Report 13-7
May 2013

Wisconsin Economic Development Corporation

State of Wisconsin



Legislative Audit Bureau

Report 13-7
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Joint Legislative Audit Committee Members

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Joe Chrisman
State Auditor

May 1, 2013

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

2011 Wisconsin Act 7, which created the Wisconsin Economic Development Corporation (WEDC), requires the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs, beginning in 2013. In addition, statutes require that we conduct a financial and performance evaluation audit of the Economic Development Tax Credit program no later than July 1, 2014.

In fiscal year 2011-12, WEDC administered 30 economic development programs through which it authorized local governments to issue $346.4 million in bonds, awarded $41.3 million in grants and $20.5 million in loans, and provided $110.8 million in tax credits to businesses and individuals.

WEDC did not have sufficient policies, including some that are statutorily required, to administer its programs effectively. We found that WEDC awarded some grants, loans, and tax credits to ineligible recipients, for ineligible projects, and for amounts that exceeded specified limits. In addition, WEDC did not consistently perform statutorily required program oversight duties, such as monitoring the contractually specified performance of award recipients, and could report more clearly on the number of jobs created and retained as a result of its programs.

Because WEDC is not a state agency, it is exempt from some statutory requirements and may exercise greater flexibility in its operations. However, WEDC must ensure accountability and transparency in its management of taxpayer funds. We provide recommendations to improve WEDC's administration of its economic development programs, its financial and personnel management, and the governance of its operations.

WEDC's response follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DS/ss

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:

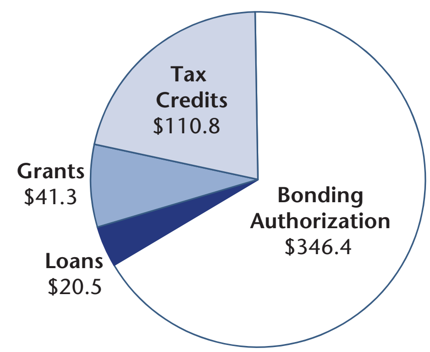
- WEDC's administration of its economic development programs;
- the results achieved by WEDC's economic development programs; and
- financial management, personnel management, and governance issues.

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, as shown in Figure 1. 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.

Figure 1

Economic Development Awards
FY 2011-12
(in millions)



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*).

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*);

☑ 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 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*).

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Introduction ▪

Economic development includes programs that provide financial and other assistance to businesses, local governments, and other organizations.

Economic development includes a variety of programs that provide financial and other types of assistance to businesses, local governments, and other organizations. These activities are designed to:

- retain and expand existing in-state businesses;
- encourage out-of-state businesses to move into or locate new facilities in the state;
- increase opportunities for entrepreneurs and small businesses;
- assist under-represented businesses, such as those owned by women or members of minority groups;
- improve the competitiveness of industries important to the state; and
- promote regional economic growth.

Although public officials generally agree on the importance of economic development, there is disagreement about the appropriate role of government in providing economic development assistance and the effectiveness of various strategies. Some contend that public financial assistance encourages business expansion, is necessary to remain competitive with other states that offer similar assistance, and encourages economic activity in distressed areas of the state. In contrast, others believe that such assistance unnecessarily subsidizes business activities, shifts the cost of doing business to taxpayers, and reduces available funding for education, transportation, and other services necessary for economic growth.

In July 2010, two private firms, with input and collaboration from legislators and others interested in economic development, released the "Be Bold Wisconsin" report. The report addressed Wisconsin's economic development strengths and weaknesses and made a number of recommendations for implementing a more coordinated approach to economic development and job creation. Among these recommendations was a proposal to restructure the Department of Commerce, which was then the State's lead economic development agency but which also administered a number of programs unrelated to economic development, into a new entity that would be insulated from frequent leadership and policy changes and that would focus solely on economic development. The report indicated that this new entity would be able to develop a comprehensive, targeted, and statewide economic development strategy for retaining and attracting businesses to the state.

Two pieces of legislation created WEDC and defined its responsibilities. First, 2011 Wisconsin Act 7, which was enacted in February 2011 and created WEDC, authorized the Department of Administration (DOA) to transfer Commerce funds used to support economic development programs to WEDC before July 1, 2011. Act 7 also authorized DOA to abolish Commerce positions that were responsible for administering economic development programs. Second, 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, abolished Commerce and transferred many of its responsibilities to other state agencies. The statutory responsibility for administering certain economic development programs was transferred to WEDC as of FY 2011-12.

WEDC is governed by a 15-member unpaid board.

Section 238.02(1), Wis. Stats., stipulates that WEDC is governed by a 15-member unpaid board, including:

- the Governor, who serves as the chairperson;
- 6 members nominated by the Governor and appointed with the advice and consent of the Senate;
- 3 members appointed by the Senate majority leader, including 1 senator from the majority party, 1 senator from the minority party, and 1 individual employed in the private sector;

- 3 members appointed by the Assembly speaker, including 1 representative from the majority party, 1 representative from the minority party, and 1 individual employed in the private sector; and

- the secretaries of DOA and the Department of Revenue (DOR), who serve as nonvoting members.

Each board member nominated by the Governor or appointed by the Assembly speaker or the Senate majority leader serves at the pleasure of those individuals.

WEDC's governing board is statutorily authorized to conduct a number of activities, including:

- adopting, amending, and repealing any necessary bylaws, policies, and procedures;

- establishing WEDC's annual budget and monitoring WEDC's fiscal management;

- employing any officers, agents, and employees that it may require and determining their qualifications, duties, and compensation;

- accepting gifts, grants, loans, and other contributions from private or public sources;

- executing contracts and other instruments required for WEDC's operations;

- issuing notes, bonds, and any other obligations;

- incurring debt;

- making loans and providing grants; and

- entering into agreements regarding compensation, space, and other administrative matters as are necessary to operate offices in other states and foreign countries, subject to approval by the secretary of DOA.

In October 2011, the governing board approved an operations plan that included several goals for WEDC in FY 2011-12, including:

- creating or retaining an anticipated 50,000 jobs as a result of financial and technical assistance provided by WEDC;

- providing financial or technical assistance to 1,000 Wisconsin businesses; and

- leveraging $2.70 from other sources for every $1.00 that WEDC invested in economic development projects.

The Governor is statutorily required to appoint WEDC's chief executive officer, with the advice and consent of the Senate. WEDC's governing board determines the chief executive officer's compensation and may delegate to the chief executive officer any powers and duties that it considers proper. Through WEDC's bylaws, the governing board has delegated to the chief executive officer the authority to establish WEDC's budget, employ staff, accept grants from public and private sources, and execute documents on WEDC's behalf. The bylaws stipulate that the governing board's compensation and benefits committee determines all elements of the chief executive officer's compensation package.

WEDC employs a chief operating officer who serves as the chief executive officer's deputy and helps with overall management duties, works with the governing board to set annual and long-term goals and strategies, and coordinates WEDC's activities with the Governor, the Legislature, and state agencies. A chief financial officer manages WEDC's finance and administration division. In FY 2011-12, five vice presidents each managed one of WEDC's divisions:

- The economic and community development division seeks to develop and improve business and community assistance opportunities through a variety of programs that provide grants, loans, tax credits, and technical assistance. Eight regional account managers provide technical assistance to businesses and identify WEDC programs that may help businesses grow. Appendix 1 shows the seven territories served by the regional account managers. Five community account managers provide technical assistance to local governments and identify WEDC programs that can help fund economic development projects. Appendix 2 shows the five territories served by the community account managers.

- The business and industry development division seeks to identify industries that WEDC believes have a high potential for growth, such as water technology, financial services, and biotechnology. Its programs provide grants for economic development projects that WEDC believes benefit an entire industry, such as the development of a research park by a trade association.

- The international business development division seeks to increase the state's exports and attract foreign direct investment in Wisconsin businesses. It provides businesses that want to begin exporting to foreign countries or expand existing export operations with grants to cover staff training costs and technical assistance. In FY 2011-12, WEDC contracted with trade specialists in Brazil, Canada, China, and Mexico who provided market analyses for Wisconsin businesses that wanted to export to these countries.

- The entrepreneurship and innovation division seeks to increase business start-ups in the state by assisting entrepreneurs and newly created businesses. In addition to providing grants and loans directly to businesses, it provides tax credits to investors in recently created businesses that have the potential to expand.

- The marketing and communication division seeks to promote the state's economic assets and business climate. It also seeks to increase awareness of WEDC's economic development programs and services that are available to businesses and other organizations.

Through its divisions, WEDC has undertaken initiatives that it anticipates will enhance economic development in the state. For example:

- WEDC has undertaken a number of marketing activities, including launching an "In Wisconsin" marketing brand in September 2012; distributing a bimonthly newsletter to Wisconsin businesses, regional economic development organizations, and others since July 2012; and deploying a media marketing campaign that features Wisconsin businesses in print advertisements, billboards, and social media. 2013 Assembly Bill 40, the Governor's 2013-15 biennial budget proposal, would increase WEDC's expenditure authority for marketing programs and activities by $3.75 million in FY 2013-14 and $7.15 million in FY 2014-15.

