

OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

Official Audit Report – Issued July 2, 2024

Massachusetts Office of Business Development

For the period November 1, 2020 through June 30, 2022



OFFICE OF THE STATE AUDITOR

DIANA DIZOGLIO

July 2, 2024

Peter Milano, Director
Massachusetts Office of Business Development
136 Blackstone Street, 5th Floor
Boston, MA 02109

Dear Mr. Milano:

I am pleased to provide to you the results of the enclosed performance audit of the Massachusetts Office of Business Development. As is typically the case, this report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, November 1, 2020 through June 30, 2022. As you know, my audit team discussed the contents of this report with agency managers. This report reflects those comments.

I appreciate you and all your efforts at the Massachusetts Office of Business Development. The cooperation and assistance provided to my staff during the audit went a long way toward a smooth process. Thank you for encouraging and making available your team. I am available to discuss this audit if you or your team have any questions.

Best regards,



Diana DiZoglio
Auditor of the Commonwealth

cc: Yvonne Hao, Secretary of the Executive Office of Economic Development

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LIST OF ABBREVIATIONS

EACC	Economic Assistance Coordinating Council
EDIP	Economic Development Incentive Program
MOBD	Massachusetts Office of Business Development
MVSP	Massachusetts Vacant Storefront Program
SDO	Supplier Diversity Office

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) for the period November 1, 2020 through June 30, 2022.

The purpose of our audit was to determine the following:

- whether MOBD encouraged businesses owned by people within minority groups,¹ women, veterans, and people with disabilities to apply for tax credits through the Economic Development Incentive Program (EDIP) and/or the Massachusetts Vacant Storefront Program (MVSP), as stated in the “Goals & Initiatives” section of MOBD’s EDIP Fiscal Year 2020 and 2021 Annual Reports;
- whether MOBD tracked diversity-related metrics that helped it measure its success in meeting its goal to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits in the EDIP and/or the MVSP, as stated in the “Goals & Initiatives” section of MOBD’s EDIP Fiscal Year 2020 and 2021 Annual Reports;
- whether MOBD ensured that EDIP awardees submitted an equal opportunity employment / affirmative action statement or plan, as required by Section 1(d) of Part V of the EDIP Supplemental Application; and
- whether MOBD provided annual cybersecurity awareness training to its employees, as required by Sections 6.2.3 and 6.2.4 of the Executive Office of Technology Services and Security’s Information Security Risk Management Standard IS.010.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 14	MOBD did not have documented procedures outlining how to track diversity-related metrics regarding its program applicants.
Recommendations Page 16	<ol style="list-style-type: none">1. MOBD should pursue approval from appropriate state agencies so that it can collect diversity-related metrics from applicants to its EDIP and MVSP.2. MOBD should develop, document, and implement procedures to measure the outreach performed regarding the EDIP and the MVSP to businesses and track diversity-related metrics to ensure that it meets its program goals.3. MOBD should work with the Supplier Diversity Office to identify businesses owned by people within minority groups, women, veterans, and people with disabilities that could benefit from the EDIP and the MVSP.

1. Section 2.02(1) of Title 425 of the Code of Massachusetts Regulations lists Minority Business Enterprise as one of its certification categories. In order for a business to be certified as a Minority Business Enterprise, it must be either owned or controlled by a person(s) who identifies as being part of one or more minority groups. In this context, the minority groups in question are the following: Native American, Asian, Black, or Hispanic.

Finding 2 Page <u>17</u>	MOBD did not ensure that all of its employees completed annual cybersecurity awareness training.
Recommendation Page <u>18</u>	MOBD should ensure that all of its employees complete annual cybersecurity awareness training.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Office of Business Development (MOBD), within the Executive Office of Economic Development, was established by Section 1(a) of Chapter 23A of the Massachusetts General Laws. The Governor appoints MOBD's director. According to its website,

The Massachusetts Office of Business Development assists businesses relocating to Massachusetts as well as businesses wishing to expand their current operations, with specific attention being paid to jobs created, jobs retained, and capital invested. Our team provides a highly responsive, central point of contact that facilitates access to resources, expertise, and incentive programs.

