



# Development Services Agency Tax Credit Monitoring Audit

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**Audit Period: July 2017 through June 2018**

## Results Summary:

Objective	Conclusion
Ohio Historic Preservation Tax Credits	Well-Controlled with Improvement Needed
Ohio Jobs Creation and Retention Tax Credits	Well-Controlled with Improvement Needed

\*Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Development Services Agency (DSA) administers a wide variety of programs to promote economic and community development in Ohio, with the goal of facilitating business growth and creating and retaining jobs. Among these programs are the Job Creation (JC) Tax Credit, Job Retention (JR) Tax Credit, and Historic Preservation Tax Credit.

JC tax credits are awarded to taxpayers who agree to base a project in the State of Ohio that will increase payroll, provide increasing opportunities for employment, and strengthen the State's economy. JR tax credits are awarded to taxpayers who maintain operations at a project location in the State retaining an agreed upon number of employees at the project site for a set period of time. During fiscal year 2018, DSA issued 693 jobs-related credits totaling \$189,938,523.18.

According to DSA's website, the Historic Preservation Tax Credit provides a tax credit to leverage the private redevelopment of historically designated buildings. This provides a 25 percent tax credit for the rehabilitation expenses to owners and lessees of historically significant buildings. A building is eligible if it is individually listed on the National Register of Historic Places; contributes to a National Register Historic District, National Park Service Certified Historic District, or Certified Local Government historic district; or is listed as a local landmark by a Certified Local Government. During fiscal year 2018, DSA issued 40 Historic Preservation Tax Credits totaling \$102,968,840.

During the audit, OIA identified opportunities for DSA to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DSA staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance engagement related to the controls over the agency's tax credit monitoring processes during fiscal year 2018. This work was completed July through September 2018. The scope of this audit included the following DSA tax credits:

- Ohio Historic Preservation Tax Credit
- Ohio Jobs Creation Tax Credit
- Ohio Jobs Retention Tax Credit

The following summarizes the objectives of the review:



- Evaluate design and effectiveness of DSA's controls for issuance and monitoring of Ohio Historic Preservation tax credits.
- Evaluate design and effectiveness of DSA's controls for issuance and monitoring of Ohio Jobs Creation and Retention tax credits.

## **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. However, there were no high or moderate comments noted for this engagement. Low risk observations were discussed with individual agency management and are not part of this report. The low risk observations were considered as part of the audit objective conclusions.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee