goals or accurately report this information to the Office of the State Comptroller. As a result, there is an increased risk that businesses will receive unnecessary financial assistance and that the businesses will not provide the public benefits that have been promised to the County and local jurisdictions.

Evaluation Criteria and Missing Application Data

PCIDA enters into payments in lieu of taxes (PILOT) agreements with businesses for approved projects to provide incentives in the form of reductions of real property taxes. In exchange, businesses make PILOT payments to the PCIDA, which are shared with the affected local tax jurisdictions (i.e., local governments). PCIDA also provides financial assistance in the form of low-interest bonds, and/or tax-exempt status for State sales tax and mortgage recording tax. In return for IDA incentives, approved projects must deliver documented benefits to revitalize depressed areas, improve quality of life, increase the tax base, and/ or provide affordable housing for community residents.

PILOT agreements are governed by PCIDA's uniform tax exemption policy (UTEP), which outlines, among other things, the process for recapturing benefits if a business does not meet anticipated performance. In addition to the UTEP, PCIDA officials should develop specific project evaluation criteria to base sponsorship decisions and document their rationale for approval or denial of benefits to each applicant.

PCIDA officials adopted the UTEP in 1996, which provided guidelines to evaluate projects in accordance with GML and IDA concepts. The UTEP requires an application for each project, which provides for a detailed project description, and estimates of performance and cost so that interested parties can determine the project scope, final cost and project benefits. However, the UTEP has not been updated since 1996 and does not reflect changes PCIDA officials made to the benefit recapture provisions, including reducing the evaluation period from four years to three years for determining if businesses have failed to meet established goals. In addition, PCIDA officials have not notified affected municipalities of the changes and are, therefore, not in compliance with GML. PCIDA officials informed us they did not formally amend the UTEP because they were not aware that they had to review it each year and make necessary changes.

Evaluation Criteria – There were 14 projects receiving PCIDA benefits during our audit. We selected nine[2] of the 14 projects, which received $940,000 in PCIDA assistance, and examined their applications. Applications require a narrative description of the project, project owners, type of entity, number of existing jobs and an indication whether the proposed project requires the provision of additional services. Applications also require information concerning the project's effect on the environment, requested benefits from PCIDA, project cost, a cost-benefit analysis, a certification by the project owner that the information is correct and other pertinent information.

PCIDA officials did not establish any formal evaluation criteria, specific to the County's development needs, for reviewing and approving applications. Instead, PCIDA's chief executive officer reviewed applications along with PCIDA's legal counsel and forwarded projects to the Board that they believed were suitable for consideration. The Board indicated its approval by adopting final resolutions or bond resolutions and executing lease agreements with the project managers; however, these documents did not show the

[2] We selected the nine most recently initiated projects.

reasons for the approvals. Further, PCIDA did not have a formal process to determine whether IDA assistance was necessary for the projects to proceed. PCIDA officials told us they have criteria for approving or denying projects, but they were unable to provide us with that criteria. As a result, taxpayers have no assurance that projects are evaluated in a consistent manner. The lack of criteria precludes the documentation of the approval process leaving taxpayers and other interested parties with no information about why projects were approved. Therefore, PCIDA may be providing tax abatements and exemptions that are not necessary, at the expense of taxpayers.

Missing Application Data – When an application is received, it is reviewed by the chief executive officer for completeness and forwarded to the PCIDA's legal counsel for further review to ensure the Board has the critical information required to decide if a project is worthy of financial assistance. When the latter review has been completed, the application is presented to the Board for initiating the approval process.[3] We reviewed the applications for the nine projects we selected and found that all nine were missing key information. For example, five applications did not indicate whether the proposed projects required the local governments to provide additional services including police, emergency medical or fire services, or education. Two of those five applications also did not indicate the effect of the proposed business on the environment. Also, none of the nine applications had any cost-benefit analysis. PCIDA officials could not explain why the applications did not contain the required information. We question whether the Board had the necessary information to determine if these projects would be beneficial to the taxpayers.

Verifying Application Data

PCIDA requires applicants to sign a notarized certification stating that the information they provide in the application, including the project description, projected financial benefits and the stated number of existing jobs, is correct. IDA officials need this data for the initial cost-benefit analysis to determine if the benefits to the County would exceed the cost that it would incur by providing project owners with low-interest bonds, tax abatements and exemptions. IDA officials should evaluate this data by verifying reported financial data (the applicant's credit history), assessing the strength of the business (analyzing past earnings and projected cash flow), and considering the experience of management. IDA officials should also verify the stated number of existing jobs at the time of application so they can accurately monitor job creation performance.

