

Wisconsin Economic Development Corporation

May 2015

Report Highlights ■

WEDC did not consistently follow statutes or its policies when making financial awards.

WEDC did not comply with all statutory requirements related to program oversight.

Staff did not consistently comply with policies established by WEDC's governing board.

Additional efforts are needed to help ensure that WEDC administers its state-funded programs effectively.

2011 Wisconsin Act 7 created the Wisconsin Economic Development Corporation (WEDC) as the State's lead economic development organization. WEDC became fully operational in July 2011. Statutes require WEDC to develop and implement economic programs that provide support, expertise, and financial assistance to businesses that are investing and creating jobs in Wisconsin, as well as programs that support new business start-ups and business expansion and growth in the state. WEDC may also develop and implement any other programs related to economic development. Although WEDC is not a state agency, it is funded almost entirely with state funds.

In fiscal year (FY) 2013-14, WEDC administered 29 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, local governments, and other organizations.

Statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. To complete this audit, we analyzed:

- WEDC's administration and oversight of its programs;
- the results achieved by WEDC's programs; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

WEDC authorized local governments to issue bonds to fund economic development projects and awarded grants and loans to businesses, local governments, and other organizations in FY 2013-14. It also allocated tax credits to businesses and individuals.

We examined WEDC's administration of its grant and loan programs in FY 2013-14. Our file review found that WEDC's contracts did not contain all statutorily required provisions. We assessed WEDC's program administration based on the policies in effect when it decided to make awards and based on the policies in effect at contract execution. In both instances, we found that WEDC did not consistently comply with its policies. We also assessed WEDC's management and oversight in FY 2013-14 of grant and loan contracts it had awarded in prior fiscal years. Our file review found that recipients contractually required to create or retain jobs were not contractually required to submit information, such as payroll records, showing that the jobs were actually created or retained.

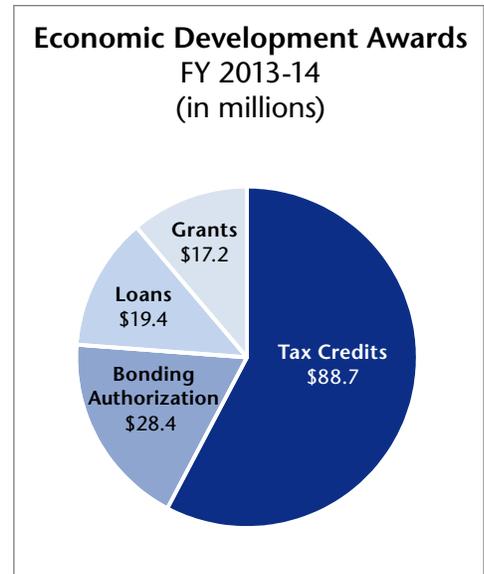
For the loans it administers, WEDC collects loan repayments and pursues collection of delinquent loans. In 2014, the potentially uncollectible balance of loans with repayments 90 days or more past due decreased by \$4.2 million largely because WEDC amended 13 loan contracts to defer loan repayments, wrote off 9 loans, and forgave 2 loans.

We examined WEDC's administration of its tax credit programs in FY 2013-14. WEDC did not establish all statutorily required policies for these programs. WEDC did not consistently evaluate whether businesses met all eligibility requirements in its policies. We assessed WEDC's program administration based on the statutes and policies in effect when it decided to make tax credit allocations and based on the statutes and policies in effect at contract execution. In both instances, we found that WEDC did not consistently comply with statutes and its policies. In addition, WEDC allocated tax credits for projects that began before contracts were executed.

We also assessed WEDC's management and oversight in FY 2013-14 of tax credit contracts that it had awarded since it became fully operational in July 2011. Statutes require WEDC to annually verify information submitted by businesses on the extent to which contractually specified outcomes were achieved. Our file review found that recipients that were contractually required to create or retain jobs generally submitted lists of their employees and the wages of those employees to WEDC, which accepted this information as accurate. However, our file review found no documentation that WEDC attempted to verify the information before awarding tax credits.

Program Results and Accountability

Statutes require WEDC's governing board to monitor the performance of its economic development programs, including by requiring certain recipients to report on their progress at meeting contractually specified performance measures. According to WEDC's information, 94.6 percent of progress reports due from July 2013 through November 2014 were submitted. However, WEDC did not consistently comply with its policy to send past-due notices to recipients that did not submit progress reports on time.



