



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 20, 2019

Massachusetts Office of Business Development

For the period July 1, 2015 through June 30, 2017





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June 20, 2019

Mr. Mike Kennealy, Secretary
Executive Office of Housing and Economic Development
1 Ashburton Place, Room 2101
Boston, MA 02108

Dear Secretary Kennealy:

I am pleased to provide this performance audit of the Massachusetts Office of Business Development. This report details the audit objectives, scope, methodology, finding, and recommendation for the audit period, July 1, 2015 through June 30, 2017. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Office of Business Development for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Nam Pham, Assistant Secretary of Business Development and International Trade and Executive Director of the Massachusetts Office of Business Development

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LIST OF ABBREVIATIONS

MMARS	Massachusetts Management Accounting and Reporting System
MOBD	Massachusetts Office of Business Development
OSA	Office of the State Auditor
REDO	regional economic development organization

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts Office of Business Development (MOBD), an agency within the Executive Office of Housing and Economic Development, for the period July 1, 2015 through June 30, 2017. According to its website,

The Massachusetts Office of Business Development (MOBD) helps businesses relocating to Massachusetts and businesses wishing to expand their current operations here. Our staff operates in regions across the state, so we are able to provide you with on-the-ground knowledge and viable connections for your business. We work closely with the private and public sectors to coordinate a whole range of resources at your disposal.

This performance audit was undertaken to determine whether MOBD effectively administered (1) the Regional Economic Development Organization Grant Program and (2) the Buy Massachusetts Program.

Below is a summary of our finding and recommendation, with links to each page listed.

Finding 1 Page 6	MOBD has not implemented the Buy Massachusetts Program.
Recommendation Page 6	In addition to requesting an annual appropriation, MOBD should also seek other sources of funding to operate this program.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Office of Business Development (MOBD), within the Executive Office of Housing and Economic Development, was established by Section 1(a) of Chapter 23A of the Massachusetts General Laws. MOBD is administered by an executive director who is appointed by the Governor. MOBD's mission, according to its 2017 annual report, is as follows:

- *Facilitate access to resources*
- *Promote job growth and retention*
- *Stimulate private investment*
- *Help businesses thrive in Massachusetts*

To achieve its mission, MOBD works with other governmental and quasi-governmental agencies, including municipalities, Massachusetts Growth Capital Corporation,¹ redevelopment organizations, and chambers of commerce.

According to its fiscal year 2018 annual report, "MOBD serves as the umbrella organization for all business development activity on behalf of the state, offering a range of expertise and services" to small businesses and entrepreneurs, including permitting assistance, tax incentives, regulatory support, assistance with site selection and infrastructure support for businesses wishing to locate or expand in the Commonwealth, workforce training, and business consultation. As of the end of our audit period, MOBD had a total of 11 employees working in its six regional offices (Greater Boston, Northeast, Southeast, Central, Merrimack Valley / MetroWest, and West), each of which is led by a regional director.

During our audit period, MOBD administered eight programs and one administrative account (see [Appendix](#)). Below is a summary of expenditures from MOBD accounts for fiscal years 2016 and 2017.

1. According to its 2018 annual report, "Massachusetts Growth Capital Corporation is a small business loan fund providing working capital to small businesses, minority owned and women owned businesses, to create and maintain jobs in the Commonwealth."

Spending Account	2016	2017
Regional Economic Development Organization (REDO) Grant Program	\$ 600,000	\$ 400,000
Microlending Program	300,000	100,000
Massachusetts Biotechnology Research Institute	250,000	250,000
Massachusetts Small Business Development Center	1,186,222	1,186,222
Commonwealth Zoological Corporation	4,900,000	4,000,000
Massachusetts Technology Collaborative	1,700,000	0
Small Business Layoff Aversion Grant Program	250,000	250,000
MOBD	1,352,895	1,100,603
Total	<u>\$ 10,539,117</u>	<u>\$ 7,286,825</u>

For our audit, we examined MOBD's administration of the REDO Grant Program. Sections 3J and 3K of Chapter 23A of the General Laws authorize MOBD to oversee and manage a program designed to provide grants to REDOs, which help facilitate projects that attract businesses to the Commonwealth and retain them here. REDOs are tax-exempt organizations that, according to MOBD's request for proposals (dated July 30, 2018) for the REDO Grant Program, "demonstrate a primary focus on regional economic development . . . and service 10 or more contiguous cities/towns." During the audit period, MOBD awarded grants totaling \$1,010,000² to nine organizations.