- WEDC is working to improve the coordination of economic development projects. WEDC and the University of Wisconsin (UW) System are jointly funding a position that is intended to help coordinate their efforts to complete projects. In addition, WEDC is working with local chambers of commerce and regional economic development organizations to coordinate support for economic development projects throughout the state.

- In March 2013, WEDC created the Global Freshwater Seed Accelerator program, which is anticipated to provide office space and grants of $50,000 each to six water technology start-up firms. 2013 Assembly Bill 40, the Governor's 2013-15 biennial budget proposal, would increase WEDC's expenditure authority for this program and the Capital Catalyst program by $2.0 million in FY 2013-14 and $4.0 million in FY 2014-15.

- WEDC conducts activities to help Wisconsin businesses export their products, including by helping to facilitate trade missions to a variety of nations such as South Africa in March 2013, China in April 2013, and Australia in May 2013.

We interviewed five associations interested in and involved with economic development issues in Wisconsin. Four of the five associations have been satisfied with the technical assistance WEDC provides, particularly in comparison to the technical assistance formerly provided by Commerce. For example:

- two associations indicated that separating economic development functions from regulatory functions has improved the focus on and responsiveness to economic development issues;

- two associations indicated that WEDC is more involved with regional economic development groups and communities than Commerce had been; and

- two associations indicated that WEDC has significantly improved technical assistance that helps Wisconsin businesses increase their involvement in international markets.

A number of concerns have been raised about WEDC.

However, a number of concerns have been raised about WEDC, including:

- In May 2012, the federal Department of Housing and Urban Development (HUD) indicated to DOA that WEDC had spent $9.6 million in federal Community Development Block Grant program funds without the legal authority to do so. WEDC's governing board was not informed about HUD's concerns until September 2012.

- In June 2012, the State suspended bidding for a $15.0 million contract to implement an information technology (IT) system intended to integrate information on pupil demographics and test performance results after it was revealed that, in March 2012, WEDC had offered to provide one of the bidders with tax credits if the firm was awarded the contract.

- In October 2012, WEDC indicated publicly that it was not monitoring repayment of economic development loans, including those that were delinquent.

- In December 2012, an auditing firm and the subsidiary of a financial industry trade association, which WEDC had retained to help improve its operations, reported that they had identified a number of problems with WEDC's management and oversight of its financial transactions.

Beginning in 2013, s. 13.94(1)(dr), Wis. Stats., requires the Legislative Audit Bureau to biennially conduct a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. In addition, s. 13.94(1)(ms), Wis. Stats., requires the Legislative Audit Bureau to conduct a financial and performance evaluation audit of the Economic Development Tax Credit program under ss. 238.301 through 238.306, Wis. Stats., no later than July 1, 2014.

To complete this report, we analyzed the economic development programs WEDC administered and the results those programs achieved in FY 2011-12. Because many programs administered by WEDC have outcomes that span multiple years, inadequate time has elapsed for us to reach definitive conclusions about program effectiveness. However, we reviewed the available documentation for 64 financial awards that WEDC made and 141 purchasing card transactions that its staff made in FY 2011-12. We also interviewed WEDC staff and reviewed a variety of WEDC documents, including those related to its expenditures in FY 2011-12 and its budget for FY 2012-13, meeting minutes for its governing board, its policies and procedures for purchasing and personnel management, and certain contracts it executed with private firms that provided auditing, consulting, and other professional services. In contrast to our June 2012 report that examined economic development programs administered by eight state agencies (report 12-11), this report focuses solely on WEDC.

Staffing

Because WEDC is not a state agency and its staff are not state employees, it is not authorized positions through the state budget. WEDC does not employ as many staff as Commerce had employed because it is not responsible for completing many of Commerce's duties, such as administering housing programs, enforcing building codes, and licensing occupations such as electricians and plumbers. WEDC indicates that 90.0 full-time equivalent (FTE) positions is its full staffing level. In July 2011, WEDC had filled 52.0 FTE positions. By October 2011, it had 72 employees, which represented more than three-fourths of its full staffing level.

WEDC had filled 86.0 FTE positions as of July 1, 2012.

As shown in Table 1, WEDC had filled 86.0 FTE positions as of July 1, 2012.

Table 1

Full-Time Equivalent Filled Positions
As of July 1, 2012

	Number
Finance and Administration	29.0
Economic and Community Development Division	18.0
Business and Industry Development Division	9.0
International Business Development Division	7.5
Executive Office	5.0
Marketing and Communication Division	5.0
Entrepreneurship and Innovation Division	4.0
Office of Public Policy	4.0
Legal Services	2.0
Office of Strategic Projects and Policy Advisor	2.0
University of Wisconsin Liaison	0.5
Total	**86.0**

Economic Development Programs

WEDC administers economic development programs that provide one or more types of assistance, including:

- grants or loans, which represent funds that WEDC provides to businesses and other organizations to finance economic development projects;
- tax credits, which can either offset the income tax liability of businesses and individuals or provide funds to businesses and individuals with no tax liability;
- bonding authorization, which represents WEDC's approval for local governments to issue bonds on behalf of businesses and other organizations seeking to finance economic development projects; and
- technical assistance that WEDC provides to businesses, individuals, and other organizations.

In FY 2011-12, WEDC's expenditures totaled an estimated $80.1 million, including $68.8 million for grants and loans disbursed through its economic development programs. Tax credits provided by WEDC are paid through appropriations separate from WEDC's appropriations.

In FY 2011-12, WEDC administered 30 economic development programs, including 14 required by statutes.

WEDC was statutorily required to administer 14 programs in FY 2011-12, and it administered other programs based on its statutory authority to develop and implement programs. Appendix 3 describes each of the 30 programs WEDC administered in FY 2011-12. Appendix 4 lists the amount of financial assistance each program awarded in FY 2011-12, as well as each program's funding sources, types of assistance provided, and eligible recipients.

The 30 programs that WEDC administered in FY 2011-12 can be categorized based on the primary type of assistance they provided, as shown in Table 2. WEDC provided financial assistance through 19 programs, including 16 grant and loan programs and 3 bonding authorization programs. It provided tax credits through eight programs. Three programs provided only technical assistance, although six grant and loan programs also provided technical assistance.

Table 2

Primary Type of Assistance Provided by WEDC's Economic Development Programs
FY 2011-12

	Number of Programs
Financial Assistance	
Grants and Loans	16
Bonding Authorization	3
Subtotal	19
Tax Credits	8
Technical Assistance	3
Total	**30**

Programs can also be grouped according to the types of recipients eligible for assistance. Many of WEDC's 30 programs assisted multiple types of recipients. Specifically:

- 23 programs assisted businesses or individuals;
- 9 programs assisted local governments; and
- 5 programs assisted nonprofit or other organizations, such as community development organizations.

■ ■ ■ ■

Financial Assistance Programs ▪

Through its economic development programs, WEDC authorized local governments to issue bonds to fund economic development projects and awarded grants and loans to businesses, local governments, and other organizations throughout the state. We found that WEDC had not developed sufficient policies for all of its grant and loan programs, did not always assess the eligibility of businesses and individuals for grants and loans awarded in FY 2011-12, and did not always comply with statutory requirements related to contract oversight. Although statutes provide WEDC with the flexibility to develop and administer programs, we make recommendations to WEDC to improve accountability for those taxpayer-funded programs.

In FY 2011-12, WEDC administered 19 economic development programs that provided financial assistance.

As noted, in FY 2011-12, WEDC administered 19 economic development programs that provided financial assistance, including 5 that were statutorily required. The 19 programs included:

- 3 programs that authorized local governments to issue tax-exempt bonds to finance economic development projects; and
- 16 programs that awarded grants, loans, and a loan guarantee to businesses, local governments, and economic development organizations.

Bonding Authorization Programs

Federal law authorizes state and local governments to issue tax-exempt bonds that can be used to finance economic development projects. Such bonds are an attractive source of capital for businesses because they typically have interest rates that are lower than conventional corporate bonds, and they are attractive to private investors because earned income is typically exempt from federal taxes. In FY 2011-12, WEDC administered three economic development programs that provided bonding authorization:

- The Midwestern Disaster Area Bond program was created by the federal Heartland Disaster Tax Relief Act of 2008. As a result of flooding and severe storms, 30 southern Wisconsin counties were declared a federal disaster area in 2008. The program authorized certain local governments and other public entities in these counties to issue bonds on behalf of businesses through December 2012. Bond proceeds could be used for eligible construction, renovation, or acquisition projects, including projects involving public utility property, qualified residential rental housing, and nonresidential property projects such as retail buildings and manufacturing facilities.

- Through the Industrial Revenue Bond program, WEDC approved counties and municipalities to issue bonds on behalf of businesses that used the proceeds to fund equipment and capital improvements at manufacturing facilities. The businesses were responsible for debt service on the bonds.

- The Qualified Energy Conservation Bond program was created by the federal Energy Improvement and Extension Act of 2008. The program authorized state, local, and tribal governments to issue bonds to fund local government conservation projects, including those involving energy-efficient capital expenditures and education, rural renewable energy production, research and development, and mass transit. Unlike WEDC's other two bonding programs, this program's bonds are federally taxable.

In FY 2011-12, WEDC authorized $346.4 million in economic development bonds.

