STATE OF NEW HAMPSHIRE
OFFICE OF LEGISLATIVE BUDGET ASSISTANT
AUDIT DIVISION

PROPOSED SCOPE STATEMENT
PERFORMANCE AUDIT OF DIVISION OF ECONOMIC DEVELOPMENT
ECONOMIC DEVELOPMENT PROGRAMS

At its February 22, 2013 meeting, the Legislative Performance Audit and Oversight Committee requested an audit of the Department of Resources and Economic Development (DRED) economic development programs. On March 8, 2013, the Fiscal Committee approved the recommendation. We held an entrance conference with the DRED on November 13, 2013.

Background

Statute charges the Director of the Division of Economic Development (DED) with planning, developing, and administering programs to "assist in the maintenance and expansion of existing industry and business…[and]…encourage and promote the development of new industry and business in the State." The DED has incorporated this into its mission statement.

Division Of Economic Development Organization

The DED has 28 full-time positions; however, five positions, including the Economic Development Director and an administrative position, were vacant as of November 2013. The DED's program staff are primarily organized into five core functions: 1) Business Recruiting, 2) Business Retention and Support, 3) the Procurement and Technical Assistance Program (PTAP), 4) the International Trade Resource Center (ITRC), and 5) the Office of Workforce Opportunity (OWO). The activities of each group are described below:

- *Business Recruiting*: The State's two business recruiters and one program assistant aid out-of-State companies by providing them with information about the State's tax structure and workforce; identifying available real estate; helping them navigate State permitting requirements; identifying financing options; and providing comparative data against other states. Recruitment personnel also work with in-State companies considering a move to another state.
- *Business Retention and Support*: The DED's five Business Retention and Support staff and the Business Services Manager work with businesses throughout the State to provide general support and expertise aimed at helping businesses grow. Retention team members are assigned to specific regions of the State and connect businesses with available resources; identify applicable tax credits; and help them navigate permitting requirements, government rules, and regulations. The retention team also works with government agencies as well as public and private economic development organizations to develop opportunities and identify challenges facing the State's business community.
- *PTAP:* Four PTAP staff provide support and technical assistance to companies doing business with federal, state, and local governments. Staff work directly with businesses to assess whether their operations are compliant with government contract requirements; provide training on the competitive bidding process; help business obtain any necessary

certifications; and generally assist companies in navigating the complexities of government contracting. PTAP has one vacant position.

- *ITRC:* Three ITRC staff are charged with planning, developing, and administering programs to promote international trade and helping companies export to foreign markets. They provide training targeted at export regulations; counsel and educate businesses to navigate international trade regulations, rules, and laws; connect businesses with federal agencies specializing in export regulation; help businesses identify international markets for their products; and help businesses identify financing options. ITRC staff work with three types of businesses: those which have never exported to foreign markets, those already exporting but working to expand to new markets, and those working to increase their presence in existing markets. The ITRC has one vacant position.
- *OWO:* Six OWO staff are responsible for workforce development programs and administer the funds for the Job Training Program for Economic Growth (a.k.a., the new Hampshire Job Training Fund), which provides matching funds for businesses to train and re-train its workers. The OWO has one vacant position.

The DED also has a Broadband Program Director who manages the Telecommunications Planning and Development Advisory Committee which is responsible for coordinating efforts to increase the interoperability of communication systems and expand broadband capabilities statewide. The program director provides the DED and other agencies support with broadband issues, the high technology industry, and efforts to promote high technology jobs. The Marketing and Media director is responsible for messaging and branding the DED, is the point of contact for media inquiries, managing the DED’s social media accounts, and developing and implementing the marketing plan covering the DED’s five core functions.

<u>Financial Assistance Programs Available To Businesses</u>

The DRED plays a role in overseeing the State’s tax credit and job training programs designed to attract and retain businesses. Compared to other states, New Hampshire offers relatively small incentives in the form of monetary assistance. Tax credits and training grants overseen by DRED total less than $4 million annually. Each program is described below:

- *Research And Development (R&D) Tax Credit:* The R&D tax credit benefits businesses with “qualified manufacturing research and development expenditures” and is administered by the Department of Revenue Administration. A business taxpayer first applies the tax credit towards the business enterprise tax, with remaining credits applied towards the business profits tax. Any remaining balance may be carried over for five consecutive tax years. Since its creation in 2007, the amount available for the R&D tax credit was $1 million annually; however, during the 2013 legislative session, the tax credit was increased to $2 million. DRED is required to annually file a report with the Governor and Legislative leadership detailing the implementation of the tax credit program and the results achieved.

