

Wisconsin Economic Development Corporation

May 2013

Report Highlights ■

WEDC did not have sufficient policies to administer its grant, loan, and tax credit programs effectively, including some statutorily required policies.

Some awards were made to ineligible recipients, for ineligible projects, and for amounts that exceeded specified limits.

In FY 2011-12, WEDC did not monitor expenditures incurred by each of its programs.

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

2011 Wisconsin Act 7 created the Wisconsin Economic Development Corporation (WEDC) as the State's lead economic development organization. WEDC, which is not a state agency, became fully operational in July 2011. It is statutorily required to develop and implement economic programs that provide support, expertise, and financial assistance to firms 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 exempt from some statutory requirements that apply to state agencies, it remains subject to certain reporting and oversight provisions and is funded almost entirely with taxpayer funds.

In fiscal year (FY) 2011-12, WEDC spent an estimated \$80.1 million. It administered 30 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 biennially conduct a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. As part of our effort, we analyzed:

- WEDC's administration of its economic development programs;
- the results achieved by WEDC's economic development programs; and
- financial management, personnel management, and governance issues.

Key Facts and Findings

Information provided by WEDC indicates that recipients of 59 awards submitted 45.0 percent of 40 contractually required reports on their progress toward meeting their contractual terms.

From July 2011 through December 2012, WEDC did not verify performance information reported by a sample of award recipients, as required by statutes.

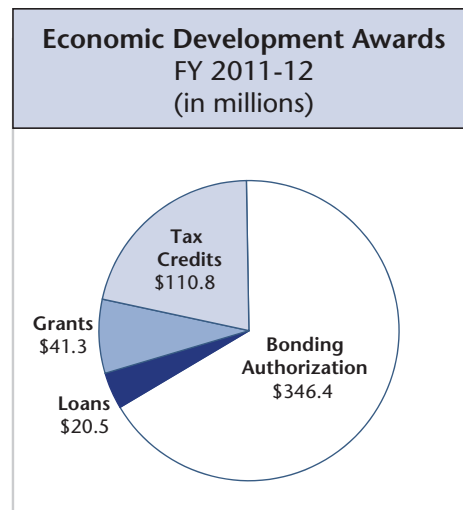
Expected results were not established for 10 of 30 economic development programs in FY 2011-12.

WEDC staff did not indicate the purpose of 56.0 percent of the 141 purchasing card transactions we reviewed.

In March 2013, WEDC's governing board authorized WEDC to create a nonprofit foundation to solicit donations to promote economic development.

Program Administration

In FY 2011-12, WEDC authorized local governments to issue bonds to fund economic development projects, awarded grants and loans, and provided tax credits to businesses, other organizations, and individuals. Award amounts differ from WEDC's expenditures because award amounts may be disbursed over several fiscal years, and award recipients may decline awards or may not use the entire amount awarded.



WEDC did not have sufficient policies to administer its grant, loan, and tax credit programs effectively, including some statutorily required policies. It had no policies for determining how to handle delinquent loan amounts.

In other instances, WEDC did not consistently follow statutes or its existing policies when making awards. We reviewed files for

64 awards that WEDC made in FY 2011-12 and found that WEDC made some awards to ineligible recipients, for ineligible projects, and for amounts that exceeded limits specified in its policies.

WEDC lacked invoices or other contractually required documentation showing that authorized costs were incurred for 7 of 29 grant and loan awards that we reviewed. In addition, four contracts executed through the Jobs Tax Credit program allocated four businesses a total of \$906,000 in tax credits for job creation and employee training that had occurred before the contracts were executed.

Statutes require WEDC's governing board to stipulate contractually that recipients of grants and loans of \$100,000 or more must provide a verified financial statement, signed by an independent certified public accountant and by the recipient's principal officer, describing how the funds were spent.

Our review included 14 grant and loan contracts of at least \$100,000 for which the recipients had spent all awarded funds as of December 2012. Information provided by WEDC indicated that 12 recipients had not submitted the statutorily required verified financial statements.

Program Results and Accountability

Statutes require WEDC's governing board to establish goals and

expected results for each of its programs, monitor the contractually specified performance of recipients of financial awards, and report publicly on program results.