In FY 2011-12, WEDC authorized local governments to issue a total of $346.4 million in bonds through the three economic development programs, as shown in Table 3.

Table 3

Economic Development Bonds Authorized by WEDC
FY 2011-12
(in millions)

Program	Awards	Amount
Midwestern Disaster Area Bonds	22	$323.3
Industrial Revenue Bonds	4	22.3
Qualified Energy Conservation Bonds	1	0.8
Total	**27**	**$346.4**

Grant and Loan Programs

WEDC awards grants and loans directly to businesses, as well as to economic development organizations and local governments that distribute WEDC's funding to minority-owned businesses, early-stage businesses, and other types of businesses that are typically underserved by commercial lenders. WEDC's grants and loans support a variety of economic development projects, such as expanding a factory, purchasing business equipment, relocating a corporate headquarters to Wisconsin, providing working capital to develop new technologies, or cleaning up environmentally contaminated sites. Award recipients contractually agree to complete specified projects, such as training employees, and achieve specified outcomes, such as creating and retaining jobs, as a condition of receiving grants and loans that have been awarded to them. If recipients do not achieve the specified outcomes, the contracts contain provisions that would allow WEDC to recoup the awarded funds. However, WEDC indicated to us that it typically does not do so because recouping awarded funds may impede economic development and job growth.

We examined the amounts awarded, rather than the actual project expenditures, which can be made over several fiscal years. Award amounts and project expenditures may also differ because a recipient may decline an award or may not use the entire amount awarded.

In FY 2011-12, WEDC awarded 166 economic development grants totaling $41.3 million.

As shown in Table 4, WEDC awarded 166 grants totaling $41.3 million through 16 programs in FY 2011-12, including 3 programs that are statutorily required. Three Community Development Block Grant programs accounted for $27.2 million, or 65.9 percent, of grants in FY 2011-12. These programs are funded, in part, by the federal government and support projects that benefit primarily low- and moderate-income individuals. As noted, HUD expressed concern in May 2012 that WEDC did not have the legal authority to administer these funds. WEDC continued to make program awards through FY 2011-12, but DOA has indicated its intent to transfer administration of these programs from WEDC to DOA in FY 2012-13. In report 13-5, the FY 2011-12 Single Audit of the State of Wisconsin, we reported additional concerns, including material internal control weaknesses for the Community Development Block Grant programs administered by WEDC and overseen by DOA. We qualified our opinion on the State's compliance with federal regulations for this grant.

Table 4

Economic Development Grants Awarded by WEDC
FY 2011-12
(in millions)

Program	Awards	Amount
Community Development Block Grant—Economic Development	22	$12.5
Community Development Block Grant—Community Development	42	9.9
Community Development Block Grant—American Recovery and Reinvestment Act	10	4.8
Brownfield Grant	16	4.5
Business Retention and Expansion Grants and Loans	2	4.0
WEDC Partner Operations Assistance	7	2.0
Business and Industry Development—Target Industry Projects	3	1.3
Grants to Regional Economic Development Organizations	8	0.7
Workforce Training Grants	6	0.5
Brownfield Site Assessment Grants	4	0.3
Minority Revolving Loan Fund Expansion	2	0.2
Capital Catalyst	1	0.2
Global Business Development Grant	23	0.1
Technology Development Grants and Loans	2	0.1
Wisconsin State Energy	1	0.1
ExporTech	17	<0.1
Total	**166**	**$41.3**

Three economic development programs awarded loans in FY 2011-12. WEDC indicated that its loans are not intended to be the primary funding source for economic development projects. Instead, the loans are intended to support businesses that have other sources of funding but need additional financial assistance in order to undertake a project or to complete a project that would not have occurred as quickly without WEDC's financial assistance.

WEDC also awards forgivable loans and loan guarantees. Depending on the contract for a forgivable loan, recipients are not required to repay some or all of the principal or interest if they achieve contractually specified outcomes, such as creating or retaining a specified number of jobs. Under a loan guarantee, WEDC guarantees the principal payments on loans made by private financial institutions if the borrowers default.

In FY 2011-12, WEDC awarded 33 economic development loans totaling $20.5 million.

As shown in Table 5, WEDC awarded 33 loans totaling $20.5 million through the three economic development programs in FY 2011-12, including 9 forgivable loans totaling $6.7 million and 1 loan guarantee for $240,000. More than half of the total amount loaned was awarded through the Business Retention and Expansion Grants and Loans program. Table 6 shows the ten recipients awarded the largest amounts of grants and loans in FY 2011-12.

Table 5

Economic Development Loans Awarded by WEDC
FY 2011-12
(in millions)

Program	Awards	Amount
Business Retention and Expansion Grants and Loans	21	$12.4
Wisconsin State Energy	3	6.1
Technology Development Grants and Loans	9	2.0
Total	**33**	**$20.5**

Table 6

Recipients Awarded the Largest Amounts of Grants and Loans
FY 2011-12
(in millions)

Recipient	Amount
Spectrum Brands, Inc.	$ 4.0
GreenWhey Energy, Inc.	3.6
Kapco, Inc.	3.0
Oneida Seven Generations Corporation	2.0
Wisconsin Center for Manufacturing and Productivity, Inc.	1.6
American Metal Technologies, LLC	1.5
Kerry, Inc.	1.5
Mayville Engineering Company, Inc.	1.5
Pinnacle Foods Group	1.3
Green Box NA Green Bay, LLC	1.2
Total	**$21.2**

As of December 2012, recipients of 60 loans, including 58 Commerce-issued loans and 2 WEDC-issued loans, were delinquent in repaying $3.5 million of loans that had a total outstanding balance of $11.3 million. WEDC had no policies for determining whether delinquent amounts should be amended, forgiven, referred to the Department of Justice (DOJ) for collection proceedings, or written off. As a result of WEDC's review of the 60 loans during the first two months of 2013:

- 34 loans with a total outstanding balance of $7.7 million as of December 2012 had been amended by WEDC or were in the process of being amended to defer loan repayments;

- 13 loans with a total outstanding balance of $727,900 as of December 2012 were considered current because the recipients had paid off the delinquent amounts;

- 5 loans with a total outstanding balance of $2.0 million as of December 2012 had been forgiven;

- 3 loans with a total outstanding balance of $331,900 as of December 2012 had been referred for collection to DOJ, which submits any collected amounts to DOA;

- 3 loans with a total outstanding balance of $216,200 as of December 2012 were still being reviewed by WEDC; and

- 2 loans with a total outstanding balance of $262,500 as of December 2012 had been written off.

Because WEDC had no policies for determining whether delinquent amounts should be amended, forgiven, referred to DOJ for collection proceedings, or written off, we reviewed the records in its IT systems for 11 of the 34 loans that had been amended or were in the process of being amended to defer loan repayments. We found that Commerce or WEDC had previously amended the repayment terms of 9 of the 11 loans, including 1 loan that had been amended six times, 2 loans that had been amended four times, 1 loan that had been amended three times, 2 loans that had been amended two times, and 3 loans that had been amended once.

Administration of Grant and Loan Programs

We examined more closely WEDC's administration of its 16 grant and loan programs. Based in part on statutory requirements, effective program administration requires WEDC to:

- establish sufficient policies for all of its grant and loan programs;

- assess the eligibility of businesses and others to be awarded grants and loans for specific projects; and

- appropriately manage and oversee its contracts with award recipients.

Our review of 64 financial awards that WEDC made in FY 2011-12, as summarized in Appendix 5, included 36 grant and loan awards with a total value of $19.5 million. We did not select the awards randomly. Instead, we selected awards of more than $100,000 that WEDC made through seven economic development programs. WEDC provided us with the paper files for 33 of the 36 awards, and we located additional information about all 36 awards in WEDC's IT systems.

Establishing Program Policies

WEDC did not have sufficient policies to administer its grant and loan programs effectively.

Statutes stipulate general criteria for making awards through certain grant and loan programs. In addition, WEDC has established some program policies. We requested all policies that WEDC established for all grant and loan programs it administered in FY 2011-12, and we found that WEDC did not have sufficient policies to administer its grant and loan programs effectively. For example:

- WEDC had no policies for making awards through some of its programs, including the Capital Catalyst, Minority Revolving Loan Fund Expansion, or WEDC Partner Operations Assistance programs. WEDC did not provide us with policies for awarding grants through the Business Retention and Expansion Grants and Loans program, although it provided us with policies for awarding loans through the program. Some loan-related policies could potentially be used to award grants, but others pertain only to loans, making it unclear how WEDC awarded grants.

- WEDC had no policies for analyzing the risk of default associated with making new loans to recipients that have not repaid prior loans. Our file review found that one business had been awarded a $100,000 loan by Commerce in 1998. The business was delinquent on its loan repayments from 2005 until 2008, when it entered into a repayment agreement with DOJ. The business was subsequently delinquent from May 2011 until December 2011, when it entered into a second repayment agreement with DOJ. In January 2012, WEDC offered the business a new $200,000 loan. In March 2012, the business fully repaid the 1998 loan. In May 2012, WEDC first disbursed funds from the $200,000 loan to the business.