- *Economic Revitalization Zone (ERZ) Tax Credits:* Businesses may apply for the tax credit if they are located within an area that has been designated as an ERZ by the DRED Commissioner. To qualify an area as an ERZ, municipalities must demonstrate it meets statutory criteria including an area: of unused or underutilized industrial parks; containing vacant industrial, commercial, or retail structures; and in which an ERZ designation would likely result in decreased vacancy rates or demolition of the structures. The State makes $825,000 in ERZ tax credits available to businesses annually. Businesses located in an ERZ may apply to the DED for up to $200,000 in tax credits to be applied to its state business tax return during the subsequent five tax cycles. Credits awarded are first applied towards the business enterprise tax and any remaining credits are applied towards the business profits tax. DRED is required to file a report with the Governor and Legislative leadership describing the results of the program annually and include recommendations for further legislation regarding the ERZ program.

- *Coos County Job Creation Tax Credit:* The tax credit, created in 2008, is designed to foster the creation of additional high quality jobs and to stimulate economic growth in Coos County. Businesses qualify for a tax credit if they create a new job in Coos County paying more than one and a half times the minimum wage. Businesses must submit an application to the DRED during the three months prior to the close of the tax year specifying the number of new jobs created and wages paid. The DRED Commissioner must approve each application. Approved businesses must first apply the tax credit against the business enterprise tax; remaining tax credits may be applied against the business profits tax. Businesses may claim the credit for up to five consecutive tax periods and unused portions may be carried forward for five years. In 2013, the DED awarded approximately $40,000 in tax credits under the program, the most it has awarded to date. Statutes do not specify a limit on the amount which can be awarded annually for this tax credit.

- *Job Training Program For Economic Growth (Job Training Fund):* The OWO administers the New Hampshire Job Training Fund which offers: 1) a matching grant program established to “provide job training which is designed to attract new business, assist in the expansion of business, and retain existing business in the state of New Hampshire,” and 2) WorkReadyNH, a career training program which allows unemployed workers to assess their skills and take classes to enhance their “soft skills.” The matching grant program offers assistance to privately-owned businesses and industries in training a new workforce and retraining existing employees to implement new technologies, in creating new jobs, and in retaining and upgrading existing jobs, as well as providing technical education and training as a component of the State’s economic development efforts. The program is available to businesses paying quarterly taxes in the State's Unemployment Trust Fund. Applicants appear before a grant review committee to apply for the matching funds available ($1 million annually) for training and retraining purposes. Review committee recommendations must be approved the DRED Commissioner. The WorkReadyNH program is available free of charge to adult New Hampshire residents not currently enrolled in an educational program. The program is offered through the New Hampshire Community College system.

Audit Scope

Our audit period will encompass calendar years 2012 and 2013, and will attempt to answer the following question: ***Were DRED economic development programs effective in promoting the growth of new businesses, supporting expansion of existing businesses, and attracting businesses to the State during calendar years 2012 and 2013?*** Specifically, we will assess whether:

1. ***DRED promoted new business growth, provided support for expanding existing businesses, and attracted businesses to the State with a coordinated plan.***
2. ***DRED's processes allowed it to adequately track and report program activities and outcomes.***
3. ***DRED effectively and efficiently managed the tax credit and grant programs offered to businesses.***

To answer these questions, we plan to:

- review State laws, Administrative Rules, and DRED policies and procedures related to activities to promote economic development in the State;
- interview DRED personnel responsible for economic development activities;
- analyze DRED data related to economic development activities;
- review other states' economic development activities and identify best practices;
- contact businesses that may or may not utilize DRED economic development programs;
- review DRED information technology systems for tracking economic development activities;
- review and analyze documents related to the tax credit and grant programs;
- review and assess DRED plans for economic development in the State; and
- other procedures as we find necessary.

As proposed, this audit would be completed in April 2014.