[3] The approval process involves multiple actions including, but not limited to, environmental reviews, preliminary resolutions and agreements, public hearings and approvals from the affected local jurisdictions.

PCIDA officials told us they evaluated the data provided by business owners and reviewed their financial statements, but they did not verify the stated number of existing jobs at the time of application. The chief executive officer stated that they did not need to verify existing jobs because business owners attest to providing accurate information, as evidenced by their signature and the notarization on the application. However, the verification of existing jobs is critical for the ongoing monitoring of a project's job creation performance. For example, if an applicant understated existing jobs on the application form and PCIDA officials did not identify the understatement, the reported number of new jobs created in future years would be inflated. The failure to verify employment numbers increases the risk that PCIDA officials will not be able to adequately assess actual job creation.

Cost-Benefit Analysis

Good business practices dictate that PCIDA officials prepare a cost-benefit analysis for each proposed project based on the information provided in the application, including jobs created or retained, sales tax exemptions to be claimed and capital investment. It is important that a cost-benefit analysis include all costs associated with the project and any expected benefits to the community. PCIDA officials should compare the cost-benefit analysis to the business owner's submitted application and PCIDA's UTEP criteria to make appropriate sponsorship decisions. Without a cost-benefit analysis, PCIDA officials have no basis to compare the requested assistance with future benefits the applicant intends to produce for the community.

We reviewed the applications of the nine projects in our audit sample to determine if information applicants provided was sufficient to perform an analysis of the costs and benefits of the projects and, if so, whether such a cost-benefit analysis was performed. Although the applications for the nine projects contained sufficient information such as project cost and investment, PCIDA officials did not perform a detailed cost-benefit analysis necessary to support their decisions to approve IDA benefits. Failure to perform cost-benefit analyses could result in the approval of a project that does not fall within the County's economic development plans or a project that may not benefit the community.

PCIDA officials claimed that they performed a cost-benefit analysis for each of the nine active projects and provided us with two sheets that showed how the cost-benefit calculations were purportedly performed. However, as stated above, we found no evidence in the project applications that they performed cost-benefit analyses as part of their approval process for any of the nine projects. Without a documented cost-benefit analysis, PCIDA officials cannot demonstrate whether the community will receive sufficient benefits in return for the assistance provided. As such, there is no assurance that the benefits granted to a business will provide any economic benefits, or the expected level of economic benefits, to the County and affected local jurisdictions.

Monitoring Performance

The Board is responsible for monitoring and evaluating the performance of businesses receiving financial assistance to determine whether they are providing the public benefits promised in their project applications. Effective monitoring of employment goals, sales tax exemptions and capital investment allows PCIDA officials to identify and react to any business performance shortfalls. The reasons for shortfalls should be promptly investigated and corrective action taken, including the possible recapture of financial assistance. To effectively fulfill its responsibilities, the Board should make all performance results available to the public.

The Board is not adequately monitoring the performance of businesses that received PCIDA benefits. There is no evidence that PCIDA is conducting annual audits or visits to determine whether projects are meeting their employment projections or other goals. Without such reviews, PCIDA cannot consider whether they should recapture benefits if businesses do not meet their employment goals. In addition, PCIDA does not obtain information on sales tax exemption or capital investment amounts on an annual basis, and therefore has no ability to determine if projects are meeting their related goals in the businesses' applications. The failure to monitor project performance increases the risk that businesses will receive unnecessary or unauthorized benefits, or that the businesses will not provide the economic benefits to the County and local jurisdictions promised in their applications. In addition, accurate performance results will not be available to the public.

<u>Recapture Provisions for Performance Shortfalls</u> – IDAs may place provisions in project contracts that allow them to "recapture," or recover, economic benefits if companies do not meet their project goals. To effectively fulfill their responsibilities, IDAs should make all recapture determinations available to the public. Penalties for non-performance can take various forms. For example, a company could be prohibited from reapplying for an incentive program, or a company could be required to return all or part of a tax exemption. A recapture policy may be based on a number of factors such as jobs created or retained. Benefits should be recaptured with the approval of the Board. The Board allows the chief executive officer to request legal assistance from PCIDA counsel to recapture property, County, school, and sales tax benefits as follows:

- Up to 100 percent for the most severe instances of non-compliance and

- Up to 50 percent if consistent progress has not been made in achieving goals during the past three years.