As stated in MOBD's [Economic Development Incentive Program] Fiscal Year 2020 Annual Report, MOBD's mission is to do the following:

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

MOBD actively engages with businesses, business partners, and municipalities to assist them in accessing state resources.

MOBD's state budget appropriations for fiscal years 2021 and 2022 were \$1,951,313 and \$1,851,313, respectively. As of the end of the audit period, MOBD had a total of 10 employees. MOBD is located at 136 Blackstone Street in Boston.

Economic Development Incentive Program

MOBD began awarding Economic Development Incentive Program (EDIP) grants, which take the form of tax credits, in 2016. According to MOBD's EDIP webpage,

The Economic Development Incentive Program (EDIP) is designed to foster job creation and stimulate business growth. A company that participates in EDIP may receive state tax credits . . . in exchange for a commitment to new job creation, existing job retention, and private investment in the project. There are many factors and criteria that the EDIP Review Team and Economic Assistance Coordinating Council (EACC) will consider throughout the process, chief among them being whether a project is unlikely to move forward without state and local government support.

The Economic Assistance Coordinating Council (EACC), as referenced in the above quotation, is a 15-member council that oversees the EDIP. This oversight regarding the EDIP includes establishing regulations, policies, and procedures; certifying and contracting projects; ensuring that awardees submit their annual progress reports and reviewing these reports on a regular basis; and decertifying projects that are not compliant.

EACC meets on a quarterly basis to review applications to the EDIP. Before these meetings, applicants must submit certain materials to MOBD by staggered deadlines, each of which MOBD posts to its EDIP webpage. To apply for EDIP tax credits, a business must submit the following materials to MOBD:

- a letter of intent to both the chief executive / chief elected official of the municipality in which it wishes to implement its proposed plan and that same municipality's MOBD regional director;
- the EDIP Preliminary Application; and
- the EDIP Supplemental Application, which includes the business's equal opportunity employment / affirmative action statement or plan. Alternatively, the business could include a statement describing its hiring and placement policies.

MOBD employees conduct a preliminary review of each applicant's submitted materials then make recommendations to EACC. After this, EACC reviews each applicant's submitted materials and either certifies the project or does not certify the project, based on certain factors detailed in Section 3C(b) of Chapter 23A of the General Laws. These factors can include, but are not limited to, whether the project will (1) be located in the Commonwealth, (2) enable the business to create new jobs, (3) enable the business to retain at least 50 jobs in a gateway city,² or (4) allow the business to hire new, permanent, full-time employees in the Commonwealth. For more information on these factors, see the [Appendix](#).

If EACC certifies a business's application, then that business must submit an annual progress report to EACC, detailing the project's job creation, the amount of funding the business pledges to commit to its proposed EDIP project, and tax credit use. If the business does not submit an annual progress report, then EACC could decertify the project, which may result in the loss of state tax benefits.

2. Section 3A of Chapter 23A of the General Laws defines a gateway municipality as "a municipality with a population greater than 35,000 and less than 250,000 with a median household income below the commonwealth's average and a rate of educational attainment of a bachelor's degree or above that is below the commonwealth's average."

Section 3B(c) of Chapter 23A of the General Laws states,

The MOBD shall annually submit to the governor, the chairs of senate and the house committees on ways and means and the senate and house chairs of the joint committee on economic development and emerging technologies within 90 days after the end of its fiscal year a report setting forth its operations and accomplishments, including a listing of all projects certified pursuant to the EDIP. The report shall also include recommended policies or actions, if any, to improve the effectiveness of the EDIP.

In fiscal year 2021, EACC certified 8 EDIP projects, totaling \$1,602,000 in tax credits. In fiscal year 2022, EACC certified 14 EDIP projects, totaling \$4,487,200 in tax credits.³

Massachusetts Vacant Storefront Program

Section 3C(d) of Chapter 23A of the General Laws created the Massachusetts Vacant Storefront Program (MVSP) in fiscal year 2019. According to the Executive Office of Economic Development's website, "The purpose of the program is to help municipalities of the Commonwealth in their efforts to revitalize their downtowns and commercial areas."

