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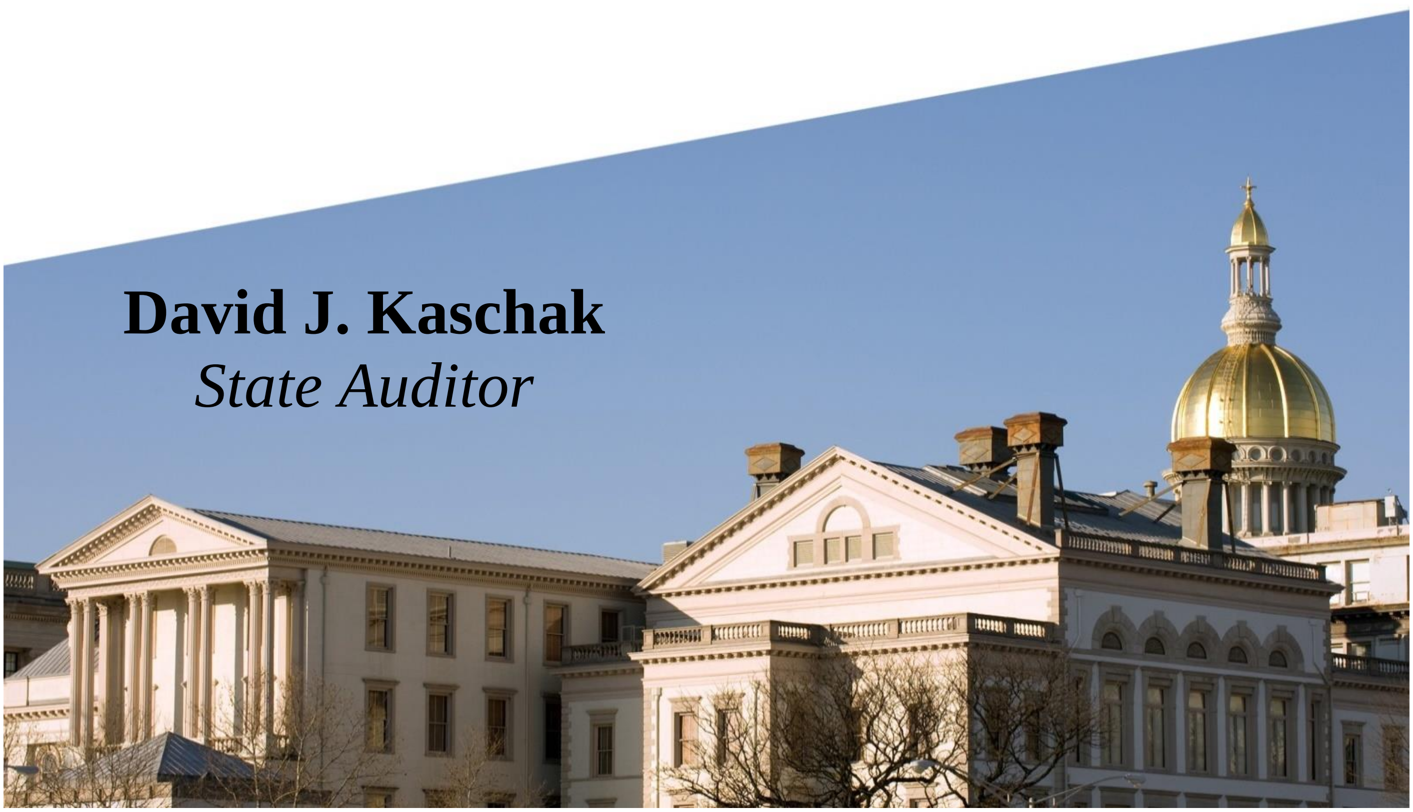
OFFICE OF THE STATE AUDITOR

New Jersey Economic Development Authority
Selected COVID-19 Emergency Assistance Programs

March 1, 2020 to February 28, 2021



David J. Kaschak

State Auditor

NEW JERSEY STATE LEGISLATURE
Office of LEGISLATIVE SERVICES

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Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the New Jersey Economic Development Authority, Selected COVID-19 Emergency Assistance Programs for the period of March 1, 2020 to February 28, 2021. If you would like a personal briefing, please call me at (609) 847-3470.