PCIDA officials are required to conduct an annual audit or visit each client or business that is accepted for assistance by the PCIDA within the last five years to assess compliance with established goals, including a verification of the job performance as reported to the Office of the State Comptroller. However, there was no evidence that client visitations were performed for the nine projects that were approved during the last five years. The chief executive officer told us that he made visits but never formally documented those visits. The chief executive officer also told us PCIDA officials did not have to recapture any benefits from the businesses because they met their agreements.

We reviewed the job performance goals for 2012 for the nine projects that were approved during the last five years as reported in the businesses' annual reports to the Office of the State Comptroller. Four of the nine projects had no job performance goals for 2012. As shown in the table below, for the five remaining projects, 150 and 222 jobs were estimated to be created or retained for total of 372 jobs.

Table 1: Original Application

Project	Jobs to be Created	Jobs to be Retained	Jobs Reported December 31, 2012	Difference
Brewster Plastic	28		35	7
Brewster Plastic	15		39	24
Broad Reach	51	31	62	(20)
Seven Sutton Place	22		25	3
United Cerebral Palsy of Putnam & Southern Dutchess	34	191	191	(34)
Total	**150**	**222**	**352**	**(20)**

The businesses reported that they created and/or retained 352 jobs in 2012. Therefore, they were short 20 jobs in total. In the event businesses fall short of their goals and PCIDA officials do not recapture financial assistance provided, taxpayers in the community end up subsidizing the projects without receiving adequate benefits.

<u>Sales Tax Exemptions</u> – When business owners apply for PCIDA benefits, they must estimate the value of the sales tax exemptions they will receive within a specific time frame. Business owners are required to report the actual sales tax savings to the New York State Department of Taxation and Finance (Tax and Finance) on form ST-340 annually. Business owners are required by the PCIDA's UTEP

to send copies of their ST-340 forms to PCIDA, so that the chief executive officer can include this information in PCIDA's financial reports and compare sales tax exemptions for each project to the projected amounts.

We reviewed the nine projects we selected to determine whether the amount of sales tax exemptions business owners reported on their ST-340 forms agreed with the amounts contained in the businesses' PCIDA applications. However, we found that business owners did not submit copies of their ST-340s to PCIDA. The Chairman of the Board informed us that he was not aware that business owners were suppose to submit these forms to PCIDA or that PCIDA had to keep them on file. Furthermore, PCIDA officials did not obtain copies of ST-340 forms filed with Tax and Finance or request detail records from the business owners to determine the amount of sales tax savings claimed.

Without an accurate accounting of sales tax savings for a project, variances from the application amounts could exist and remain undetected. As a result, there is an increased risk that PCIDA officials could rely on cost-benefit analyses that are inaccurate, report incorrect financial information, provide benefits for a projects they may not have approved or provide increased benefits for projects they had approved at lower sales tax exemption levels. Furthermore, PCIDA officials would also need accurate sales tax exemption data when making a determination on whether to recapture financial assistance provided if projects receive more benefits than were authorized.

<u>Capital Investment</u> – When business owners apply for PCIDA benefits, they must estimate the amount of capital investment they will make within a specified time frame. Business owners are required to report the actual capital investment to Tax and Finance on the ST-340 form that they submit for the sales tax savings.

We reviewed the nine projects to determine whether the amount of capital investment the business owners expended agreed with the amount of capital investment contained in the businesses' PCIDA applications. Since business owners did not submit copies of their ST-340s, PCIDA officials have no way of determining this. The Chairman of the Board informed us that he was not aware that the business owners had to submit these forms to PCIDA or that PCIDA had to keep them on file. PCIDA officials also did not request copies of ST-340 forms from Tax and Finance or request other financial records from these businesses so that they could identify the capital investment amounts. PCIDA officials told us that they did not monitor capital investment other than by driving past the facilities and noting if the building were built. While this ensures that the business owners made some capital investment, it does not allow PCIDA officials to adequately monitor the actual amount of capital investment.

Without an accurate accounting for capital investment in a project, variances from the application amount could exist and remain undetected. As a result, there is an increased risk that PCIDA officials could be relying on cost-benefit analyses that are inaccurate, report incorrect financial information or provide benefits for projects that have not made the promised capital investments. Furthermore, PCIDA officials must be sure of the amount of capital invested to assess whether they should recapture financial assistance because projects fall short of their stated goals and because it directly affects the amount of taxes that municipalities and school districts will receive after construction of the facility (after the PILOT expires).