The MVSP makes tax credits available to businesses proposing to move into a vacant storefront⁴ located in an EACC-certified vacant storefront district. In order for a district to receive EACC's vacant storefront district certification, an official from that district's municipality must submit a petition to EACC. According to the Executive Office of Economic Development's *Vacant Downtown Storefronts Program Guidelines*, this petition includes a map of the area; the EDIP Municipal Application for Certification as a Vacant Storefront District, which details goals for the area's development; and a letter of support from the chief executive / chief elected official of the municipality, which details the amount of funding the municipality pledges to commit to its proposed MVSP project.

Working in conjunction with the municipality in which it wishes to implement its proposed plan, a business applying for tax credits must submit the EDIP Application for Certified Vacant Storefront Project to EACC. According to the *Vacant Downtown Storefronts Program Guidelines*, this application includes a letter of support from an official from that district's municipality, a business plan (if the business is under two years old), a Certificate of Good Standing and/or Tax Compliance document from the Massachusetts

3. In this report, the tax credit amounts referenced relate to the projects approved (and their cost) for the year reported. It does not include tax credits amounts from projects approved in prior years and does not represent the total cost of the project.

4. The Executive Office of Economic Development's *Vacant Downtown Storefronts Program Guidelines* defines a storefront "as a first-floor space zoned for commercial activity and occupied by a use accessible to the general public." It defines storefronts as being vacant "if they have been unoccupied for at least 12 months."

Department of Revenue, an estimated storefront occupancy start date, and an agreement to operate the business at the storefront for at least two years.

According to the *Vacant Downtown Storefronts Program Guidelines*,

Applications will be considered on a competitive basis taking into account factors such as the potential synergy with other downtown businesses; commitment to storefront improvements; whether the municipality has made local plans or investments to revitalize the downtown; the amount of matching funds provided by the municipality to the business applicant.

MOBD presents each application to EACC during its quarterly meetings. EACC either certifies or does not certify the projects during these meetings.

In fiscal year 2021, EACC certified five MVSP projects, totaling \$45,100 in tax credits. In fiscal year 2022, EACC certified one MVSP project, totaling \$10,000 in tax credits.

EDIP and MVSP

Presentations

MOBD regional directors conduct presentations about the EDIP and the MVSP. These presentations are meant to help educate audiences on topics such as the availability of tax credits, the application process, criteria considerations, and the requirements for certified projects, such as annual progress reporting. MOBD conducts these presentations using a webinar format and supplements them with Microsoft PowerPoint files. MOBD has two different types of presentations: one is a training for MOBD employees who perform the preliminary review of applications, while the other is a general information session to help municipalities inform businesses about the EDIP and/or the MVSP. MOBD promotes the general information session presentations by sending emails to municipal employees.

Goals and Initiatives

In MOBD's EDIP Fiscal Year 2020 and 2021 Annual Reports, MOBD set goals. One goal was to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits through either the EDIP and/or the MVSP.

Another one of MOBD's goals was to track key metrics associated with each program's awardees. MOBD officials told us that they set this goal as a result of general awareness of and concern for the

disproportionate impact of the COVID-19 pandemic on people within minority groups, women, veterans, and people with disabilities.

Cybersecurity Awareness Training

The Executive Office of Technology Services and Security has established policies and procedures that apply to all Commonwealth agencies within the executive branch. EOTSS recommends, but does not require, non-executive branch agencies to follow these policies and procedures. Section 6.2 of the Executive Office of Technology Services and Security's Information Security Risk Management Standard IS.010 states,

*The objective of the Commonwealth information security training is to educate users on their responsibility to help protect the confidentiality, availability and integrity of the Commonwealth's **information assets**. Commonwealth Offices and Agencies must ensure that all personnel are trained on all relevant rules and regulations for cybersecurity.*

To ensure that employees are clear on their responsibilities, EOTSS's policies require that all employees in state executive agencies complete a cybersecurity awareness course every year. All newly hired employees must complete an initial security awareness training course within 30 days of their orientation.

MOBD is required to follow this standard, since it is an executive branch agency. MOBD used two training systems during the audit period to administer required initial and annual cybersecurity awareness training to its employees at the end of fiscal year 2021.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

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 certain activities of the Massachusetts Office of Business Development (MOBD) for the period November 1, 2020 through June 30, 2022.

