



REVIEW OF INCENTIVE PROGRAMS ADMINISTERED BY THE S.C. DEPARTMENT OF COMMERCE



INTRODUCTION

METHODOLOGY

This follow up was limited to the issues in the 2020 audit for which we made recommendations. We received information from relevant agencies regarding the implementation of the recommendations in the audit. We reviewed this and other information and verified evidence supporting the agency information as appropriate.

In June 2020, the Legislative Audit Council published an audit entitled *Review of Incentive Programs Administered by the S.C. Department of Commerce* (DOC). The report focused on the effectiveness and transparency of discretionary economic incentive programs overseen by DOC. These discretionary incentives include job development credits (JDCs), which are tax rebates, and business development grants that are offered to businesses that obtain approval from the Coordinating Council for Economic Development (Coordinating Council). DOC employs staff that support the Coordinating Council.

In our original report, we found that few projects approved for JDCs maximized their credits through job creation and closed grant projects met or exceeded 92% of their collective new job and investment goals. We also found that DOC should improve transparency of the discretionary incentives, conduct additional verification of a project’s reported job figures, and update the cost-benefit model used to evaluate proposed incentives for projects. We made a total of 39 recommendations to the DOC, Coordinating Council, General Assembly, and S.C. Department of Revenue (DOR) to address reforms needed in these areas.

1. The S.C. Department of Commerce should record actual job creation figures even in excess of the revitalization agreement minimum job requirements, for all job development credit projects.

IMPLEMENTED

2. The S.C. Department of Commerce should develop procedures on how to enter job creation data and from what source the information should be obtained.

IMPLEMENTED

3. The S.C. Department of Commerce should record and publish the actual capital investments made for all job development credit projects, including any capital investment that exceeds the amount agreed upon in the revitalization agreement.

IMPLEMENTED

4. The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should develop and publicize performance measures for the grant and job development credit programs, including measures for the overall effectiveness of the programs.

IMPLEMENTED

STATUS OF 39 RECOMMENDATIONS

2020 RECOMMENDATIONS MADE TO:	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
DOC	10	3	6	1
Coordinating Council	2	1	6	1
DOC & Coordinating Council	3	2	1	-
General Assembly	-	-	1	-
DOR	1	-	-	-
DOR & Coordinating Council	1	-	-	-
TOTAL	17	6	14	2

FOLLOW-UP REPORT

5. *The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should require grant projects to report the wage levels of the new jobs created from the project.*

IMPLEMENTED

DOC now records and publishes actual job creation capital investment figures for JDC projects, has developed procedures on how to enter job creation data, has developed and publicized performance measures for the grant and JDC programs, and now requires grant projects to report the wage levels of new jobs.

6. *The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should report actual figures in its annual reports, as well as comparisons of those figures with the projected jobs and capital investments reported at the beginning of each project.*

PARTIALLY IMPLEMENTED

The Coordinating Council now includes comparisons of actual and projected jobs and investments in its annual reports, but it does not always use the initial projected figures, as recommended. Instead, amended figures, which must be approved by the Coordinating Council and can cause projects to look more successful than initially projected, are sometimes used in the comparisons.

7. *The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should report instances where projects were approved for incentives, but were canceled either due to the company withdrawing or failing to meet the requirements of the incentives.*

IMPLEMENTED

The Coordinating Council now reports this information for grant and JDC projects in its annual reports.

8. *The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should report the median wage levels for all new jobs created by both job development credit and grant projects.*

NOT IMPLEMENTED

DOC stated that this is something it is considering once grant reports and JDC quarterly reports are moved online.

9. *The S.C. Department of Commerce and the S.C. Coordinating Council for Economic Development should report the status of projects that have received, or are receiving, incentives.*

PARTIALLY IMPLEMENTED

DOC now reports the status of projects that have been approved and have met job/investment requirements but is still not reporting the status of projects that have been approved but not yet met job/investment requirements. Since projects take years to ramp up, DOC believes that annually reporting the status of new projects is not meaningful.

10. *The S.C. Department of Commerce should conduct a “look back” analysis of the fiscal impact of projects approved for grants and job development credits.*

NOT IMPLEMENTED

DOC says that it “...has evaluated this recommendation and has not found a credible way to conduct an effective ‘look back’ analysis for any given project.”

11. *The S.C. Department of Commerce should report forgone tax revenue due to the claiming of job development credits.*

IMPLEMENTED

While DOC does not report this information, DOR reports it in the agency’s annual report.