Recommendations

1. The Board should review the UTEP each year and make necessary changes.

2. The Board should develop specific project evaluation criteria and document its rationale for approving or denying benefits to each applicant.

3. PCIDA officials should ensure all applicants fill out the entire application.

4. The Board should verify the information on the project applications, including the stated number of existing jobs.

5. The Board should perform a documented cost-benefit analysis for each proposed project prior to its approval, taking into consideration factors such as jobs created or retained, sales tax exemptions and capital investment.

6. PCIDA officials should perform and document client visits to determine if businesses are creating and retaining jobs as they agreed to in their applications.

7. The Board should require business owners to submit copies of their ST-340 forms. If businesses fail to do so, PCIDA officials should obtain copies of ST-340 forms filed with Tax and Finance or request other financial records from the business owners to determine the amount of sales tax savings and capital investment claimed.

8. PCIDA officials should compare the sales tax exemptions and capital investments business owners are claiming on their ST-340s to the amounts stated on the businesses' applications and investigate any significant variances.

9. PCIDA officials should compare tax exemptions reported in the business owners' ST-340 forms to tax exemption claimed in their applications to ensure that the business owners are not receiving tax exemptions in excess of what they are entitled.

10. The Board should determine whether sponsored projects are producing benefits as promised and whether financial assistance should be recaptured from those businesses that fall short of the performance goals. The Board should make the results of the recapture determinations available to the public.

11. The chief executive officer should determine if business owners made the promised capital investments and take appropriate action if investments were not made.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

Putnam County
Industrial Development Agency

December 3, 2013

[redacted]

Office of The State Comptroller

33 Airport Ctr. Drive Suite 103

New Windsor, NY 12553

Dear [redacted]

Certain members of the Putnam County Industrial Development Agency, including the Chairman, have closely reviewed the findings and recommendations in the State Comptroller's 2012 Management Practices of the Putnam County Industrial Development Agency audit. At the current time, the Agency is facing a number of challenges due to lack of completed fee generating projects and changes in staffing. The audit findings and their recommendations are useful tools in re-establishing the Agency's operations, management and administration.

The foundation for implementing the recommendations will be to develop policies that are consistent with state laws and their policies. The task for compliance with procedures will be placed in the hands of the executive director under the review and guidance of the chairman and the entire board.

The following will be presented to the full Board for consideration at its December 2013 meeting.

1. The Board should review the UTEP each year and make necessary changes.

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The entire board will review its UTEP annually. Any revisions to conform to the Agency's mission will be instituted accordingly. The UTEP will be annually approved by the Board as required in the Agency's PARIS report. Agency minutes and website will clearly state the readoption and/or revision of the UTEP as well.

2. **The Board should develop specific project evaluation criteria and document its rationale for approving or denying benefits to each applicant.**

The Board will insure that projects conform to the eligibility criteria as established in GML Article 18A and the PAAA 2005 and Authority Reform of 2009.

3. **PCIDA officials should ensure all applicants fill out the entire application.**

The Executive Director and Bond and IDA General Council will require that no application be accepted until it is complete. The Board, in their decision making, will review each application and interview the project operator prior to project inducement.

4. **The Board should verify the information on the project applications, including the stated number of existing jobs.**

The application will require that that the applicant provides an annual average of employment as contained in *NY 45 Quarterly Combined Withholding, Wage Reporting, and an Unemployment Insurance Return.* Additionally, the Executive Director will establish visitations to verify new employment projections against these returns. This information is required to be included in the annual PARIS report.

5. **The Board should perform a documented cost-benefit analysis for each proposed project prior to its approval taking into consideration factors such as jobs created or retained, sales tax exemptions and capital investment.**

The Agency will perform a cost-benefit analysis for each project. The information will be included in the application prior to inducement.

6. PCIDA officials should perform and document client visits to determine if businesses are creating and retaining jobs as they agreed to in their applications.

The Executive Director will establish visitations to verify employment retentions and created jobs as documented in the company's NY-45 reports. This information is required to be included in the annual PARIS report.

7. The Board should require business owners to submit copies of their ST-340 forms. If businesses fail to do so, PCIDA officials should obtain copies of ST-340 forms filed with Tax and Finance or request other financial records from the business owners to determine the amount of sales tax savings and capital investment claimed.