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. Did MOBD encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits through the Economic Development Incentive Program (EDIP) and/or the Massachusetts Vacant Storefront Program (MVSP), as stated in the "Goals & Initiatives" section of MOBD's EDIP Fiscal Year 2020 and 2021 Annual Reports?	No; see Finding <u>1</u>
2. Did MOBD track diversity-related metrics that helped it measure its success in meeting its goal to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits in the EDIP and/or the MVSP, as stated in the "Goals & Initiatives" section of MOBD's EDIP Fiscal Year 2020 and 2021 Annual Reports?	No; see Finding <u>1</u>
3. Did MOBD ensure that EDIP awardees submitted an equal opportunity employment / affirmative action statement or plan, as required by Section 1(d) of Part V of the EDIP Supplemental Application?	Yes
4. Did MOBD provide annual cybersecurity awareness training to its employees, as required by Sections 6.2.3 and 6.2.4 of the Executive Office of Technology Services and Security's Information Security Risk Management Standard IS.010?	No; see Finding <u>2</u>

To accomplish our audit objectives, we gained an understanding of the aspects of MOBD's internal control environment relevant to our objectives by reviewing MOBD's internal control plan and by interviewing MOBD officials.

To obtain sufficient, appropriate evidence to address our audit objectives, we performed the following procedures.

EDIP and MVSP Outreach

To determine whether MOBD encouraged businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits through the EDIP and/or the MVSP, as stated in the “Goals & Initiatives” section of MOBD’s EDIP Fiscal Year 2020 and 2021 Annual Reports, we took the following actions. We conducted interviews with management and employees, specifically inquiring about policies and procedures regarding outreach targeted toward the types of businesses relevant to our audit objectives. We inquired whether MOBD had procedures to identify these types of businesses, had directly reached out to these businesses, and had either collected diversity-related metrics or sought approval to collect diversity-related metrics from applicants.

MOBD provided us with PDF copies of the two types of Microsoft PowerPoint files it uses in the presentations that it conducts for its employees and for helping municipalities inform businesses about the EDIP and/or the MVSP. We reviewed both types of PDF copies to determine whether they included language specifically targeting businesses owned by people within minority groups, women, veterans, and people with disabilities. We noted that neither of the two types of PDF copies did. We also reviewed the emails that MOBD sent to municipal employees to promote its general information session presentation. We reviewed these emails for evidence of information that would indicate that MOBD either specifically invited or would be discussing topics relevant to businesses owned by people within minority groups, women, veterans, and people with disabilities. We determined that these emails did not include language specifically targeting businesses owned by people within minority groups, women, veterans, and people with disabilities.

MOBD provided us with a list of the population of all 40 applications (of which, the Economic Assistance Coordinating Council (EACC) certified 26 and did not certify 14) that various businesses submitted during the audit period. The list included 39 unique businesses (one business applied twice). As we learned that

MOBD did not collect any diversity-related metrics from applicants, we reached out to the Supplier Diversity Office⁵ to confirm the certification status of all EDIP and MVSP applicants during the audit period.

See Finding 1 for more information regarding the results of our testing of whether MOBD encouraged businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits through the EDIP and/or the MVSP.

EDIP and MVSP Diversity-Related Metrics Tracking

To determine whether MOBD tracked diversity-related metrics that helped it measure its success in meeting its goal to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits in the EDIP and/or the MVSP, as stated in the “Goals & Initiatives” section of MOBD’s EDIP Fiscal Year 2020 and 2021 Annual Reports, we took the following actions. We interviewed MOBD employees to discuss whether MOBD collected diversity-related metrics from applicants through self-identification.

MOBD provided us with Microsoft Excel spreadsheets that it uses to track various metrics that cover the seven quarters of the audit period. These spreadsheets are organized by the following functions:

- One spreadsheet (used by the EDIP project manager) internally tracks applications and related materials for EACC quarterly meetings.
- One spreadsheet documents each EDIP Preliminary Application that MOBD receives by quarter. This spreadsheet includes MOBD’s recommendation to EACC, including any recommendations and reasons not to certify certain projects.
- One spreadsheet documents each business’s tax liability projected over multiple years.
- One spreadsheet shows the EDIP tax credit amount that each business should receive based on the tax liability that the business projected in its application.

We reviewed each spreadsheet for evidence that MOBD collected diversity-related metrics from applicants.