STATE OF NEW HAMPSHIRE
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PROPOSED SCOPE STATEMENT
PERFORMANCE AUDIT OF
NURSING AND ASSISTED LIVING FACILITIES INSPECTIONS

In March 2013, the Fiscal Committee of the General Court adopted a joint Legislative Performance Audit and Oversight Committee recommendation to conduct a performance audit of the Department of Health and Human Services (DHHS) inspections of nursing and assisted living facilities. We held an entrance conference with the DHHS on December 16, 2013.

Background

The DHHS Office of Operations Support is tasked with the oversight and enforcement of basic standards designed to promote safe and appropriate care of persons receiving care and treatment in various types of health facilities, including nursing facilities (NF) and assisted living facilities (ALF). Health facilities seeking Medicare or Medicaid reimbursement must become certified by the federal Centers for Medicare and Medicaid Services (CMS) and are overseen and inspected by the Office of Operations Support, Health Facilities Certification Unit (HFCU). All other facilities are the responsibility of the Health Facilities Licensing Unit (HFLU). In addition, both the HFCU and HFLU investigate complaints made against facilities they oversee.

HFCU

Under an agreement between the DHHS and the CMS, the federal government funds and provides the regulatory structure for HFCU inspections of certified health facilities, also known as surveys. These surveys determine the facilities' compliance with federal standards. The CMS:

- approves the HFCU's budget and pays for the inspections of health facilities, including HFCU staff salaries**;**
- administers the information technology systems supporting certification;
- owns data related to surveys and certification; and
- oversees the operation of the certification unit, assessing compliance with federal requirements and overall unit effectiveness.

When a State-licensed health facility receives federal certification from the CMS, it becomes eligible to receive Medicare or Medicaid payments.[1] State law deems these certified health facilities to be licensed by the State, negating the need for a separate annual licensing inspection by the HFLU, and complaint investigations against certified facilities are conducted by the certification unit. There are 75 certified NFs overseen by the HFCU.

According to a CMS regional official, the HFCU continues to do a good job based on CMS's onsite and follow-up assessments of HFCU inspections of NFs. Because HFCU inspection activities are regulated and reviewed regularly by the CMS, who reported being satisfied with the HFCU's performance, we concluded an audit of this process is likely not necessary and our

[1] Noncertified ALFs may receive Medicaid payments for residents under a waiver known as the Choices For Independence Program.

resources would be better spent on State-controlled and funded licensing inspections conducted by the HFLU, which has not been regularly evaluated by an outside entity.

HFLU

The HFLU is responsible for licensing all new health facilities and periodically inspecting facilities that are not certified by the CMS, including all 152 ALFs and seven “private pay” NFs. The HFLU uses State law, administrative rules, and a national life safety code as inspection criteria. The ALFs are divided into two levels of facilities depending on the services they provide to residents. They are either residential care facilities or supported residential care facilities and both have their own set of rules.

The HFLU conducts two types of inspections, clinical and life safety. ALFs and NFs have an annual clinical inspection. For clinical inspections, the HFLU has three of four inspector positions filled and a supervisor position that has been vacant since April 2013. The HFLU clinical inspections of ALFs and NFs are usually done by one person. The life safety inspection section has two filled inspector positions and one supervisor who: 1) inspect facility compliance with the State fire code, State building code, the underpinning national and international codes, and other guidelines required by DHHS rules, and 2) approve plans for new construction and renovations. Life safety inspections are reportedly conducted within a few weeks of a clinical inspection.

Audit Scope

Our audit will attempt to answer the following question: ***Did the HFLU efficiently and effectively conduct inspections of and investigate complaints against assisted living facilities and private pay nursing facilities during State fiscal years 2012 and 2013?***

To address this question, we plan to examine the Unit’s inspection and complaint processes, including completeness, timeliness, and openness. We also plan to:

- review NF and ALF statutes, administrative rules, policies, and procedures;
- interview DHHS personnel, NF and ALF administrators, and other stakeholders;
- review the HFLU inspection and investigation process and documents;
- collect and analyze inspection and investigation data;
- review similar audits from other states;
- survey NF and ALF officials on HFLU inspection and investigation processes; and
- compare HFLU inspection and investigation practices to generally accepted industry practices.

We anticipate completing this project in April 2014 and presenting the final report to the Fiscal Committee at its May 2014 meeting.