- We also examined four forgivable loans totaling $3.4 million that WEDC made in FY 2011-12 through the Business Retention and Expansion Grants and Loans program. We found that WEDC did not have policies for determining when an applicant was eligible for a forgivable loan. WEDC indicated that it awarded forgivable loans to prevent the recipients from leaving Wisconsin and to support projects involving significant job creation. In FY 2012-13, WEDC implemented policies stipulating that a forgivable loan should be awarded only if an economic impact analysis indicates that a project may provide a substantial economic benefit to Wisconsin.

In addition, we identified inconsistencies in some program policies, which could result in WEDC awarding grants and loans under different contractual terms. For example:

- Business Retention and Expansion Grants and Loans program policies inconsistently defined the number of hours an employee must work in order to be considered a full-time employee for purposes of a business being awarded a loan to create or retain full-time jobs. Some policies defined a full-time employee as someone who works 40 hours per week, while others defined a full-time employee as someone who works 37.5 hours or more per week.

- Technology Development Grants and Loans program policies required award recipients to match program funds. One policy required recipients to provide a three-to-one match, but a second policy stated that a one-to-one match is acceptable. Three of ten program contracts that we reviewed required less than a three-to-one match.

Assessing Eligibility for Grants and Loans

WEDC underwriters review applications submitted by businesses and others seeking grants and loans. In a document called a "staff review," underwriters determine if an applicant's proposed project is eligible for an award, based on a program's statutory or policy requirements, and recommend the amount, if any, to award. A management review committee that includes WEDC's chief executive officer, chief financial officer, chief operating officer, all vice presidents, and the director of the office of public policy considers an underwriter's recommendation and determines the amount, if any, to award. We found that WEDC did not have policies describing how underwriters are to analyze the information collected in the staff reviews or the reasons the management review committee may reject an underwriter's recommendation.

WEDC did not always perform the analysis necessary to determine if an applicant's proposed project was eligible for a grant or loan.

WEDC did not always perform the analysis necessary to determine if an applicant's proposed project was eligible for a grant or loan. Underwriters did not perform staff reviews for 2 of the 36 grant and loan awards that we analyzed. WEDC indicated that although a staff review may not always be completed if WEDC needs to decide quickly whether to make an award, underwriters examine the application before an award is made.

When staff reviews were completed, we found that WEDC made some awards to ineligible recipients, for ineligible projects, and for amounts that exceeded limits specified in its policies. For example:

- Workforce Training Grants program policies stipulated that awards may not be made for new employee orientation or basic skills training, that employees who receive training funded by a grant must be paid at least 150.0 percent of the federal minimum wage, and that hospitality businesses are ineligible for awards unless their proposed projects involve significant job creation. As of December 2012, WEDC had disbursed $34,200 of a $200,000 grant awarded to a hospitality business. The disbursed funds paid for new employee orientation, safety, and other training. Approximately half of the trained employees were paid less than 150.0 percent of the federal minimum wage.

- Business Retention and Expansion Grants and Loans program policies stipulated the maximum amounts that can be awarded for creating or retaining a job, purchasing equipment, and purchasing real property. In October 2011, WEDC awarded a business a loan for $100,000 more than the maximum allowed. In November 2011, WEDC awarded another business a loan for $360,000 more than the maximum allowed.

- Business Retention and Expansion Grants and Loans program policies stipulated that combined WEDC and public funding should not exceed 35.0 percent of a project's cost. In April 2012, WEDC awarded a business a $650,000 loan even though it knew that a Wisconsin county was loaning the business $600,000 for the same project, resulting in combined WEDC and public funding of 46.4 percent of the project's cost.

Managing and Overseeing Contracts

Information provided by WEDC indicated that grant and loan recipients did not submit 12 of 14 statutorily required verified financial statements.

Statutes require WEDC's governing board to stipulate contractually that recipients of grants and loans of $100,000 or more must provide WEDC with a verified financial statement, signed by an independent certified public accountant and by the recipient's principal officer, describing how the recipient spent the awarded funds. Statutes also require the governing board to recoup grant or loan payments that have already been made, withhold future payments, and impose a financial penalty if a recipient submits false or misleading information to WEDC or fails to comply with contractual terms without providing a satisfactory explanation. We found that 2 of 35 contracts for grants or loans of $100,000 or more did not contractually require the recipients to provide verified financial statements after spending the awarded funds. Although recipients of 14 of the 35 contracts had spent all of the awarded funds as of December 2012, information provided by WEDC indicated that 12 recipients had not submitted the statutorily required verified financial statements. The files we reviewed contained no indication that WEDC took action against these 12 recipients.

We found that WEDC's contracts with award recipients did not always contain provisions required by program policies. For example:

- Although Business Retention and Expansion Grants and Loans program policies required recipients to pay a 2.0 percent origination fee for loans of $200,000 or more, six of ten contracts that should have required origination fees totaling $77,300 did not do so.

- Although WEDC's policies required loan recipients to contractually agree to security agreements that give WEDC the right to seize the recipients' assets if the loans are not repaid, one $500,000 loan contract executed in September 2011 did not require a security agreement, and the underwriter's staff review noted that the loan was not secured against any assets. When the loan balance came due in October 2012, the recipient indicated to WEDC that it was unable to repay the loan. In December 2012, WEDC amended the contract to defer repayment of the loan for one year.

WEDC at times disbursed funds even though award recipients had not submitted documentation indicating that contractually authorized costs had been incurred. In order to receive awarded funds through WEDC's grant and loan programs, recipients are contractually required to submit invoices or other documentation showing that authorized costs were incurred. During our audit fieldwork, WEDC indicated to us that such information was kept in its award files. We found that files for 18 of 29 awards for which WEDC disbursed funds contained at least some invoices and other documentation to support the amounts disbursed. However, files for 11 awards lacked invoices or other supporting documentation. In April 2013, WEDC informed us that all invoices and other documentation are maintained in its controller's office. WEDC agreed to provide us with all invoices and other documentation for the 11 files. We reviewed the information WEDC provided us and found that invoices and other documentation were incomplete for 7 of the 11 files.

If the recipient of an award made through the Business Retention and Expansion Grants and Loans program contractually agreed to create jobs, program policies required WEDC to award funds based on the wages paid to individual employees, and those wages needed to be at least 150.0 percent of the federal minimum wage. Contracts for seven FY 2011-12 awards that we reviewed based the award amount on the average wages paid to employees, which creates the potential that recipients could be awarded funds even though they paid some employees less than 150.0 percent of the federal minimum wage. The contract for an eighth award contained no wage requirement.

Improving Program Administration

Additional efforts are needed to help ensure that WEDC administers its taxpayer-funded grant and loan programs effectively.

Additional efforts are needed to help ensure that WEDC administers its taxpayer-funded grant and loan programs effectively. Without sufficient program policies, the criteria WEDC uses to make awards may be viewed as inconsistent or arbitrary by applicants, particularly by those that do not receive an award, or loans may be made to recipients that may be unlikely to repay them in a timely manner.

WEDC's reluctance to recoup funds that have been disbursed or impose penalties on grant and loan recipients that do not achieve contractually required outcomes increases the importance of ensuring that awards are made only to eligible recipients, for eligible projects, and for amounts allowed by its program policies. Doing so will reduce the risk of providing funds to recipients that may be unlikely to achieve the outcomes required by program policies, ensure that funding remains available to businesses and other organizations eligible to receive awards, and ensure consistent treatment of businesses and other organizations that apply for awards.

To manage and oversee its contracts appropriately, WEDC should comply with statutes and require recipients of grants and loans of at least $100,000 to submit verified financial statements, which help ensure that program funds were spent appropriately. WEDC should ensure that its contracts contain all provisions required by program policies. In addition, WEDC should require grant and loan recipients to submit documentation indicating that they incurred contractually authorized costs.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *establish sufficient policies to administer its grant and loan programs effectively;*
- *award grants and loans only to eligible recipients, for eligible projects, and for amounts allowed by program policies; and*
- *manage and oversee grant and loan contracts appropriately, including by complying with statutes by contractually requiring all recipients of grants and loans of at least $100,000 to submit verified financial statements, by ensuring its contracts contain all provisions required by program policies, and by requiring award recipients to submit documentation indicating that they incurred contractually authorized costs.*

▪ ▪ ▪ ▪

Tax Credit Programs ▪

WEDC administers programs that provide tax credits to businesses and individuals who contractually agree to complete economic development projects. Statutes require WEDC to establish program rules, review applications to determine whether businesses and individuals are eligible for tax credits, enter into contracts that stipulate the terms on which tax credits will be provided, and verify that tax credit recipients complete contractually required projects. We found that WEDC did not consistently comply with statutory requirements. We make recommendations to WEDC to improve accountability for its taxpayer-funded tax credit programs.

In FY 2011-12, WEDC administered eight economic development programs that provided tax credits.

In FY 2011-12, WEDC administered eight economic development programs that provided tax credits, all of which were statutorily required, including:

- two development zone programs that were intended to encourage economic development in specific geographic areas through targeted income tax credits to businesses;
- four investment tax credit programs that were intended to increase funding for Wisconsin businesses; and
- two other tax credit programs that were intended to assist businesses throughout Wisconsin.

Tax credits are allocated on a fiscal year basis and, if the contractually required economic development projects are completed, the tax credits are awarded on a calendar year basis. The most recent information available at the time of our audit fieldwork was for tax credits allocated in FY 2011-12 .