See Finding 1 for more information regarding the results of our testing of whether MOBD tracked diversity-related metrics that helped it measure its success in meeting its goal to encourage businesses

5. We reached out to the Supplier Diversity Office because, according to its website, its “mission is to promote equity and inclusion in state contracting by certifying a wide range of diverse and small business categories, coordinating supplier diversity programs for the Commonwealth’s executive agencies, and connecting diverse companies with business opportunities with government agencies and their prime contractors.”

owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits in the EDIP and/or the MVSP.

Equal Opportunity Employment / Affirmative Action Statement or Plan Submission

To determine whether MOBD ensured that EDIP awardees submitted an equal opportunity employment / affirmative action statement or plan, as required by Section 1(d) of Part V of the EDIP Supplemental Application, we took the following actions. We obtained copies of each EDIP Supplemental Application submitted by all 20 businesses that EACC awarded during the audit period. We reviewed the documentation (i.e., the EDIP Supplemental Application and the equal opportunity employment / affirmative action statement or plan) to confirm that each business described its hiring policies and practices.

We noted no exceptions in our testing; therefore, we determined that, during the audit period, MOBD ensured that all EDIP awardees submitted an equal opportunity employment / affirmative action statement or plan.

Cybersecurity Awareness Training

To determine whether MOBD provided annual cybersecurity awareness training to its employees, as required by Sections 6.2.3 and 6.2.4 of the Executive Office of Technology Services and Security's Information Security Risk Management Standard IS.010, we took the following actions. We obtained a list of MOBD employees who were active during the audit period from the Executive Office of Economic Development.⁶ This list included 11 MOBD employees who were active as of June 30, 2021 and 10 MOBD employees who were active as of June 30, 2022. Also, the Executive Office of Economic Development's compliance and internal control officer extracted cybersecurity awareness training data from the two training systems that MOBD used during the audit period. For each existing employee in the employee lists, we reviewed the training data for evidence that each existing employee completed the training on an annual basis. For each employee who was newly hired during the audit period, we reviewed the training data for evidence that they completed the training within 30 days of hire.

6. The Executive Office of Economic Development has a centralized Administrative Services Unit that provides support in areas such as budget planning, payroll processing, and employee classification. This unit assists any agencies that report directly to the Executive Office of Economic Development, including MOBD.

See Finding 2 for more information regarding the results of our testing of whether MOBD provided annual cybersecurity awareness training to its employees.

Data Reliability Assessment

Data Regarding EDIP and MVSP

To determine the reliability of the list of the 40 applications that various businesses submitted during the audit period, we took the following actions. We checked the list for missing values and duplicate records. We also confirmed that the date for the corresponding EACC quarterly meeting was within the audit period.

We traced the entire population of 40 applications that various businesses submitted during the audit period, matching the information on these applications (i.e., the business name, the project type, and the tax credit amount) to source documents (e.g., EACC quarterly meeting minutes and copies of signed grant agreements between the businesses awarded tax credits and MOBD) to ensure that the information was accurate and complete.

Data Regarding Cybersecurity Awareness Training

To determine the reliability of the list of MOBD employees who were active during the audit period, which MOBD provided to us, we took the following actions. We checked the spreadsheet for missing values and duplicate records, identified any employees MOBD hired during the audit period, and confirmed whether employment start dates and/or termination dates were within the audit period. We also traced the entire population of active MOBD employee records in the list to payroll summary data that we extracted from the Office of the Comptroller of the Commonwealth's CTHRU⁷ database, as well as to the two cybersecurity awareness training systems that MOBD used during the audit period. Because MOBD used two training systems during the audit period, MOBD provided us with training records from both systems.

To determine the reliability of the cybersecurity awareness training data, we took the following actions. We interviewed officials from the Executive Office for Administration and Finance, the Human

7. According to the Office of the Comptroller of the Commonwealth's website, "CTHRU is an innovative open records platform that offers transparency into the finances of the Commonwealth of Massachusetts. CTHRU provides users with an intuitive experience for exploring how and where our tax dollars are utilized."

Resources Division, and the Executive Office of Technology Services and Security, each of which was responsible for managing oversight of the two training systems.