David J. Kaschak
David J. Kaschak
State Auditor
May 26, 2021

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Scope

We have completed an audit of the New Jersey Economic Development Authority (NJEDA), Selected COVID-19 Emergency Assistance Programs (programs) for the period March 1, 2020 to February 28, 2021. Our audit included a review of the following programs:

- Small Business Emergency Assistance Loan Program Phase 1 (Loan Phase 1)
- Small Business Emergency Assistance Grant Program Phase 1 (Grant Phase 1)
- Small Business Emergency Assistance Grant Program Phase 2 (Grant Phase 2)
- Small Business Emergency Assistance Grant Program Phase 3 (Grant Phase 3)

For the period April 13, 2020 through February 17, 2021, Loan Phase 1 disbursed $9.6 million in loans to 140 businesses. For the period April 3, 2020 through August 24, 2020, Grant Phase 1 disbursed $10.6 million in grants to 3,262 businesses. For the period June 8, 2020 through February 19, 2021, Grant Phase 2 disbursed $55.4 million in grants to 19,262 businesses. For the period October 29, 2020 through February 26, 2021, Grant Phase 3 disbursed $144.1 million in grants to 20,236 businesses.

Objectives

The objective of our audit was to determine whether adequate controls were in place at the NJEDA to approve and disburse funds through the selected programs in compliance with internal requirements and applicable program criteria.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

In preparation for our testing, we studied federal and state legislation, as well as policies of the NJEDA. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing. We also reviewed disbursement trends of the programs and interviewed NJEDA personnel to obtain an understanding of the programs and the internal controls. In order to achieve our objective, we performed various tests and analyses as we determined necessary. Additional detail regarding our methodology and work performed can be found in the Appendix, as well as in the finding section when testing resulted in a reportable condition.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted, and transactions were judgmentally selected for testing. Because we used a nonstatistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

We assessed the reliability of NJEDA Dynamics 365 customer relationship management data by performing electronic testing, reviewing existing information about the data and the system that produced them, and interviewing agency officials knowledgeable about the data. We also reviewed certain general information system controls, including security management, change management, contingency planning, logical access security, and physical security and environmental controls. We determined that the data were sufficiently reliable for the purposes of this report.

Certain other data in our report were used to provide background information. Data that we used for this purpose were obtained from the best available sources. *Government Auditing Standards* do not require us to complete a data reliability assessment for data used for this purpose.

Conclusions

We found that adequate controls were in place at the NJEDA to approve and disburse funds through the selected programs in compliance with internal requirements and applicable program criteria. In making this determination, we noted a weakness in the process used to determine eligibility in Loan Phase 1 that merits management's attention. Our audit also identified additional issues that were not included in this report. These issues have been communicated to management separately.

We also performed various analyses of the COVID-19 Emergency Assistance Program data, which are provided for informational purposes in the background section and are not meant to draw any conclusions regarding the NJEDA and its operations.

Background

On March 9, 2020, the governor declared a State of Emergency and a Public Health Emergency in response to the emerging COVID-19 pandemic. The governor has continued to extend the Public Health Emergency, which was still in effect as of February 28, 2021. Each of the four programs we reviewed were implemented specifically to provide relief to businesses and non-profits impacted during the declared State of Emergency caused by the COVID-19 pandemic.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted by Congress on March 27, 2020 to help address the COVID-19 outbreak and its impact on the economy, public health, state and local governments, individuals, and businesses. The CARES Act provided for payments to state, local, and tribal governments through the established $150 billion Coronavirus Relief Fund (CRF). As of March 5, 2021, the NJEDA has accepted a total of $219.8 million in CARES Act funds from the New Jersey Department of the Treasury through the CRF for the programs we reviewed, $4.8 million of which is for administrative costs. The NJEDA used its own funds in some of the programs reviewed. Of the $219.8 million in CARES Act funds, $198.3 million had been disbursed (90.2 percent). The deadline for incurring expenses for the CRF is December 31, 2021. It should be noted that, if the state transfers CRF funds to another entity, the state, as the primary recipient of the funds, is ultimately responsible if any sub-recipients do not meet federal criteria for spending the funds; the U.S. Department of the Treasury will ultimately seek to recoup, from the state, any improperly spent funds.