Additionally, in 1993 Section 10A of Chapter 23A of the General Laws required MOBD to establish the Buy Massachusetts Program. The goal of the program is to help Massachusetts businesses find and purchase the goods and services they need from other companies located in the Commonwealth.

2. This total comprises \$1 million disbursed from the REDO Grant Program account and \$10,000 disbursed from the MOBD administrative account.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Massachusetts Office of Business Development (MOBD) for the period July 1, 2015 through June 30, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Has MOBD properly administered its Regional Economic Development Organization (REDO) Grant Program as required by Sections 3J and 3K of Chapter 23A of the General Laws?	Yes
2. Has MOBD properly administered the Buy Massachusetts Program according to Section 10A of Chapter 23A of the General Laws?	No; see Finding <u>1</u>

To achieve our audit objectives, we gained an understanding of the internal controls we determined to be relevant to those objectives and accordingly tested the controls' operating effectiveness over the awarding, payment, and monitoring of grants awarded through the REDO Grant Program. We conducted further testing as described below.

To gain an understanding of MOBD practices regarding the awarding and payment of grants through its REDO Grant Program, we reviewed pertinent laws (Sections 3J and 3K of Chapter 23A of the General Laws), reviewed MOBD policies, and interviewed management and staff members involved in these functions. We selected all 18 grants awarded during the audit period to verify that in each case, MOBD personnel reviewed the application, MOBD's review committee reviewed and scored the application,

the Executive Office of Housing and Economic Development approved the recommendation, and the director of MOBD executed a contract with the REDO.

We tested all 63 payments MOBD made to REDOs during the audit period to verify that MOBD's chief operating officer approved each REDO payment request and that the REDOs submitted the required performance reports.

In addition, we selected a nonstatistical sample of 4 out of 18 reports and requested documentation (such as lists of training events, business development seminars, and attendees) to determine whether REDOs had sufficient documentation to support the information in their final progress reports for fiscal years 2016 and 2017. Since we used nonstatistical sampling, we did not project the results to the population.

Finally, we interviewed MOBD staff members regarding the status of the Buy Massachusetts Program and were told that the program had never been implemented.

Data Reliability

We obtained appropriation and expenditure data from the Massachusetts Management Accounting and Reporting System (MMARS). In 2018, OSA performed a data reliability assessment of MMARS that focused on testing selected system controls (i.e., access controls, application controls, configuration management, contingency planning, and segregation of duties) for the period April 1, 2017 through March 31, 2018. The office conducted a similar assessment of MMARS in 2014. Further, as part of our current audit, we reviewed selected security management controls for updated policies on security awareness and personal security, and we tested those policies as they relate to MMARS users. In addition, we selected a random sample of 10 payments from MMARS and traced the information to physical requests for payment. We determined that the information obtained from MMARS for our audit period was sufficiently reliable for the purposes of our audit work.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts Office of Business Development has not implemented the Buy Massachusetts Program.

The Massachusetts Office of Business Development (MOBD) has not implemented the Buy Massachusetts Program. As a result, local companies might be purchasing goods and services from companies outside the Commonwealth to the detriment of Massachusetts businesses.

Authoritative Guidance

Section 10A of Chapter 23A of the Massachusetts General Laws requires MOBD to implement a Buy Massachusetts Program to help Massachusetts businesses find and purchase the goods and services they need from other companies located in the Commonwealth.