We also reviewed System and Organization Control 2 reports⁸ for the two cybersecurity awareness training systems that MOBD used during the audit period (one of which MOBD used during the period March 16, 2021 through March 15, 2022 and the other of which MOBD used during the period January 1, 2022 through December 31, 2022). We verified that independent certified public accountants tested and produced no exceptions regarding certain information system general controls.

Based on the results of the data reliability assessment procedures described above, we determined that the information obtained for the audit period was sufficiently reliable for the purposes of our audit.

8. According to the website of the American Institute of Certified Public Accountants, "A [System and Organization Control (SOC)] 2 examination is a report on controls at a service organization relevant to security, availability, processing integrity, confidentiality, or privacy. SOC 2 reports are intended to meet the needs of a broad range of users that need detailed information and assurance about the controls at a service organization."

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts Office of Business Development did not have documented procedures outlining how to track diversity-related metrics regarding its program applicants.

The Massachusetts Office of Business Development (MOBD) did not have documented procedures outlining how to track diversity-related metrics regarding its program applicants. Because of this, it could not provide us with evidence that it met its goal to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for its Economic Development Incentive Program (EDIP) and/or Massachusetts Vacant Storefront Program (MVSP) tax credits.

In addition, we reached out to the Supplier Diversity Office (SDO) to inquire about the certification status of the 39 unique businesses that applied for MOBD's EDIP and MVSP tax credits during the audit period. SDO confirmed that none of MOBD's applicants had a certification as a business owned by people within minority groups, women, veterans, and people with disabilities. While small businesses are not required to register their ownership status with SDO, SDO has a database of businesses that choose to make their certification type (e.g., a business owned by people within minority groups, women, veterans, or people with disabilities) public, which would help MOBD when it reviews applications to the EDIP and/or the MVSP.

If MOBD does not have documented procedures that outline how to track diversity-related metrics regarding its program applicants and therefore does not track diversity-related metrics, then it cannot monitor its progress in meeting its goal to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for its EDIP and MVSP tax credits. This in turn means that these businesses may miss valuable opportunities to succeed in Massachusetts.

Authoritative Guidance

MOBD listed the following goal in the "Goals & Initiatives" section of its EDIP Fiscal Year 2020 Annual Report:

Encourage minority-owned, women-owned, veteran-owned, and disabled-owned businesses to seek tax credits in both EDIP and Vacant Storefront Program. Keep track of metrics and report to agency diversity officer.

MOBD listed the following goal in the "Goals & Initiatives" section of its EDIP Fiscal Year 2021 Annual Report:

Continue to encourage minority-owned, women-owned, veteran-owned, and disabled-owned businesses to seek tax credits in both EDIP and Vacant Storefront Program. Explore ways to enhance tracking of key metrics associated with program participants.

Reasons for Issue

MOBD officials told us that, while MOBD conducts general outreach presentations to municipalities, MOBD does not directly perform outreach to encourage businesses owned by people within minority groups, women, veterans, and people with disabilities to seek tax credits in the EDIP and/or MVSP. Instead, MOBD encourages its municipal contacts to seek out businesses owned by people within minority groups, women, veterans, and people with disabilities. MOBD did not provide procedures to municipalities to measure how they encouraged businesses owned by people within minority groups, women, veterans, and people with disabilities to seek tax credits through either the EDIP and/or the MVSP.

MOBD officials also told us that they are not authorized to collect diversity-related metrics from applicants unless MOBD received prior approval to do so from the Massachusetts Commission Against Discrimination, the Massachusetts Office on Disability, the Human Resources Division, or the Office of Diversity and Equal Opportunity. MOBD did not pursue this approval before establishing its goals, nor did it pursue this approval once it learned it was required to obtain such approval.

The Executive Office of Economic Development's compliance and internal control officer informed us that MOBD's legal counsel determined that MOBD was not authorized to collect any diversity-related metrics from applicants through any methods other than the option to self-identify, either during the application process or through other interactions between MOBD regional directors and the applicants. Regarding the collection of diversity-related information, MOBD was acting based on the determination from MOBD's legal counsel. During the audit period, MOBD continued to explore whether it could collect diversity-related metrics from applicants on the basis that collecting this information will serve a legitimate program goal.