A brief description of each program and a summary of the programs' funding and disbursements follows.

Loan Phase 1

On March 26, 2020, the NJEDA board approved Loan Phase 1 as a pilot program, which did not use CRF funds. The NJEDA allocated $10.0 million in available funds for Loan Phase 1, all from its Economic Recovery Fund. As of February 17, 2021, the NJEDA disbursed $9,650,114 of the Loan Phase 1 funds (97 percent) to 140 businesses and non-profits. Loan Phase 1 provided financing of up to $100,000 to existing businesses and non-profits physically located in New Jersey that could document having been negatively impacted by COVID-19 while also meeting other program eligibility requirements. Loans were to be used for working capital only. They have a term of 10 years, with an initial interest rate of zero percent for the first five years, followed by a maximum rate of three percent for the remaining five years. In addition, principal payments have been deferred for at least one year.

Grant Phase 1

Grant Phase 1 was also approved as a pilot program by the NJEDA board on March 26, 2020. The program provided minimum grants of $1,000 and up to $5,000 to New Jersey-based businesses and non-profits having between 1 and 10 full-time equivalent employees in addition to meeting other program eligibility requirements. The NJEDA launched Grant Phase 1 on April 3, 2020 and stopped accepting applications by April 10, 2020, having received approximately 34,000 requests for funds.

The NJEDA initially allocated $5.0 million in NJEDA unrestricted funds for Grant Phase 1, which was later reimbursed by the CRF. On May 22, 2020, the NJEDA board approved an additional $5.0 million in unrestricted funds to be used for the program, which was also later reimbursed by the CRF. In addition, $2.0 million was donated from the state's Casino Reinvestment Development Authority (CRDA) to be used for businesses located in Atlantic County. There was $910,000 returned to the CRDA because of a lack of eligible applicants from Atlantic County, leaving a total allocation of $11,090,000 for Grant Phase 1. As of August 24, 2020, the NJEDA disbursed $10,575,000 of the Grant Phase 1 funds (95 percent) to 3,262 businesses and non-profits.

Grant Phase 2

To address the continued demand from small businesses and non-profits, particularly those that were ineligible for Grant Phase 1 funds, the NJEDA board approved Grant Phase 2 on May 22, 2020. It provided minimum grants of $1,000 and up to $10,000 to New Jersey-based businesses and non-profits with 25 or fewer full-time equivalent employees, with any funds received through Grant Phase 1 reducing the Grant Phase 2 amount. Eligibility was also extended to home-based businesses and sole proprietorships.

The NJEDA initially allocated $90.0 million in available funds to Grant Phase 2. The board approved the use of $45.0 million from the CRF on May 22, 2020, $5.0 million of which has since been reallocated to Grant Phase 3. An additional $15.0 million in CRF funds was approved on August 11, 2020 to be used in the 12 New Jersey counties that did not receive CRF funding directly from the U.S. Department of the Treasury, with $5.0 million also being later reallocated to Grant Phase 3. In addition, the NJEDA received $30.0 million in county-specific CARES Act funds from Essex ($10.0 million), Ocean ($10.0 million), and Passaic ($10.0 million) counties. Because of a lack of eligible applicants in those counties during the program's open window, $20,415,000 was returned to those counties. The final allocation for Grant Phase 2, after reallocations and returns, was $59,585,000. As of February 19, 2021, the NJEDA disbursed $55,371,000 of the Grant Phase 2 funds (93 percent) to 19,267 businesses and non-profits.