Reasons for Noncompliance

MOBD's legal counsel stated that MOBD had not implemented the Buy Massachusetts Program because the Legislature had never appropriated funds for it. Additionally, MOBD contended that since Section 10A of Chapter 23A³ was reenacted in 2010 without material change or special funding, the Legislature had acquiesced in MOBD's interpretation that the program need not be implemented without an appropriation to do so. However, Section 10A states that funding for this program can come from various sources:

[MOBD] may expend such funds as may be appropriated therefor, and may accept federal funds, or private gifts and grants to assist it in carrying out the purposes as set forth in this section.

Although it appears that MOBD never received special funding to implement the Buy Massachusetts Program, budget data provided to us by MOBD indicated that the agency never requested money for this program.

Recommendation

In addition to requesting an annual appropriation, MOBD should also seek other sources of funding to operate this program.

3. Section 5 of Chapter 19 of the Acts and Resolves of 1993 added Section 10A to Chapter 23A of the General Laws. Section 10A was reenacted in 2010 with a minor name change, substituting "the Massachusetts Office of Business Development" for "said department."

Auditee's Response

MOBD is appreciative of the positive acknowledgement of our work in administering the REDO grant program, including your overall finding that MOBD has properly and effectively administered this program. As noted in your report, MOBD awarded 18 grants, totaling \$1,010,000, to nine different entities during the audit period. You found that all grants were properly awarded and all grant funds properly distributed for the purposes intended by the program's enabling legislation.

However, your report also found that MOBD has not properly administered the Buy Massachusetts program due to lack of funding. We acknowledge that the Buy Massachusetts program has not been implemented at any time since the enactment, more than 20 years ago, of G.L. c. 23A, §10A. As legal counsel explained to your staff during the audit process, the statutory language that created the Buy Massachusetts program provides that MOBD "may expend such funds as may be appropriated therefor, and may accept federal funds, or private gifts and grants to assist it in carrying out the purposes as set forth in this section." MOBD has consistently interpreted that language to mean that creation of the Buy Massachusetts program was contingent on a specific appropriation of funds from the Legislature for that purpose, or the discovery of some other federal or private funding source. To the best of our knowledge, since the enabling legislation was adopted in 1993, no funds were ever appropriated to implement the Buy Massachusetts program, and no other sources of funding to operate the program were ever identified by or made available to MOBD.

Based on the audit finding, your report recommends that "in addition to requesting an annual appropriation, MOBD should also seek other sources of funding to operate this program."

As to the first part of that recommendation—that MOBD request an annual appropriation to implement the Buy Massachusetts program—MOBD notes that the power to appropriate funds lies with the Legislature. Following the release of your final audit report, MOBD will evaluate whether there is sufficient interest in funding this program to justify a request as part of the FY2021 budget process. Any such request of the Legislature would, of course, not be made by MOBD directly, but only through the Governor's budget proposal.

The second part of your recommendation is that "MOBD should also seek other sources of funding to operate this program." The report does not hint at what other sources of revenue might be available for this purpose. While the statute provides, optimistically, that MOBD "may accept federal funds, or private gifts and grants to assist it in carrying out" the Buy Massachusetts program, no such federal funds, or private gifts, have ever been offered for this purpose. To the best of our knowledge, no such alternative sources of funding exist. However, MOBD will commit to seek other sources of funding to operate the Buy Massachusetts program, including by exploring the availability of federal grant programs.

Auditor's Reply

As noted above, Section 10A of Chapter 23A of the General Laws requires MOBD to implement a Buy Massachusetts Program. While it is true that no special funding has been appropriated for it, that is

frequently the case when the general court issues a mandate to an executive agency. It is anticipated that the agency will undertake efforts to accommodate the directive within its budget, to submit a request for appropriations, or, as the mandate language suggests, seek funding from other sources. However, according to the budget data provided to us by MOBD, at least during our audit period, the agency has not done any of these things. Given that the establishment of this program is statutorily required, it is the Office of the State Auditor's opinion that MOBD should seek funding from sources including the general court; the federal government, which periodically makes grant funding available; and public-private partnerships with the Commonwealth's local and regional chambers of commerce and other business-oriented organizations. Perhaps MOBD could look to the "buy local" initiative of a sister agency, the Department of Agricultural Resources, for inspiration.