Development Zone Programs

To participate in a development zone program, a business either provides WEDC with a plan to locate or expand within an existing zone or requests that a new zone be designated at its current or intended location. When applying to WEDC, a business explains the proposed project and the expected benefits, such as creating or retaining jobs. If WEDC accepts the application, it contracts with the business and allocates a given amount of tax credits to the business. This allocation represents the maximum amount of tax credits that could be awarded if the business successfully completes its project according to the contractual terms. WEDC is to annually verify that a business met the contractually specified provisions for that year, award tax credits, and authorize the business to claim the tax credits against its state income taxes.

Under the Enterprise Zone program, WEDC is statutorily authorized to designate up to 20 zones that can last up to 12 years each. Businesses in the zones are allocated tax credits based on employee wages, the number of jobs to be created or retained, employee training costs, significant capital expenditures, and purchases of goods and services from Wisconsin suppliers. Enterprise Zone tax credits are refundable, meaning that if a business's tax credit exceeds its Wisconsin income tax liability, the business receives a payment from DOR for the difference. These payments are made with general purpose revenue (GPR) that the Legislature appropriates through a sum sufficient appropriation that is separate from WEDC's appropriations. Statutes do not limit the amount of tax credits available under the Enterprise Zone program.

Under the Development Opportunity Zone program, WEDC is statutorily authorized to allocate tax credits to businesses that locate or expand in three statutorily designated zones in the cities of Beloit, Janesville, and Kenosha. Businesses are allocated credits for agreeing to create and retain full-time jobs or undertake capital investment in the three zones over the five-year period that each zone is in effect. Development Opportunity Zone tax credits are nonrefundable, meaning that they can be claimed only up to the amount of a business's Wisconsin income tax liability in a given year. Unclaimed credits can be carried forward to offset future tax liabilities for up to 15 years before the tax credits expire. Statutes limit the amount of tax credits available for each of the three zones to $5.0 million, although WEDC can extend a zone for an additional five years, in which case the zone would be eligible for an additional $5.0 million in tax credits.

In FY 2011-12, WEDC allocated $62.9 million in tax credits through two development zone programs.

As shown in Table 7, WEDC allocated $62.9 million in tax credits to seven businesses through the Enterprise Zone and Development Opportunity Zone programs in FY 2011-12. The amount of tax credits awarded was not readily available at the time of our audit fieldwork.

Table 7

Tax Credits Allocated through Development Zone Programs
FY 2011-12
(in millions)

	Allocated	Businesses Allocated Tax Credits
Enterprise Zone	$61.0	3
Development Opportunity Zone	1.9	4
Total	**$62.9**	**7**

Investment Tax Credit Programs

In FY 2011-12, WEDC administered three investment tax credit programs that were intended to increase the availability of funding for new Wisconsin businesses. A fourth program was inactive from July 2011 until December 2012.

The Qualified New Business Ventures program certified eligible new Wisconsin businesses to participate in two other WEDC programs that awarded nonrefundable tax credits to individuals and venture capital funds that invested in the certified businesses. To become certified as a qualified new business venture, a business needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51.0 percent of its employees based in the state, having fewer than 100 employees, and having been in operation for no more than ten consecutive years. In FY 2011-12, WEDC certified 28 businesses.

Through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs, WEDC awarded tax credits in amounts equal to 25.0 percent of investments that were made in qualified new business ventures for at least three years, up to a maximum amount that WEDC allocated to individual qualified new business ventures. Certain individuals and groups of individuals who provided start-up financing to qualified new business ventures were awarded tax credits through the Angel Investment Tax Credit program, while venture capital funds that invested in qualified new business ventures were awarded tax credits through the Early Stage Seed Investment Tax Credit program.

Statutes limit the annual amount of tax credits that can be claimed under the two programs. In 2011 and 2012, up to $20.0 million in tax credits could be claimed per calendar year under the Angel Investment Tax Credit program, and up to $20.5 million in tax credits could be claimed per calendar year under the Early Stage Seed Investment Tax Credit program. Under each program, an additional $250,000 in tax credits could be claimed annually for investments in certain technology-related businesses.

In 2011, investors were awarded $11.2 million in tax credits through two investment tax credit programs.

As shown in Table 8, investors in 52 businesses were awarded $11.2 million in tax credits through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in 2011.

Table 8

Tax Credits Awarded through Investment Tax Credit Programs
2011
(in millions)

	Awarded	Businesses
Angel Investment Tax Credit	$ 6.6	45
Early Stage Seed Investment Tax Credit	4.6	19
Total	**$11.2**	52[1]

[1] Twelve businesses had investors who were awarded tax credits through both programs.

Since July 2011, statutes have required WEDC to administer the Qualified Wisconsin Business program and certify certain businesses as being eligible to participate in the program. To be certified, statutes require a business in its taxable year before applying to have paid at least 50.0 percent of its total payroll compensation in Wisconsin and to have had at least 50.0 percent of its total real and tangible personal property in Wisconsin. Certain investors in such qualified businesses can receive benefits allowing them to lower their Wisconsin income tax liability. In FY 2011-12, WEDC did not administer the program because it indicated that it needed time to develop the program. In December 2012, WEDC began reviewing the applications it had received from 216 businesses seeking certification for calendar year 2011. It subsequently certified 119 of the 216 businesses. We note that 2013 Assembly Bill 40, the Governor's 2013-15 biennial budget proposal, would transfer administration of this program from WEDC to DOR on January 1, 2014.

Other Tax Credit Programs for Businesses

Statutes stipulate that eligible Economic Development Tax Credit program projects could include capital investment, employee training, job creation, or relocation to or retention of a corporate headquarters in Wisconsin. In its application, a business indicated the type of project it planned to complete. If WEDC approved an application, it contractually specified the amount of nonrefundable tax credits the business could obtain if it completed the project according to the contractual terms. Unclaimed tax credits can be carried forward 15 years to offset future tax liabilities.

Under the Jobs Tax Credit program, businesses or individuals could earn a refundable tax credit for up to ten years, based on the wages paid to employees in existing and newly created full-time jobs and the costs to train employees. Businesses could earn up to 10.0 percent of their increased payroll costs or up to 100.0 percent of their training costs. Statutes authorize WEDC to allocate up to $10.0 million in tax credits through the program each calendar year.

In FY 2011-12, WEDC allocated $36.7 million in tax credits through two other tax credit programs.

As shown in Table 9, WEDC allocated $36.7 million in tax credits through the Economic Development Tax Credit and Jobs Tax Credit programs to 82 businesses in FY 2011-12. The amount of tax credits awarded was not readily available at the time of our audit fieldwork.

Table 9

Tax Credits Allocated through Other Programs for Businesses
FY 2011-12
(in millions)

	Allocated	Businesses Allocated Tax Credits
Economic Development Tax Credit	$26.6	74
Jobs Tax Credit[1]	10.1	9
Total	**$36.7**	82[2]

[1] No individuals were allocated tax credits in FY 2011-12.

[2] One business was allocated tax credits through both programs.

Administration of Tax Credit Programs

Based in part on statutory requirements, effective administration of tax credit programs requires WEDC to:

- establish sufficient policies for all of its tax credit programs;
- assess the eligibility of businesses and individuals to be allocated tax credits for specific projects; and
- appropriately manage and oversee its contracts with award recipients.

Establishing Program Policies

Statutes stipulate general criteria for making awards through each of the eight tax credit programs WEDC administered in FY 2011-12 and require WEDC to establish additional rules for four of the programs. Because WEDC is not a state agency, it cannot promulgate administrative rules. Instead, it establishes program policies. We requested all policies that WEDC established for the eight programs. In addition to its policies, WEDC indicated that it followed parts of Commerce's administrative rules, all of which have been repealed. However, it had not documented the particular rules it followed and did not further specify them.

WEDC did not establish all statutorily required policies for its tax credit programs.

We found that WEDC did not establish all statutorily required policies for its tax credit programs. For example:

- WEDC did not establish Enterprise Zone or Jobs Tax Credit program policies that define a tier I or tier II municipality and county, which is a designation that determines the amount of tax credits WEDC can allocate for projects in a municipality or county. Instead, its policies reiterated the statutorily identified factors that are to be considered, such as a county's or a municipality's unemployment rate and median family income.

- WEDC did not establish Enterprise Zone program policies that define the necessary amounts of capital expenditures and supply chain investments for a business to receive tax credits. It also did not establish policies that define when exceptions can be made to the statutory requirement that businesses can receive tax credits only for full-time employees who work at least 2,080 hours annually.

- WEDC did not establish Angel Investment Tax Credit program policies that further define a "bona fide angel investment." Instead, its policies reiterated the basic statutory definition.

- WEDC did not establish Economic Development Tax Credit program policies that specify how it will designate economically distressed areas or allocate additional tax benefits for projects in economically distressed areas.

In addition to the statutorily required policies, WEDC did not have sufficient other policies to administer its tax credit programs effectively. First, statutes require WEDC to designate an Enterprise Zone after considering indicators of an area's economic distress, such as the unemployment rate and the percentage of families with incomes below the federal poverty level. However, rather than establishing policies for designating zones and attracting businesses to them, WEDC instead designated zones based on the locations of businesses that applied for tax credits. For example, WEDC designated zones as encompassing:

- all of the Wisconsin facilities owned by two businesses;

- all of a third business's facilities in designated municipalities; and

- all of the "southeastern Wisconsin" facilities owned by a fourth business, although WEDC did not define southeastern Wisconsin's geographic limits. WEDC designated this zone in FY 2012-13.

Other businesses that establish or expand operations near a zone designated in this manner cannot receive tax credits through the zone, even if they operate in areas of economic distress. In addition, businesses could potentially locate facilities in areas of the state that are not economically distressed and still qualify for tax credits because WEDC defined their zones to include the areas where their facilities are located.

Second, WEDC's policies did not indicate whether or how a recipient's anticipated tax liability should be considered when allocating refundable tax credits through the Enterprise Zone and Jobs Tax Credit programs. Although a business reported to WEDC that it anticipated having a total tax liability of only $75 over a three-year period ending in September 2013, WEDC allocated the business $2.5 million in refundable tax credits through the Jobs Tax Credit program in August 2011 and $15.0 million in refundable tax credits through the Enterprise Zone program in May 2012. Allocating tax credits through the Jobs Tax Credit program to a business with no tax liability reduces the amount of tax credits that can be allocated to other businesses with tax liabilities. As noted, statutes do not limit the amount of tax credits that can be allocated through the Enterprise Zone program, which is funded by a GPR sum sufficient appropriation. Through January 2012, WEDC awarded the business $1.5 million of the $2.5 million in Jobs Tax Credit program tax credits that it had allocated.

Third, WEDC's policies did not indicate whether certifications under the Qualified New Business Ventures or Qualified Wisconsin Business programs, which were intended to help businesses obtain private investment, should be rescinded or withheld from businesses delinquent on repaying economic development loans. As of December 2012, 154 businesses were certified under the Qualified New Business Ventures program, including 44 that had received a total of 59 loans from WEDC or Commerce. Of these 44 certified businesses, 11 were delinquent in making $416,800 in payments on 13 loans with a total outstanding balance of $2.6 million. In addition, 5 of the 11 businesses were delinquent when WEDC certified them.

Fourth, WEDC's policies did not indicate whether tax credits can be allocated to businesses involved in tax disputes with DOR. In FY 2012-13, WEDC committed in writing to execute a contract to allocate $800,000 in tax credits to a business that had reported to WEDC its ongoing involvement in a $4.5 million tax dispute with DOR. As of March 2013, WEDC had not yet executed the contract.

Assessing Eligibility for Tax Credits

Similar to the process used for determining whether to award grants and loans, WEDC's underwriters review applications submitted by businesses and individuals seeking tax credits, complete staff reviews, determine eligibility, and recommend the amount of tax credits, if any, to allocate. WEDC's management review committee considers an underwriter's recommendation and determines the amount, if any, to allocate. As noted, WEDC did not have policies describing how underwriters are to analyze the information collected in the staff reviews or the reasons the management review committee may reject an underwriter's recommendation.

We asked WEDC to provide us with the paper files and other information associated with 23 tax credit allocations and 5 certifications that it made in FY 2011-12. WEDC provided us with paper files associated with 25 of the 28 allocations and certifications, and we located information about all 28 allocations and certifications in its IT systems.

WEDC did not always perform the analysis necessary to determine if an applicant's proposed project was eligible for tax credits.

WEDC did not always perform the analysis necessary to determine if an applicant's proposed project was eligible for tax credits. Underwriters did not perform staff reviews for 7 of the 23 tax credit allocations we reviewed, including 3 allocations made through the Enterprise Zone program. WEDC indicated that although a staff review may not always be completed if WEDC needs to decide quickly whether to make an award, underwriters always examine the application before an award is made.

Not completing a staff review may result in tax credits being allocated to ineligible recipients, for ineligible projects, and for amounts that exceeded limits specified in its policies. We analyzed seven files for which no staff review was completed and found:

- One $2.5 million contract executed through the Jobs Tax Credit program did not require a business to create any jobs, as is statutorily required in order to be allocated refundable tax credits through the program. Instead, the contract required the business to make a $10.0 million capital investment and provide $2.5 million in training to its employees. After the business subsequently decided not to make the capital investment, WEDC amended the contract to no longer require the capital investment and reduced the tax credit allocation. It did not declare the business to be in default of the contract and recover any of the $1.5 million in tax credits that had been awarded.

- One $302,000 contract executed through the Economic Development Tax Credit program required a business to create and retain jobs and make capital investments. WEDC's program policies indicated that from $3,000 to $10,000 in tax credits can be allocated for each job created or retained, depending on a given job's wages and the type of project. The total amount that WEDC allocated the business exceeded by $47,000 the maximum possible amount that could have been allocated, according to the program policies.

Although not part of our file review, we found other instances in which staff reviews were not completed before WEDC allocated tax credits. For example, one $62.5 million contract that was executed through the Enterprise Zone program in FY 2012-13 allows the business to receive tax credits for creating full-time positions involving 1,950 hours of work annually. Statutes stipulate that tax credits can be allocated only for positions involving at least 2,080 hours of work annually, unless WEDC establishes a policy that defines when exceptions can be made. As noted, WEDC has not done so.

WEDC allocated some tax credits in ways that did not comply with statutes or its program policies.

When staff reviews were completed, WEDC allocated some tax credits in ways that did not comply with statutes or its program policies. For example:

- One $250,000 contract executed through the Jobs Tax Credit program did not require a business to create any jobs, as is statutorily required, but instead required it to train employees and retain jobs. Although the file indicates that WEDC initially planned to contractually require job creation, WEDC removed this requirement from the final contract.

- Economic Development Tax Credit program policies indicated that tax credits should be allocated only for projects that would not otherwise occur or for capital expenses beyond a business's normal capital expenditures, and that tax credits should not be allocated to financial institutions. In January 2013, WEDC committed in writing to execute a contract to allocate a financial institution $800,000 in tax credits to renovate its downtown Milwaukee offices. Because WEDC considers the business to be in an economically distressed area, it allocated more credits than it would have allocated otherwise. The business reported to WEDC that it had a strong net income and considerable cash on hand. Commerce had previously allocated the business tax credits to renovate its downtown Milwaukee offices. The business submitted information to WEDC indicating that it anticipated fully claiming the tax credits allocated by Commerce by 2015, at which point it would begin to claim the $800,000 in tax credits.

Managing and Overseeing Contracts

The outcomes that businesses and individuals must achieve in order to be awarded tax credits are contractually established by WEDC. Our file review found that WEDC's contracts sometimes did not contain provisions required by program policies. For example, six contracts that WEDC executed in FY 2011-12 through the Economic Development Tax Credit program did not require the businesses to make significant capital investments, although WEDC's program policies required such investments.

WEDC sometimes allocated tax credits for projects that had occurred before the contracts were executed.

WEDC sometimes allocated tax credits for economic development projects that had occurred before the contracts were executed. For example:

- Two contracts executed through the Enterprise Zone program, including a $28.0 million contract executed in FY 2011-12 and a $62.5 million contract executed in FY 2012-13, included provisions that allocated the two businesses a total of $1.5 million in tax credits for job creation, employee training, and capital investments that had occurred before the contracts were executed. Because some jobs were created before the contracts were executed, the two businesses could be awarded $7.4 million in tax credits for retaining those jobs.

- Four contracts executed through the Jobs Tax Credit program in FY 2011-12 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. We also note that in October 2012, WEDC awarded $137,000 in tax credits to one of the four businesses based on a miscalculation of the number of existing employees at the business. Had WEDC calculated the number correctly, it should not have awarded the business $31,600 of these tax credits.

WEDC's ability to enforce contractually specified outcomes may be hindered in some instances. For example, five contracts executed through the Jobs Tax Credit program in FY 2011-12 specified that the businesses must retain all existing employees, but the contracts did not specify the number of existing employees at the businesses. Although WEDC may have collected information on the number of existing employees, not contractually specifying their number could make it difficult for WEDC to enforce contractual terms if the businesses do not retain all employees.

Improving Program Administration

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

Additional efforts are needed to help ensure that WEDC administers its taxpayer-funded tax credit programs effectively. First, WEDC should develop all statutorily required program policies, as well as sufficient additional policies to administer its tax credit programs effectively. Without such policies, the criteria WEDC uses to allocate tax credits may be viewed as inconsistent or arbitrary by applicants, particularly by those that are not allocated any tax credits. If WEDC believes it is appropriate to incorporate parts of Commerce's repealed administrative rules into its policies, it should do so formally.

Tax credits should be allocated only to eligible recipients, for eligible projects, and for amounts allowed by WEDC's program policies. Failure to do so may result not only in inappropriate use of funds, but also inconsistent treatment of recipients and reduced amounts of funding available for businesses and individuals eligible for tax credits.