Recommendations

1. MOBD should pursue approval from appropriate state agencies so that it can collect diversity-related metrics from applicants to its EDIP and MVSP.
2. MOBD should develop, document, and implement procedures to measure the outreach performed regarding the EDIP and the MVSP to businesses and track diversity-related metrics to ensure that it meets its program goals.
3. MOBD should work with SDO to identify businesses owned by people within minority groups, women, veterans, and people with disabilities that could benefit from the EDIP and the MVSP.

Auditee's Response

MOBD is not required to track diversity-related metrics for EDIP applicants. MOBD's 2020 and 2021 Annual Reports did state that MOBD would attempt to track diversity of program applicants, as part of an overall effort to promote a diverse, equitable and inclusive business environment.

During the audit period, MOBD considered how it could most appropriately promote EDIP to diverse businesses. MOBD continues to evaluate what types of information may be useful to collect from companies to improve and track program outcomes in line with its mission to help businesses make investments and create new jobs in Massachusetts and its goal of ensuring that EDIP benefits are equitably allocated. MOBD will work with the Executive Office of Economic Development (EOED) to identify and implement best practices regarding the collection of diversity-related metrics from grantees and applicants to the EDIP.

Auditor's Reply

In its response, MOBD stated that it is “not required to track diversity-related metrics for EDIP applicants.” However, according to its response, MOBD intended to track these metrics to determine whether it performs effective outreach to “promote a diverse, equitable and inclusive business environment.”

There may not be a law, regulation, or policy requiring MOBD to track diversity-related metrics for either the EDIP and/or the MVSP. Nevertheless, MOBD felt strongly enough about the importance of this initiative—that is, encouraging businesses owned by people within minority groups, women, veterans, and people with disabilities to apply for tax credits through these programs—that it published goals related to this initiative in its publicly available EDIP Fiscal Year 2020 and 2021 Annual Reports. Plus, in its “Goals & Initiatives” section of its EDIP Fiscal Year 2021 Annual Report, MOBD stated that it intended to “explore ways to enhance tracking of key metrics associated with program participants.” We also consider it to be a best practice for agencies to track progress toward goals they have set, so they can support improvement in areas that are deemed important enough to establish goals to improve.

In its response, MOBD indicates that it is not required to meet the goals it sets for itself and publishes in its reports. We applaud MOBD for setting its goal to increase participation in the EDIP and MVSP by businesses owned by people within minority groups, women, veterans, and people with disabilities. However, we reiterate that MOBD should track its progress toward meeting this goal. Additionally, MOBD's legal department notified the agency of the requirement to obtain approval to collect diversity-related metrics from applicants, and MOBD did not provide us with any evidence confirming that it sought this approval in an attempt to measure whether it was meeting its goal.

We strongly encourage MOBD to implement our recommendations.

2. The Massachusetts Office of Business Development did not ensure that all of its employees completed annual cybersecurity awareness training.

In our review of cybersecurity awareness training records corresponding to the 11 MOBD employees who were active as of June 30, 2021, we found that 1 MOBD employee did not complete annual cybersecurity awareness training.

If MOBD does not ensure that all of its employees complete annual cybersecurity awareness training, then MOBD risks assuming a higher-than-acceptable user error rate. It also risks compromising the integrity and security of protected information in MOBD's information technology systems.

Authoritative Guidance

The Executive Office of Technology Services and Security's Information Security Risk Management Standard IS.010, effective October 15, 2018 and updated July 15, 2020, states,

2.1 [Chapter 7D of the Massachusetts General Laws] provides that ". . . All executive department agencies shall . . . adhere to the policies, procedures and objectives established by the executive office of technology services and security with respect to activities concerning information technology." . . .

6.2.4 Annual Security Awareness Training: All personnel will be required to complete Annual Security Awareness Training.

Reasons for Noncompliance

MOBD officials told us that MOBD was transitioning to a new cybersecurity awareness training platform during the audit period. During the transition, MOBD overlooked ensuring that one employee completed the cybersecurity awareness training.

Recommendation

MOBD should ensure that all of its employees complete annual cybersecurity awareness training.

Auditee's Response

Finding 2 correctly states that MOBD did not ensure that all of its employees completed annual cyber security awareness training, and we note that only a single MOBD employee failed to complete the training on time, and this employee completed the training within 2 months of the applicable deadline.