12. *The S.C. Department of Commerce should develop performance measures for activities funded by the Palmetto Partners program.*

NOT IMPLEMENTED

See recommendation 13.

13. *The S.C. Department of Commerce should adopt guidelines relating to the interaction of the Coordinating Council for Economic Development and companies that have contributed to the Palmetto Partners program.*

NOT IMPLEMENTED

DOC confirmed that the Palmetto Partners program does not have any performance measures specific to the program or guidelines relating to companies that donate to the program and may seek incentives from the Coordinating Council.

14. *The Coordinating Council for Economic Development should take a more proactive approach to ensure that companies and counties submit all of the project status reports as required.*

PARTIALLY IMPLEMENTED

DOC has made changes to the reporting deadline for companies but noted that it has made no changes to the way counties submit project status reports, such as implementing automatic notifications when reports need to be submitted.

15. *The Coordinating Council for Economic Development should continue conducting site visits at all grant projects where fraud risk is the greatest.*

IMPLEMENTED

DOC has conducted 78 visits over a four-year period since our 2020 audit was published, and the agency says that it still focuses site visits on projects with building improvements.

16. *The Coordinating Council for Economic Development should conduct additional verification of the new or retained jobs that a grant recipient claims.*

NOT IMPLEMENTED

DOC believes “[t]his recommendation is not practical to implement and would be unduly cumbersome on staff.” Additionally, DOC believes that the current process sufficiently prevents fraud because there are few known instances of fraud.

FOLLOW-UP REPORT

17. *The Coordinating Council for Economic Development should seek a data sharing agreement that would allow it to use data from the S.C. Department of Employment and Workforce and/or the S.C. Department of Revenue to verify that a grant recipient created the new, full-time jobs, or retained jobs that it claimed to have created.*

NOT IMPLEMENTED

Neither DEW nor DOR has a data sharing agreement with DOC or the Coordinating Council regarding the verification of new, full-time jobs, or retained jobs that grant recipients claim to have created.

18. *The S.C. Department of Commerce should begin reporting on the amount of clawbacks that have been issued, received, and balance due by grant recipients in its annual report.*

IMPLEMENTED

19. *The S.C. Department of Commerce should begin reporting the amount of grants that have been written off for grant recipients in its annual report.*

IMPLEMENTED

The Coordinating Council started including the amount of clawbacks and grants written off in its 2021 annual report.

20. *The S.C. Department of Revenue should allocate resources so that the job development credit audit program is able to fulfill its statutorily-required duty to audit each company claiming job development credits in excess of \$10,000 in a calendar year, at least once every three years.*

IMPLEMENTED

DOR has increased the number of JDC auditors from one to five, including one supervisor, since 2020 due in part to additional funding provided by DOC to DOR. DOR now says it is completing all statutorily-required JDC audits.

21. *The S.C. General Assembly should amend S.C. Code of Laws §2-15-61 to give the Legislative Audit Council the authority to review reports and returns of the S.C. Department of Revenue when necessary to conduct audits.*

NOT IMPLEMENTED

The General Assembly has not amended S.C. Code §2-15-61, as recommended.

22. *The Coordinating Council for Economic Development and the S.C. Department of Revenue should have better communication to ensure that all job development credit recipients are complying with state law and revitalization agreements.*

IMPLEMENTED

DOC and DOR have taken steps, such as entering into a Memorandum of Agreement and proposing a new proviso, to help the JDC audit program.

23. *The S.C. Department of Commerce should adopt and implement a policy to annually update the model used to estimate the costs and benefits of a proposed project.*

PARTIALLY IMPLEMENTED

DOC does not have a policy to annually update its economic impact model, but we found that DOC's 2024 model has been updated with more recent inputs than the 2023 model.

24. *The S.C. Department of Commerce should maintain records for all of the components used in its impact analyses for proposed projects.*

NOT IMPLEMENTED

DOC is still not maintaining records of all components used in its impact analyses in project files. Specifically, we could not find metrics on "Tax Variables" or "Other Economic Variables" that are factored into DOC's economic impact analysis model.

25. *The S.C. Department of Commerce should consider using the North American Industry Classification System (NAICS) in its economic impact model to identify the type of industry for the proposed project.*

IMPLEMENTED

DOC is now using NAICS in its economic impact model.