WEDC should manage and oversee its contracts appropriately, including by ensuring that the contracts contain all provisions required by program policies. Failure to do so may result in businesses and individuals receiving tax credits for projects not permitted by program policies. In addition, WEDC should ensure that it does not allocate tax credits for economic development projects that had occurred before the contracts were executed.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *establish all statutorily required policies for its tax credit programs, as well as sufficient additional policies to administer its tax credit programs effectively;*

- *allocate tax credits only to eligible recipients, for eligible projects, and for amounts allowed by program policies; and*

- *manage and oversee tax credit contracts appropriately, including by ensuring that its contracts contain all provisions required by program policies and allocating tax credits only for projects that have not yet occurred.*

■ ■ ■ ■

Program Results and Accountability ■

Statutes require WEDC's governing board to establish goals and expected results for each of its economic development programs, monitor the contractually specified performance of recipients of financial awards made through the programs, and report publicly on program results. We found that the governing board did not comply with all of these statutory requirements and could report more clearly on the number of jobs created and retained as a result of the financial awards made through the programs. We make recommendations for WEDC's governing board to improve accountability for its taxpayer-funded programs.

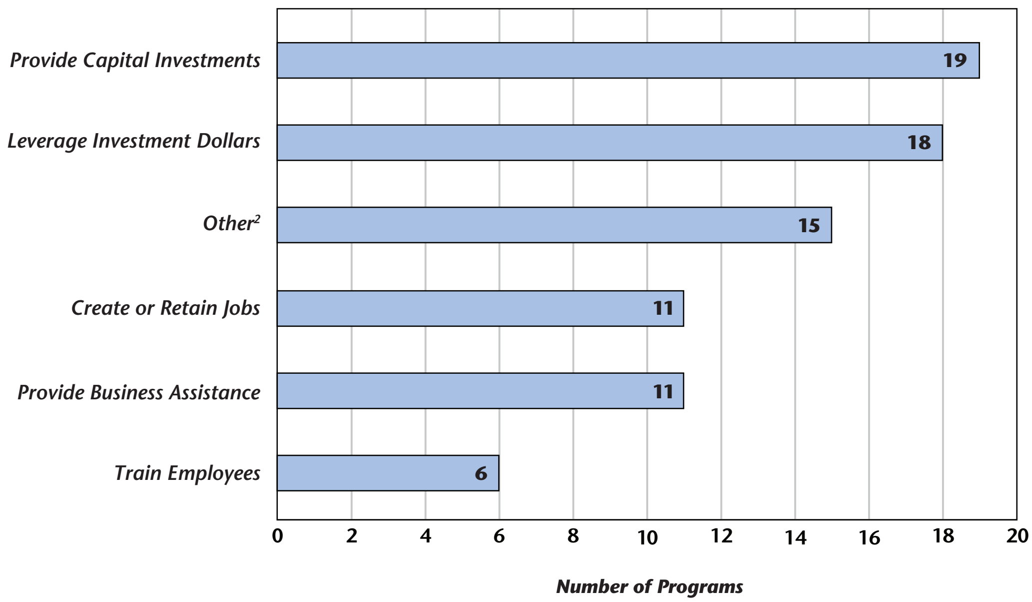
Establishing Program Goals

Statutes require WEDC's governing board to establish clear and measurable goals for each economic development program.

For each economic development program implemented, statutes require the governing board to establish clear and measurable goals that are tied to the program's statutory or programmatic policy objectives. We used information provided by WEDC to categorize each program's goals. Each program had at least one goal, and many had multiple goals. Figure 2 shows the goals for the 30 economic development programs WEDC administered in FY 2011-12.

Figure 2

Goals of WEDC's Economic Development Programs, by Type[1]
FY 2011-12



[1] Some programs had multiple goals.

[2] Includes goals related to business marketing and promotion, environmental remediation of contaminated sites, and business employees attending professional development seminars.

WEDC's governing board did not establish expected results for 10 of 30 economic development programs in FY 2011-12.

In addition to establishing clear and measurable goals for each economic development program, statutes require WEDC's governing board to establish at least one quantifiable benchmark for each goal, and then use a program's goals and benchmarks to establish a method for evaluating the program's expected results and actual outcomes. We reviewed the statutorily required economic development program report that WEDC submitted to the Legislature in November 2012 and found that expected results had not been established for 10 of WEDC's 30 programs in FY 2011-12, including 4 tax credit programs and all 3 bonding authorization programs. The report indicated that expected results for some individual programs were unavailable for FY 2011-12 because WEDC had instead developed aggregate benchmarks and goals that applied to multiple programs, rather than to individual programs, as is statutorily required.

Our review of the economic development program report also found that WEDC's governing board did not establish expected results related to at least one of the primary goals of six economic development programs. We found that:

- the goals of the Business Retention and Expansion Grants and Loans program and the Wisconsin State Energy program were to create and retain jobs, but the report contained no information on expected results related to the number of jobs to be created or retained;

- the goals of the Brownfield Grant program and the Brownfield Site Assessment Grant program were to provide businesses, local governments, and nonprofit organizations with grants to assess and redevelop abandoned or underused industrial facilities or commercial sites, but the report contained no information on expected results related to the number of firms and communities to be assisted;

- the goal of the Workforce Training Grant program was to fund employee training, but the report contained no information on expected results related to the number of businesses to be assisted or the number of employees to be trained; and

- the goal of the Technology Development Grants and Loans program was to provide grants and loans to start-up and early-stage firms, but the report contained no information on expected results related to the number of businesses to be assisted.

Monitoring Program Performance

Statutes stipulate that WEDC's governing board must require each recipient of an economic development grant or loan to report to WEDC, which is required to contractually specify the frequency and format of the report and the performance measures to be included in the report. Our review of 64 financial awards that WEDC made in FY 2011-12 included 36 grant and loan awards and 23 tax credit awards. The files for each of these 59 awards included contracts specifying the frequency with which award recipients are required to report to WEDC on their progress toward meeting their contractual obligations, such as creating or retaining a specified number of jobs or training a specified number of employees. Most contracts require recipients to submit progress reports semiannually or annually.

Recipients of 59 awards submitted 45.0 percent of the contractually required progress reports from July 2011 through December 2012.

For each of the 59 awards, we determined whether the recipients had submitted progress reports as frequently as contractually required. As shown in Table 10, information provided by WEDC indicates that recipients of the 59 awards submitted 45.0 percent of 40 contractually required progress reports from July 2011 through December 2012. In comparison, in report 12-11 we noted that recipients of 113 awards made by Commerce and five other state agencies had submitted 66.9 percent of the contractually required progress reports. We note that in March 2013, WEDC located and entered into one of its IT systems additional progress reports that we had requested but did not receive at the time of our audit fieldwork. Recipients submitted some of these progress reports after the due dates, while others of these progress reports were unsigned or undated, making it difficult to determine if they had been submitted on time.

Table 10

Frequency with Which Selected Award Recipients Submitted Contractually Required Progress Reports[1]
July 2011 through December 2012

Program	Reports Required	Reports Received	Percentage Received
Jobs Tax Credit	4	4	100.0%
Wisconsin State Energy	3	3	100.0
Enterprise Zone	2	2	100.0
Business Retention and Expansion Grants and Loans	7	3	42.9
Brownfield Grant	10	4	40.0
Workforce Training Grant	3	1	33.3
Economic Development Tax Credit	6	1	16.7
Technology Development Grants and Loans	3	0	0.0
Capital Catalyst	2	0	0.0
Total	**40**	**18**	45.0

[1] Based on our review of WEDC's files for 59 awards.

Contracts for all 59 awards contain general provisions allowing WEDC to recoup financial awards if the award recipients violate contractual terms. In addition, contracts for 2 of the 59 awards contain specific provisions that allow WEDC to assess $100 financial penalties if the recipients do not submit a contractually required progress report in a timely manner. WEDC indicated that because it does not want to impede economic development and job growth, it has not recouped awards or assessed financial penalties.

WEDC did not comply with statutes by independently verifying the performance information reported by recipients of a sample of grants and loans.

Statutes require the governing board to annually and independently verify the performance measure information reported by recipients of a sample of grants and loans. We found that WEDC did not conduct any verification efforts from July 2011 through December 2012 and had no policies for doing so. Because WEDC uses the performance information submitted by recipients to determine actual program outcomes, the statutorily required verification efforts are important to help ensure the information submitted is accurate.

Reporting Program Results

WEDC's governing board is statutorily required to report annually on each of its economic development programs.

Statutes require WEDC's governing board to report annually by October 1 on each economic development program that it administered in the prior fiscal year and make the reported information readily accessible to the public on the internet. For each program, the report must include:

- a program description;
- a comparison of expected and actual program outcomes;
- the number of grants and loans made in the prior fiscal year, the amount and recipient of each such grant and loan, and the total amount of grants and loans awarded to and received by each recipient in the prior fiscal year; and
- any recommended changes to the program.

WEDC indicated that its governing board approved the economic development program report in October 2012, but authorized it to review and revise the contents before submitting the report to the Legislature the following month. An accompanying database on WEDC's website presents information on individual awards made by programs in FY 2011-12. We identified substantive changes that

WEDC made to the report after the governing board approved it but before it was submitted to the Legislature in November 2012, including:

- the number of anticipated jobs to be created or retained as a result of Economic Development Tax Credit program awards was reduced from 7,736 to 5,002; and

- the number of anticipated jobs to be created or retained as a result of Jobs Tax Credit program awards was reduced from 1,569 to 945.