Grant Phase 3

On October 14, 2020, Grant Phase 3 was approved by the NJEDA board to provide minimum grants of $5,000 and up to $20,000 to New Jersey-based businesses and non-profits with 50 or fewer full-time equivalent employees. Funding received in Grant Phases 1 and 2 would not affect the award sizes in Grant Phase 3, but was included in the NJEDA's duplication of benefits analysis required by the federal government.

The NJEDA allocated $146.0 million in available funds to Grant Phase 3: $120.5 million of CRF funds it received from the state, $10.0 million from Grant Phase 2 reallocations (CRF funds), and $15.5 million in reallocations from the NJEDA's Personal Protective Equipment Access Program. As of February 26, 2021, the NJEDA disbursed $144,066,000 of the Grant Phase 3 funds (98.7 percent) to 20,236 businesses and non-profits.

Funding Summary

NJEDA Program	Initial Allocation	less Returns and Reallocations	Final Allocation	**Disbursed**	**%**	Funding Sources and Notes
Loan Phase 1	$ 10,000,000	$ -	$ 10,000,000	**$ 9,650,114**	**96.5%**	$10.0m from ERF
Grant Phase 1	$ 12,000,000	$ 910,000	$ 11,090,000	**$ 10,575,000**	**95.4%**	$10.0m from the CRF[1] $2.0m from CRDA ($910,000 returned)
Grant Phase 2	$ 90,000,000	$ 30,415,000	$ 59,585,000	**$ 55,371,000**	**92.9%**	$45.0m from CRF[2] ($5m reallocated to Grant Phase 3) $15.0m from CRF[3] ($5m reallocated to Grant Phase 3) $30.0m from counties[4] ($20.415m returned)
Grant Phase 3	$ 146,000,000	$ -	$146,000,000	**$144,066,000**	**98.7%**	$120.5m from CRF $10.0m reallocated from Grant Phase 2 $15.5m reallocated from NJEDA PPE Access Program
Totals	$ 258,000,000	$ 31,325,000	$226,675,000	**$219,662,114**	**96.9%**	

[1] On March 26, 2020, the NJEDA funded an initial $5.0 million, which was later reimbursed by the CRF. On May 22, 2020, it funded an additional $5.0 million, which would also get reimbursed by the CRF.

[2] Approved on May 22, 2020.

[3] Approved on August 11, 2020.

[4] From Essex, Ocean, and Passaic counties, $10.0 million each in county-specific CARES Act funds.

Application Process

For each of the four programs we reviewed, applications were submitted through an online portal that integrated with Dynamics 365. The NJEDA accepted applications on a rolling, first-come, first-served basis until funding was exhausted. Funding was considered exhausted when the accepted applications were sufficient to use up the allotted funds. Businesses with applications accepted for review by the NJEDA were then determined to be either approved for disbursement or declined. Some declined applications were appealed and, after an additional review, either approved for disbursement or declined. Businesses that submitted their applications after funds were exhausted were grouped in a “Non-Decisioned” category.

Applicants That Went Out of Business

We judgmentally sampled 150 of 39,780 business that did not receive funding because their applications were submitted after program funds were exhausted and determined 12 (8.0 percent) were no longer operating. Conversely, we found only 3 of the 135 sampled businesses that received funds (2.2 percent) from one of the programs we reviewed were no longer in business.

Businesses Receiving Overlapping Funding

Businesses can receive assistance from multiple programs offered by the NJEDA, as long as they meet the eligibility requirements of each program from which they receive funds. The following chart illustrates the number of businesses that received assistance from more than one program and the amounts disbursed to those businesses from those programs.