Based on its response, MOBD is considering measures to address this issue.

APPENDIX

In addition to administering the Regional Economic Development Organization (REDO) Grant Program, the Massachusetts Office of Business Development (MOBD) administered several other programs during our audit period.

According to MOBD's fiscal year 2017 annual report,

The Economic Development Incentive Program (EDIP) [is] a tax incentive program designed to foster full-time job creation and to stimulate business growth across the Commonwealth. Companies eligible for the EDIP program may receive state and local tax incentives in exchange for full-time job creation, manufacturing job retention and private investment commitments.

MOBD awarded \$16,337,117 in state tax incentives to 28 companies in fiscal year 2016 and \$21,994,071 in state tax incentives to 32 companies in fiscal year 2017.

MOBD also administers the Microlending Program. According to MOBD's website,

Through the Microlending Program, MOBD will provide grants to eligible nonprofit lenders, including certified Community Development Financial Institutions (CDFIs) and Community Development Corporations (CDCs). . . .

The Microlending Program seeks to increase the flow of capital into Massachusetts's small businesses and create growth. . . .

Successful grantees will leverage state funds, and other matching funds, to provide small businesses with a spectrum of potential credit products, including direct loans, participation loans, and loan loss insurance.

Generally, these small businesses are unable to obtain bank loans. MOBD expended \$300,000 for this program in fiscal year 2016 and \$100,000 in fiscal year 2017.

MOBD has been assigned the following appropriations,⁴ which represent legislative earmarks⁵ or involve agreements with other state or private entities:

- The Massachusetts Biotechnology Research Institute supports academic and science competencies and the commercialization of research and development. In each of fiscal years

4. Although these amounts are appropriated to MOBD in the state budget, MOBD staff members and the director of Finance for the Executive Office of Housing and Economic Development indicated that MOBD did not actively manage these programs.

5. According to the website of the Executive Office for Administration and Finance, earmarks are "language included in a [state budget] line item which provides that a specific portion of the appropriation be spent for a particular purpose."

2016 and 2017, \$250,000 was awarded to operate four life-science incubators (organizations whose purpose is to act as a catalyst to grow or accelerate life science innovation). The University of Massachusetts administers the program under a contract with MOBD.

- The Massachusetts Small Business Development Center at the University of Massachusetts uses state funds to provide matching funding for grants provided by the US Small Business Administration and the US Department of Defense. MOBD expended \$1,186,222 in each of fiscal years 2016 and 2017 to support this program. The center helps businesses obtain federal contracts, secure financing, generate responses to requests for proposals, and interpret bid documents. It also provides educational research and seminars.
- Commonwealth Zoological Corporation is a nonprofit organization established to support zoos by providing operating and capital funds, which foster economic development and job creation and promote private fundraising. Its funding totaled \$4,900,000 in fiscal year 2016 and \$4,000,000 in fiscal year 2017.
- The Massachusetts Technology Park Corporation, a public instrumentality corporation (i.e., a corporation created by the government to perform an essential government function) doing business as the Massachusetts Technology Collaborative, was established by Chapter 40J of the Massachusetts General Laws to “foster the expansion of industrial and commercial activity and employment opportunities in the commonwealth,” as Section 1A of that law states. The Secretary of Housing and Economic Development serves on the corporation’s board of directors. The corporation was established by Section 6I of Chapter 40J of the General Laws to create and implement a plan to “establish and promote computer science education in public schools,” with the goal of “increasing the number of students prepared to pursue computing technology careers.” In fiscal year 2016, MOBD disbursed \$1,700,000 to the corporation. The corporation received no funding in fiscal year 2017 because of budget cuts.
- The Small Business Layoff Aversion Grant Program provides a grant to the private, not-for-profit New England Business Association (formerly known as the Small Business Association of New England) to provide technical assistance and consulting services to manufacturing companies, with the goal of preventing business closures and any resulting displacement of employees. MOBD disbursed \$250,000 per year to the association in fiscal years 2016 and 2017.

Finally, MOBD’s general administrative account funds its operations, including administrative support for the REDO Grant Program and the other programs described above.