Projects will receive a letter each January containing an ST-340 Form with instructions on the submission process which will require that a copy of the completed form will be filed with the Agency as the Agency is required to report project sales tax information in its annual PARIS report. If, after follow-up, the businesses fail to provide the ST-340 forms within 60 days, the Agency will obtain copies of the ST-340 forms filed with Tax and Finance or otherwise request financial records from the business owners to determine the amount of sales tax savings and capital investment claimed.

8. PCIDA officials should compare the sales tax exemptions and capital investments business owners are claiming on their ST-340s to the amounts stated on the businesses' applications and investigate any significant variances.

This will be accomplished as part of the PARIS submission process. In addition, the Sales Tax exemption letter will clearly state an expiration date (as shown on the ST-60 form). Projects will be advised that the ST-60 Form also sets a limit on the amount that will be abated.

9. PCIDA officials should compare tax exemptions reported in the business owners' ST-340 forms to tax exemption claimed in their applications to ensure that the business owners are not receiving tax exemptions of what they are entitled.

This will be accomplished by comparing the ST-340 Forms with what is claimed and then looking at any and all ST-340 Forms from current and prior years to make sure the companies are not claiming more than requested. The expiration date will also be checked.

10. The Board should determine whether sponsored projects are producing benefits as promised and whether financial assistance should be recaptured from those businesses that fall short of their performance goals. The Board should make the results of the recapture determinations available to the public.

The Agency will check the lease agreements and project agreements to ensure the company has met the covenants, thereof and take action accordingly.

11. The chief executive officer should determine if business owners made the promised capital investments and take appropriate action if investments were not made.

In bond financing information is always reported to the indenture trustee. The corporate bank keeps track of all funds from the bond issue. Certain projects companies supply certificates of occupancy and other items of project progress to the IDA in the contract documents. The CEO will be required to do annual visitations and check that the capital improvements stated were done. The CEO will also have the company confirm and sign documentation that certifies how much was spent

Thank you for your recommendations and direction. The Putnam County IDA accepts the findings of your office. The above responses institute the correction action plan of the IDA. We appreciate your input.

Sincerely,

Richard Ruchala

Acting Chairman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed Article 18-A of General Municipal Law to gain an understanding of the laws that applied to industrial development agencies and how they applied to our audit.

- We interviewed PCIDA officials to determine their views regarding economic development.

- We read the minutes of the Board's proceedings from 2011 to the beginning of our fieldwork to document current issues related to the scope of our audit.

- We interviewed PCIDA officials to determine whether they were aware of any officials' questionable interests in PCIDA contracts.

- We interviewed PCIDA officials to gain an understanding of the policies and procedures related to the application process and to project approval, monitoring and evaluation.

- We reviewed PCIDA's policies, including the uniform tax exemption policy (UTEP), to identify written criteria outlining applicant's eligibility for sponsorship and the benefits offered.

- We inquired about the number of projects PCIDA sponsored since the start of our audit period. We obtained all information for these projects including projects files, payment in lieu of taxes (PILOT) agreements, and the 2012 annual certifications of jobs and taxes abated submitted by project owners.

- We reviewed project documents to determine if PCIDA had project criteria to select projects, if PCIDA officials consistently applied those criteria, or if the variations that PCIDA officials allowed appeared to be justified.

- We reviewed project files and inquired with PCIDA officials as to whether they had considered recapturing benefits from business owners who fell short of their performance goals.

- We obtained an understanding of how PCIDA tracks and monitors the performance of each company receiving benefits and we identified the types of performance shortfalls and the parameters used by the Board when deciding to initiate recapture.

- We reviewed PCIDA's recapture procedures for projects that fail to achieve job creation or other goals as stipulated in the PCIDA application for inducement.

- We requested documents from the chief executive officer that show if he or anyone else performed on-site visits of the companies sponsored by PCIDA to discuss financial matters and evaluate job creation/retention commitments.

- We traced PCIDA source documents to the 2011and 2012 Public Authorities Reporting and Information System (PARIS) reports to verify the accuracy and completeness of the information reported, including jobs created, to 2012 project confirmations submitted by the project owners.

- We compared job projections as stated on businesses' PCIDA applications with those stated on the PARIS reports to determine how well the companies performed at creating or retaining jobs.

- We determined the number of jobs each project was short by taking the number of jobs each project created and retained and the current number of jobs that existed as of December 31, 2012 from the 2012 PARIS report. We then calculated and entered the results in a table to show the number of jobs business owners failed to create.

- We interviewed the chief financial officer and the Chairman of the Board to determine whether businesses filed their ST-340 forms with Taxation and Finance and submitted copies to PCIDA.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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APPENDIX D

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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