NJEDA Emergency Assistance Program Overlaps (Disbursed)	Count	Loan Phase 1 Total Disbursed Amount as of 2/17/2021	Grant Phase 1 Total Disbursed Amount as of 8/24/2020	Grant Phase 2 Total Disbursed Amount as of 2/19/2021	Grant Phase 3 Total Disbursed Amount as of 2/26/2021	Total
Grant Phase 1 and Grant Phase 2	309	$ -	$ 1,345,000	$ 714,000	$ -	**$ 2,059,000**
Grant Phase 1 and Loan Phase 1	23	$ 1,439,974	$ 85,000	$ -	$ -	**$ 1,524,974**
Grant Phase 2 and Loan Phase 1	42	$ 2,825,751	$ -	$ 190,000	$ -	**$ 3,015,751**
Grant Phase 1, Grant Phase 2, and Loan Phase 1	5	$ 451,388	$ 24,000	$ 13,000	$ -	**$ 488,388**
Grant Phase 1 and Grant Phase 3	1259	$ -	$ 4,199,000	$ -	$ 9,188,000	**$ 13,387,000**
Grant Phase 2 and Grant Phase 3	7076	$ -	$ -	$ 23,114,000	$ 47,702,000	**$ 70,816,000**
Grant Phase 3 and Loan Phase 1	61	$ 3,891,995	$ -	$ -	$ 485,000	**$ 4,376,995**
Grant Phase 1, Grant Phase 2, and Grant Phase 3	191	$ -	$ 851,000	$ 461,000	$ 1,788,000	**$ 3,100,000**
Grant Phase 1, Grant Phase 3, and Loan Phase 1	15	$ 1,019,425	$ 64,000	$ -	$ 135,000	**$ 1,218,425**
Grant Phase 2, Grant Phase 3, and Loan Phase 1	32	$ 2,133,805	$ -	$ 127,000	$ 240,000	**$ 2,500,805**
Grant Phase 1, Grant Phase 2, Grant Phase 3, and Loan Phase 1	5	$ 451,388	$ 24,000	$ 13,000	$ 50,000	**$ 538,388**

Businesses Receiving Small Business Administration Paycheck Protection Program Loans

Businesses that receive funds from one of the NJEDA programs are not excluded from receiving funds through a federal Small Business Administration (SBA) Paycheck Protection Program (PPP) loan. Below is a summary of the number of NJEDA program recipients that also received funds through an SBA PPP loan. The SBA loan information was obtained from the federal *PandemicOversight.gov* website created by the Pandemic Response Accountability Committee.

NJEDA Emergency Assistance Programs	NJEDA Programs Disbursed		NJEDA Disbursed Matched to SBA PPP Loans		
	Count	Total Disbursed	Count	Total NJEDA Disbursed	Total PPP Loans
Loan Phase 1	140	$ 9,650,114	84	$ 5,697,585	$ 7,897,371
Grant Phase 1	3,262	$ 10,575,000	2,419	$ 8,254,000	$ 77,420,604
Grant Phase 2	19,262	$ 55,376,000	8,134	$ 31,145,000	$ 331,865,877
Grant Phase 3	20,236	$ 144,066,000	11,222	$ 87,943,000	$ 652,930,959

Loan Phase 1 Eligibility Determination

The NJEDA applied the incorrect criteria in determining eligibility for some applicants, allowing ineligible businesses to obtain loans.

In order to qualify to receive Loan Phase 1 funds, an applicant was required to have a minimum Global Debt Service Coverage Ratio (ratio) of 1.00 based on financial statements from the year prior to the governor's declaration of emergency related to the COVID-19 outbreak. If an applicant received a federal SBA PPP loan, those funds were considered existing debt in the ratio calculation, with the PPP loan's term being an integral factor in the calculation.