Expected results were not established for 10 of WEDC's 30 programs in FY 2011-12. Information provided by WEDC indicates that from July 2011 through December 2012, recipients of 59 awards that we reviewed submitted 45.0 percent of 40 contractually required reports on their progress toward meeting their contractual terms.

Statutes require the governing board to verify the performance information reported by a sample of grant and loan recipients. From July 2011 through December 2012, WEDC conducted no such verification efforts.

Statutes require the governing board to report to the Legislature annually on each economic development program administered, including information on expected and actual program outcomes. The report WEDC submitted in November 2012 did not contain all required information, contained some inaccurate information, and did not clearly present information about the number of jobs created and retained as a result of its programs. For these reasons, and in the absence of verified performance information, we did not assess the effectiveness of WEDC's economic development programs.

Financial and Personnel Management

Although statutes provide WEDC with flexibility to conduct its operations, WEDC must ensure accountability for, and effective management of, its taxpayer funds. In FY 2011-12, WEDC did not monitor the amounts spent on each of its programs, in part because it was unfamiliar with its accounting system and did not establish accounting policies and procedures.

WEDC did not have policies for staff to use to purchase goods and services, including those that would increase the likelihood of receiving desired goods and services at a reasonable price. WEDC also did not have sufficient purchasing card policies. The purpose of 56.0 percent of the 141 purchasing card transactions we reviewed was not specified.

WEDC did not develop its own detailed personnel policies until September 2012. Its full governing board has not always been informed about certain personnel policies and practices, including those pertaining to the amounts and types of staff compensation and fringe benefits.

Governance

WEDC had incomplete policies pertaining to staff acceptance of gifts from businesses and other organizations. In addition, WEDC and its governing board have not always complied with statutory requirements for reporting

to the Legislature on WEDC's economic development programs and operations.

In March 2013, WEDC's governing board passed a resolution authorizing WEDC to create a nonprofit foundation to solicit donations to promote economic development. It is not known whether taxpayer funds would support the foundation or whether the foundation would report to the Legislature about its operations. Additional information about WEDC's plans is needed in order for the Legislature to assess aspects of the foundation's creation.

Recommendations

We include recommendations for WEDC to:

- ☑ establish all statutorily required policies for its tax credit programs, as well as sufficient additional policies to administer its grant, loan, and tax credit programs effectively; award grants and loans and allocate tax credits only to eligible recipients, for eligible projects, and for amounts allowed by program policies; and manage and oversee grant, loan, and tax credit contracts appropriately (*pp. 33 and 47*);
- ☑ monitor expenditures of its divisions and programs, establish an accurate annual budget, finalize its financial accounts in a timely manner, and provide annual audited financial statements for inclusion in the State of Wisconsin's Comprehensive Annual Financial Report (*p. 64*);

- ☑ develop procurement policies (p. 67);
- ☑ limit the number of staff who have purchasing cards, close the accounts of unused or seldom used cards, and develop purchasing card policies (p. 73); and
- ☑ develop policies for tracking and handling gifts received by its staff (p. 88).
- ☑ assess WEDC's personnel administration and procedure manual, as well as certain WEDC personnel practices, and determine whether changes are needed (p. 83); and
- ☑ ensure all statutorily required reports to the Legislature are submitted on time and contain the statutorily required information (p. 90).

We include recommendations that WEDC's governing board:

- ☑ comply with statutes by developing expected results for each economic development program, ensure award recipients submit contractually required progress reports, annually verify performance information submitted by a sample of recipients, and ensure the annual economic development program report presents clear, accurate, and complete information on each program's results (p. 58);
- ☑ We include recommendations for WEDC's governing board to report to the Joint Legislative Audit Committee by July 15, 2013, on its plans to create a nonprofit foundation (p. 92) and by October 1, 2013, on:
 - ☑ the status of all outstanding economic development loans for which it was responsible from January through September 2013 (p. 93); and
 - ☑ the status of its efforts to comply with certain statutory requirements (p. 93).

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 13-7, which includes a response from the Wisconsin Economic Development Corporation, call (608) 266-2818 or visit our website:



www.legis.wisconsin.gov/lab

Address questions regarding this report to:

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