As stated during the Audit, the entire executive branch was transitioning to a new cybersecurity awareness training platform during the audit period. Cybersecurity training is now offered by Human Resources Division, and new procedures already have been put into place to ensure that all executive branch employees complete annual cybersecurity awareness training.

Auditor's Reply

Based on its response, MOBD is taking measures to address our concerns on this matter.

APPENDIX

The following excerpt from Section 3C of Chapter 23A of the Massachusetts General Laws describes the application, review, and certification processes for the Economic Development Incentive Program and the Massachusetts Vacant Storefront Program.

- (a) A controlling business may petition the [Economic Assistance Coordinating Council (EACC)] to certify a proposed project that will create new permanent full-time employees within the commonwealth. Each proposed project submitted by a controlling business to the EACC for review and certification shall include:*
 - (i) a detailed description of the proposed project;*
 - (ii) a representation by the controlling business regarding the amount of capital investment to be made, the number of new jobs to be created and the number of existing jobs to be retained;*
 - (iii) a representation by the controlling business regarding any other economic benefits or other public benefits expected to result from the construction of the proposed project;*
 - (iv) a municipal project endorsement; and*
 - (vi) any other information that the EACC shall require by regulation, policy or guidance.*
- (b) Upon receipt of a completed project proposal and municipal project endorsement, the EACC may certify the proposed project, deny certification of the proposed project or certify the proposed project with conditions. In order to certify a proposed project, with or without conditions, the EACC shall make the following required findings based on the project proposal, the municipal project endorsement and any additional investigation that the EACC shall make and incorporate in its minutes:*
 - (i) the proposed project is located or will be located within the commonwealth;*
 - (ii) (A) if the controlling business has at least 1 existing facility in the commonwealth, then the proposed project shall be an expansion of an existing facility and not merely the replacement of an existing facility except in the case of a proposed project that will enable a controlling business to retain jobs in a gateway city as provided in sub-clause (2) of clause (B); or (B) the proposed project will either: (1) enable the controlling business to hire new permanent full-time employees in the commonwealth; or (2) enable the controlling business to retain at least 50 permanent full-time jobs at a facility located in a gateway city or in an adjacent city or town that is accessible by public transportation to residents of a gateway city and such jobs otherwise would be relocated outside of the commonwealth;*
 - (iii) the controlling business has committed to maintaining new and retained jobs for a period of at least 5 years after the completion of the proposed project;*

(iv) the proposed project appears to be economically feasible and the controlling business has the financial and other means to undertake and complete the proposed project;

(v) unless the proposed project will be located in a gateway municipality, a duly authorized representative of the controlling business has certified to the EACC that the controlling business would not have undertaken the proposed project but for the [Economic Development Incentive Program] tax credits . . . available to it pursuant to this chapter; and

(vi) the proposed project complies with all applicable statutory requirements and with any other criteria that the EACC may prescribe by regulation, policy or guidance.

The EACC shall, by regulation, policy or guidance, provide for the contents of an application for project certification which may include a requirement that the controlling business provide written evidence to support the certification provided for in clause (v).

(c) A certified project shall retain its certification for the period specified by the EACC in its certification decision; provided, however, that such specified period shall be not less than 5 years or more than 20 years from the date of certification.

(d) Notwithstanding subsections (b) and (c), the [Economic Assistance Coordinating Council (EACC)] may, by guideline or regulation, establish a program to incentivize businesses to occupy vacant storefronts in downtown areas. The EACC may award [Economic Development Incentive Program (EDIP)] tax credits to storefront tenants on a competitive basis, taking into account factors including, but not limited to:

(i) the number of jobs to be created;

(ii) the volume of pedestrian traffic to be generated;

(iii) potential synergy with other downtown businesses;

(iv) whether there is a matching contribution from the municipality or the landlord;

(v) commitment to storefront improvements; and

(vi) whether the municipality has made local plans or investments to revitalize the downtown. Certification of such a project shall require that a business commit to occupying the vacant storefront for a period of not less than 1 year, but the business shall not be required to invest in improvements or create new jobs. The EACC shall not award more than \$500,000 in EDIP tax credits in a calendar year to projects certified pursuant to this subsection.