PPP loans have a repayment term of either two or five years. Because PPP loans do not require any payments in the first six months, the NJEDA uses a 1.5- or 4.5-year term when including the loan in existing debt for the ratio calculation, depending on when the loan was issued. Prior to June 5, 2020, the term of a PPP loan was two years. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 was signed into law, extending the repayment term to five years based on the date the PPP loan was issued. Effective June 5, 2020, the NJEDA staff began to use the 4.5-year term for the ratio calculation, regardless of the PPP loan's issuance date. However, according to the SBA, this was incorrect because PPP loans issued on or after June 5, 2020 were subject to the extended term. On August 13, 2020, the NJEDA identified the error and issued a revised policy on August 14, 2020 reflecting the proper usage of the PPP loan's issuance date when deciding which term to use in the ratio calculation. Therefore, for some Loan Phase 1 applications, the NJEDA applied the incorrect PPP loan term when calculating the ratio when determining eligibility.

We tested 40 Loan Phase 1 loans totaling $3.57 million in disbursements as of August 31, 2020. In 28 of the 40 loans tested, the incorrect PPP loan term was included in the calculation of the ratio. In 14 of the 28 instances, had the correct term been used, the ratio would have been below the required 1.00 ratio, making the applicant ineligible. Consequently, approximately $1.27 million of Loan Phase 1 funds were disbursed to 14 ineligible recipients. Loan Phase 1 did not use any CRF funds; therefore, these funds are not at risk of being disallowed by the federal government.

Because disbursements for Loan Phase 1 increased significantly following our initial testing, we tested five applications of an additional 61 loans that had disbursements. In all five cases, the correct PPP loan term was included in the calculation of the ratio; therefore, we determined the NJEDA's revised policy has been effective.

Recommendation

We recommend the NJEDA assess the risks associated with the loans to applicants who would have been ineligible had the ratio been calculated correctly and determine whether those funds should be recouped. In addition, the NJEDA should include a formal process in their policies and procedures to adequately address changes in law that affect their programs. This will allow the NJEDA to more effectively transition any changes into their programs seamlessly and accurately.

Appendix

Methodologies to Achieve Audit Objectives

We initially tested 40 applications each from Loan Phase 1, Grant Phase 1, and Grant Phase 2 to determine compliance with various program requirements. We judgmentally sampled from approved applications of disbursed loans and grants. The population for Loan Phase 1 was 79 for the period April 13, 2020 through August 31, 2020. The population for Grant Phase 1 was 3,262 for the period April 3, 2020 through August 24, 2020. The population for Grant Phase 2 was 10,022 for the period June 8, 2020 through August 24, 2020. Eligibility requirements were confirmed using information from Dynamics 365, the Department of Labor and Workforce Development, and internet searches. These samples were also reviewed to verify if appropriate legal reviews were performed, proper approvals were made, and if findings during the application review process were adequately addressed. Dynamics 365 was used to verify all appropriate documentation was present. We also determined whether the proper amount of assistance funds were disbursed based on the applicable program criteria. Internet searches and phone calls were performed as additional procedures to determine the current status of each applicant's business.

We judgmentally sampled five declined applications from each program and reviewed the information in Dynamics 365 to verify the declinations were supported and appropriate based on each program's applicable criteria. For the same periods as above, the number of declined applications for Loan Phase 1, Grant Phase 1, and Grant Phase 2 were 162; 4,495; and 4,911; respectively.

To determine whether "Non-Decisioned" applications were properly categorized, a sample of 50 applicants from each program was judgmentally selected and the timing of the applications was reviewed in Dynamics 365. In addition, internet searches and phone calls were performed to determine the current status of each applicant's business. The number of "Non-Decisioned" applications for Loan Phase 1, Grant Phase 1, and Grant Phase 2 were 3,171; 26,492; and 10,117; respectively.

To determine if appeals were being handled fairly and within the allowable time frame, we judgmentally selected a sample of 10 appealed applications each from Loan Phase 1, Grant Phase 1, and Grant Phase 2 and reviewed information in Dynamics 365. For the same periods as above, the number of appeals for the three programs was 37; 749; and 341; respectively.