26. *The S.C. Department of Commerce should consider hiring an external firm with specialized skills to assist in updating its economic impact analysis.*

IMPLEMENTED

DOC hired an economist and had discussions with economic professors when the agency updated its economic impact analysis.

27. *The S.C. Department of Commerce should take into consideration companies with special economics, such as professional sports teams, when evaluating incentive awards.*

NOT APPLICABLE

DOC stated that there have been no projects with special economics, such as professional sports team, since the 2020 audit, and we agree with that determination.

28. *The S.C. Department of Commerce should require sufficient documentation be submitted with the application that would support the number of projected jobs to be created.*

NOT IMPLEMENTED

See recommendation 29.

29. *The S.C. Department of Commerce should review the applications to compare the number of jobs to be created with industry standards to ensure feasibility.*

NOT IMPLEMENTED

DOC has not changed what documentation is required to support the number of projected jobs and has not conducted industry analyses, as recommended. DOC believes that additional documentation will not increase program effectiveness due to penalties for companies that do not meet job and investment requirements.

FOLLOW-UP REPORT

30. *The S.C. Department of Commerce should use economic impact modeling software to evaluate proposed projects.*

PARTIALLY IMPLEMENTED

DOC paid \$8,100 for a license to use IMPLAN, an economic modeling software, but has not used it to evaluate projects because DOC claims that it has not had any large, economic-bond-eligible projects since licensing IMPLAN.

31. *The S.C. Department of Commerce should consider hiring an external consultant to evaluate complex, large-scale prospective projects.*

IMPLEMENTED

DOC has hired the same external consultant to evaluate four large-scale projects since 2020.

32. *The S.C. Department of Commerce should add identifiers (column headings) to Microsoft® Office Excel spreadsheets used in its impact analysis.*

IMPLEMENTED

DOC has added identifiers to its impact analysis, as recommended.

33. *The S.C. Department of Commerce should have a written manual detailing the process for conducting the impact analysis in order to preserve institutional knowledge.*

PARTIALLY IMPLEMENTED

DOC has not created a manual detailing the process for conducting an impact analysis, but DOC has included instructions within the model that will help to preserve institutional knowledge.

34. *The Coordinating Council for Economic Development should require applicants to show multiple years of financial data, when available, to gain a more complete picture of the applicant's financial state.*

NOT IMPLEMENTED

See recommendation 35.

35. *The Coordinating Council for Economic Development should require all applicants for grants to submit audited financial statements, reports and returns subject to review by the Internal Revenue Service or the Securities and Exchange Commission, or verified bank statements and/or loan guarantees as proof of a project's financial wherewithal.*

NOT IMPLEMENTED

A randomly selected sample of ten projects awarded grant funds from 2020-2024 found that four of the projects' files contained no supporting financial documents. While grant applications ask for companies' financial statements, the Coordinating Council does not require applicants to show multiple years of financial data and does not require all applicants to submit audited financial statements, IRS filings, verified bank statements, etc., as recommended. Nevertheless, DOC states that it places extra stipulations on projects with weak financials, such as requiring certain investment or job levels before grant funds may be disbursed.

36. *The Coordinating Council for Economic Development should require additional information from grant applicants in order to make a more informed decision of when special stipulations should be used on risky projects.*

IMPLEMENTED

DOC staff have created a certification form that requires the additional information that we recommended and, according to Coordinating Council staff, has recently required it for all new applications.

37. *The Coordinating Council for Economic Development should conduct a fraud risk assessment for each project seeking discretionary grant funds.*

NOT IMPLEMENTED

DOC did not provide evidence that fraud risk assessments are occurring. Instead, the agency stated that there are only three known instances of grant fraud over the last 14 years, and all three instances occurred in a county where the agency has been advised to take more risk, if necessary.

38. *The Coordinating Council for Economic Development should provide applications for job development credits and discretionary grants to all businesses who meet program eligibility requirements, regardless of whether the Secretary of the S.C. Department of Commerce will recommend approval.*

NOT IMPLEMENTED

DOC believes that its experienced staff should be the gatekeepers for whether companies should be able to apply because “[d]iscretionary incentives are not appropriate for every project.”

39. *The Coordinating Council for Economic Development should keep records of all projects that were denied discretionary incentives by the Coordinating Council for outside review from independent, oversight organizations.*

NOT APPLICABLE

Coordinating Council staff informed us that they are unaware of any project where the application has been denied.

SOUTH CAROLINA GENERAL ASSEMBLY

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