Statutes require the governing board to contractually require each recipient of a grant or loan of \$100,000 or more to provide a schedule of expenditures of the grant or loan funds. As of December 2014, recipients had submitted 7 of 22 schedules of expenditures that were required to be submitted in FY 2013-14. WEDC indicated that it had not regularly sent past-due notices since January 2014.

Statutes require the governing board to report to the Legislature annually on each program administered in the prior fiscal year. Although WEDC's October 2014 economic development program report addressed certain concerns we had noted in report 13-7, it did not contain clear, accurate, and complete information on program outcomes, including the numbers of jobs created and retained. In addition, WEDC did not attempt to verify the accuracy of information submitted by award recipients on the numbers of jobs created and retained.

Financial Management

Although WEDC improved its financial management practices in FY 2013-14, we make recommendations for further improvements to its management of its unassigned fund balance and its credit cards. WEDC's policy for managing its fund balance allowed it to maintain an unassigned fund balance of \$15.6 million as of June 30, 2014. This amount was larger than necessary because the unassigned fund balance need cover only its administrative expenditures.

Future Considerations

WEDC's governing board established policies to help ensure appropriate program administration and oversight. However, we found its staff did not consistently comply with the policies. In addition, the policies did not consistently comply with statutory requirements.

The Governor's 2015-17 Biennial Budget Proposal would combine WEDC and the Wisconsin Housing and Economic Development Authority (WHEDA) into the Forward Wisconsin Development Authority, a newly created organization that would begin operation on January 1, 2016, and administer economic development programs. Under the Governor's Biennial Budget Proposal, any unencumbered balances in WEDC's appropriations would be transferred to the new Authority. The Legislature should consider WEDC's unassigned fund balance as it determines the amount to appropriate to either WEDC or the new Authority for the 2015-17 biennium.

Key Facts and Findings

WEDC did not report clear, accurate, and complete information on the numbers of jobs created and retained as a result of its programs.

As of June 30, 2014, WEDC maintained a \$15.6 million unassigned fund balance, which was larger than necessary.

WEDC did not require grant and loan recipients to submit information showing that jobs were actually created or retained.

WEDC amended loan contracts to defer loan repayments, wrote off loans, and forgave loans, which reduced its potentially uncollectible loan balance in 2014.

WEDC awarded tax credits without attempting to verify the accuracy of information submitted by businesses.

Recommendations

We include recommendations for WEDC to improve its:

- ☑ administration of grant and loan programs ([pp. 23, 24, 26, 27, and 31](#));
- ☑ administration of tax credit programs ([pp. 40, 41, 43, 46, 48, 49, and 50](#)); and
- ☑ financial management practices related to credit cards ([p. 76](#)).

We include recommendations that WEDC's governing board:

- ☑ improve its oversight of programs ([pp. 54, 57, 58, 59, and 60](#));
- ☑ ensure its annual economic development program report presents clear, accurate, and complete information on each program's results ([p. 63](#));
- ☑ revise its fund balance policy so that the target for the unassigned fund balance is based on its annual administrative expenditures ([p. 69](#)); and
- ☑ ensure its policies comply with statutory requirements and its staff comply with its policies ([p. 82](#)).

We include recommendations that the Legislature:

- ☑ consider modifying statutes to require the governing board to include in its annual economic development program report the total numbers of jobs created and retained as a result of all awards made since July 1, 2011 ([p. 66](#)); and
- ☑ consider WEDC's unassigned fund balance when determining the amount to appropriate to either WEDC or the Forward Wisconsin Development Authority for the 2015-17 biennium ([p. 84](#)).

In addition, the Legislature could consider modifying statutes to:

- prohibit tax credits from being allocated based on project-related activities that occur before contracts are executed ([p. 50](#)); and
- require all tax credit recipients to increase net employment in Wisconsin in order to be awarded tax credits ([p. 51](#)).

We recommend that the governing board of either WEDC or the Forward Wisconsin Development Authority report to the Joint Legislative Audit Committee by February 1, 2016, on its efforts to implement each of our recommendations ([p. 85](#)).



Legislative Audit Bureau | State Auditor: Joe Chrisman

Address questions regarding this report to the State Auditor at (608) 266-2818 or at AskLAB@legis.wisconsin.gov.