In February 2021, because a significant amount of disbursements occurred within Loan Phase 1 and Grant Phase 2 after our initial testing was completed, we performed additional testing for the two programs. A sample of five approved applications with disbursements for each program was judgmentally sampled from the additional populations. The additional population for Loan Phase 1 was 61 as of February 17, 2021. The additional population for Grant Phase 2 was 9,244 as of February 19, 2021. In addition, a sample of five appealed and five declined applications were judgmentally selected for testing from the additional populations. The number of additional appealed applications was 24 for Loan Phase 1 and 1,721 for Grant Phase 2, while the number of additional declined applications was 96 and 4,956, respectively. The same procedures were performed as on the initial sample using the same criteria.

Also in February 2021, we expanded our testing to include Grant Phase 3, which had begun during our initial testing and has disbursed most of its allocated funds. To determine whether Grant Phase 3 program requirements had been satisfied, the same procedures as above were performed using Grant Phase 3 program criteria. Because our initial testing on the other programs had low error rates, a sample of five applications was judgmentally selected from approved grants with disbursements. The number of such applications for Grant Phase 3 was 20,236 for the period October 29, 2020 through February 26, 2021.

Lastly, a mapping analysis was performed for each of the four programs to evaluate whether the business locations of approved applicants were within New Jersey and geographically reasonable.

May 21, 2021

Mr. David. J. Kaschak
State Auditor
Office of the State Auditor
P.O. 067
Trenton, NJ 08625-0067

Dear Mr. Kaschak:

Thank you for the opportunity to respond to the Office of the State Auditor's May 10, 2021 *Audit Report of Selected NJEDA COVID-19 Emergency Assistance Programs*. The New Jersey Economic Development Authority (NJEDA) appreciates your office taking the time to assess the NJEDA's internal controls over the administration, processing and monitoring of our COVID-19 Programs, and are gratified that you found that the NJEDA had adequate controls in place to approve and disburse funds through the selected programs in compliance with internal requirements and applicable program criteria.

The programs assessed by your office have been central to our efforts to provide economic support to the thousands of businesses and workers impacted by the pandemic. Since the start of the COVID-19 pandemic, the NJEDA has developed and implemented a robust suite of relief programs, including grants for small businesses and non-profits, low-interest loans, support for private-sector lenders and Community Development Financial Institutions (CDFIs), funding for entrepreneurs, and technical assistance. Most of these programs have specifically targeted businesses and nonprofits that were most impacted by COVID-19. To date, the NJEDA has provided more than $259 million in aid to over 55,500 New Jersey businesses through its COVID-19 programs.

Work remains to be done. In fact, with the support of the legislature, the NJEDA recently launched Phase 4 of the Small Business Emergency Assistance Grant Program, using $85 million appropriated for that purpose. Because nearly 30,000 businesses applied to that grant program, we anticipate needing additional funding. Governor Phil Murphy has announced his commitment to work with the legislature to appropriate an additional $235 million in funding. With that funding, we will be able to fully fund all eligible applications, reopen the program to enable additional businesses to preregister and then apply, provide $25 million in funding for new businesses and start-ups, *and* add $10 million in funding for our Sustain and Serve New Jersey program.

The Sustain and Serve program provides organizations with grants to purchase meals from local restaurants for distribution in the community. In the program's first month, 27 grantee organizations spent more than $1.8 million purchasing 178,500 meals from 109 of the program's 320 participating restaurants. NJEDA staff is currently processing additional reimbursement requests.

The NJEDA's Small and Micro Business Personal Protective Equipment Access Program also remains active, offering nearly 70 percent discounts off PPE supplies for businesses with 100 or fewer employees. To date, the PPE Access Program has provided more than 12,800 small businesses with vouchers for discounts totaling nearly $11 million.

The NJEDA's ongoing work will help many more businesses overcome the challenges they face today and make a strong recovery. The NJEDA continues to assess the needs of New Jersey businesses, non-profit organizations and communities and we look forward to working with the legislature to support a robust and equitable recovery.

Very truly yours,

Tim Sullivan
Chief Executive Officer