Appendix 6 lists the available information about the results that each economic development program achieved in FY 2011-12. In compiling this information, we relied on the economic development program report and other WEDC information.

We identified several concerns with the economic development program report. First, the report did not contain all statutorily required information for grants and loans, including any expected results for 10 of the 30 programs. In addition, it listed the recipients and amounts of individual awards for most programs, but it did not indicate whether a given award was a grant or a loan. The report did not list the recipients and amounts of individual awards for 6 of the 30 programs, and the listed information was incomplete for an additional 4 programs.

Program results presented in the economic development program report sometimes differed from program results in other WEDC information.

Second, we found that FY 2011-12 program results presented in the economic development program report sometimes differed from program results in other WEDC information, such as IT systems and paper files, that WEDC indicated to us contains definitive information about program results. For example, the other WEDC information indicated:

- no jobs created or retained as a result of Community Development Block Grant—Economic Development program awards, whereas the economic development program report indicates that 302 jobs were created and 63 jobs were retained;

- 655 jobs created and 700 jobs retained as a result of Economic Development Tax Credit program awards, whereas the economic development program report indicates that a combined total of 652 jobs were created or retained;

- $1.9 million in training expenditures as a result of Enterprise Zone program awards, whereas the economic development program report indicates $1.1 billion in training expenditures;

- a $1.0 million tax credit awarded through the Jobs Tax Credit program, whereas the economic development program report does not include this award; and

- $10.6 million in capital investments made as a result of Development Opportunity Zone program awards, whereas the economic development program report indicates $1.1 million in capital investments.

Third, the economic development program report combined the number of jobs created and the number retained for some programs. For example, the report indicated that the Enterprise Zone program created and retained a combined total of 1,653 jobs, but it did not specify separately the number created and the number retained. Combining jobs numbers in this manner makes it difficult for the Legislature and public to assess a program's effectiveness in creating new jobs.

We also found that the economic development program report indicates that "anticipated jobs to be created or retained" were presented as actual results achieved by a number of programs in FY 2011-12. The report does not define this phrase, but WEDC indicated that it represents the number of jobs that award recipients have agreed to create or retain over the duration of their contracts, which may be ten years or more. In addition, the anticipated jobs to be created or retained include 537 jobs that recipients have not contractually agreed to create or retain, but that WEDC estimates may be created or retained as a result of awards made for other purposes, such as a grant awarded to a technology firm to help fund its operations and research activities. Because statutes require the report to reflect results achieved in the prior fiscal year, we believe that anticipated jobs should be presented separately from those jobs actually created or retained.

WEDC's information indicates that its awards resulted in the creation of 3,383 actual jobs and the retention of 2,006 actual jobs in FY 2011-12.

As shown in Table 11, information in the economic development program report about the numbers of actual jobs created and retained as a result of awards made in FY 2011-12 does not match other WEDC information, primarily because the report categorizes thousands of jobs as "created or retained," rather than as one or the other. This other WEDC information indicates that WEDC's awards resulted in the creation of 3,383 actual jobs and the retention of 2,006 actual jobs in FY 2011-12.

Table 11

Reported Jobs Created and Retained as a Result of Economic Development Awards Made in FY 2011-12[1]

	Reported in the Economic Development Program Report[2]	Reported in Other WEDC Information[3]
Actual Jobs		
Created	764	3,383
Retained	685	2,006
Created or Retained	3,606	–
Subtotal	5,055	5,389
Anticipated Jobs		
Created	39	9,489
Retained	0	9,824
Created or Retained	19,190	–
Subtotal	19,229	19,313
Total	**24,284**	**24,702**

[1] Jobs associated with tax credit programs are for calendar year 2011.

[2] WEDC submitted this report to the Legislature in November 2012.

[3] Includes IT systems and paper files, which WEDC indicated contain definitive information about program results.

It is difficult to assess the accuracy and completeness of the number of jobs that WEDC reported having been created or retained.

As noted, information provided by WEDC indicates that WEDC received only 45.0 percent of the contractually required progress reports that specify the numbers of jobs created and retained, some files did not document that the claimed numbers of jobs were actually created or retained, and WEDC did not verify any of the performance measure information submitted by grant and loan recipients. As a result, it is difficult to assess the accuracy and completeness of the number of jobs that WEDC reported having been created or retained.

Other program results that WEDC has provided the Legislature and the public do not indicate the numbers of jobs actually created or retained. WEDC's 2013-15 biennial budget request and FY 2012-13 operations plan indicate that awards WEDC made in FY 2011-12 have resulted in 37,000 "anticipated jobs." WEDC explained to us that this jobs number includes the combined total number of jobs that would be created or retained if all FY 2011-12 award recipients were to completely fulfill their contractual obligations to create and retain jobs at some point over the multi-year duration of their contracts. In addition, this jobs number includes the combined total number of jobs that could potentially be created or retained if in the future WEDC were to execute contracts with businesses and other organizations to which it has made only preliminary offers of financial awards. We also note that this jobs number appears to duplicate 3,500 jobs that, if unduplicated, results in a revised total of 33,500 jobs.

We note that in report 12-11, we recommended that WEDC ensure accurate and complete information on program outcomes is included in the statutorily required annual economic development program reports.

Improving Accountability

Additional efforts are needed to help ensure compliance with statutory requirements.

To comply with statutory requirements, WEDC's governing board should establish expected results for each of its economic development programs, measure the performance of its programs, and report actual program results to the Legislature and the public. Doing so will allow its governing board to continue or expand successful programs, modify programs that could be successful but currently are not performing as intended, and end programs that are not spending taxpayer funds effectively. In addition, complying with these statutory requirements will also make it easier for the Legislature and the public to assess program effectiveness.

It is difficult to know whether an economic development program is operating effectively unless expected results related to the program's goals are established. As noted, expected results were not established for 10 of the 30 programs in FY 2011-12, and no expected results relating to the primary goals of 6 programs were established.

It is also difficult to know whether award recipients are making sufficient progress at meeting their contractual obligations, such as creating jobs, if recipients do not submit the contractually required progress reports that are required by statutes. In addition, information in the progress reports, if supported by credible documentation that WEDC independently verifies in a sample of instances, would allow the governing board to report better information to the Legislature and the public on the results of its programs.

Finally, it is difficult to assess the effectiveness of economic development programs unless clear, accurate, and complete information is presented about each program's results in the annual economic development program report. Such information should include the presentation of separate numbers of actual jobs created and actual jobs retained by each program.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by:

- *developing at least one expected result related to each of the goals of all economic development programs that it administers;*
- *ensuring that award recipients submit contractually required progress reports;*
- *annually verifying the performance information reported by the recipients of a sample of grants and loans; and*
- *ensuring that the annual economic development program report presents clear, accurate, and complete information on each program's results, including separate numbers of actual jobs created and actual jobs retained in the prior fiscal year.*

▪ ▪ ▪ ▪

Financial Management ▪

Because WEDC is not a state agency, it is not subject to many of the statutory requirements governing how state agencies purchase goods and services, including making procurement opportunities publicly known, and it does not use the State's accounting system. Although statutes provide WEDC with flexibility in the conduct of its operations, effective financial management requires WEDC to monitor the amounts spent by its divisions, including the amounts spent on each of its economic development programs, and to develop policies for its staff to use when purchasing goods and services and using purchasing cards. We found that WEDC did not consistently monitor expenditures in FY 2011-12, and it did not have sufficient purchasing policies. We provide recommendations for improving accountability for how WEDC spends taxpayer funds and for improving transparency in WEDC's purchasing efforts.

Expenditures

In FY 2011-12, WEDC incurred expenditures for its economic development programs and for administration. Although WEDC's expenditures do not include the value of economic development tax credits, which are paid through appropriations separate from WEDC's appropriations, they do include the amounts WEDC spent on economic development grants and loans awarded to businesses, local governments, and other organizations. In addition to staff salaries and fringe benefits, expenditures included the amounts WEDC spent on:

- professional services, such as financial management consulting;
- building, maintenance, and utilities, such as office rent, telecommunications, and repairs;
- marketing, such as video and graphic production, advertising, research, and printing;
- IT, such as software and hardware, computer supplies, and computer equipment leases;
- conferences and sponsorship of events coordinated by various associations and organizations that promote economic development in Wisconsin; and
- travel costs incurred by WEDC staff and governing board members.

In FY 2011-12, WEDC's expenditures totaled an estimated $80.1 million.

As shown in Table 12, WEDC's FY 2011-12 expenditures totaled an estimated $80.1 million, including $68.8 million for economic development grants and loans. At the end of FY 2011-12, WEDC indicated that it had $28.0 million in funds that it had neither spent nor committed contractually to spend on grants and loans. These funds are available to WEDC to spend in FY 2012-13 or future fiscal years.

Table 12

Estimated WEDC Expenditures[1]
FY 2011-12

	Amount	Percentage of Total
Economic Development Grants	$34,329,000	42.9%
Economic Development Loans	34,490,000	43.1
Subtotal	68,819,000	86.0
Staff Salaries	5,077,900	6.3
Fringe Benefits	1,582,500	2.0
Professional Services	1,281,400	1.6
Building, Maintenance, and Utilities	861,300	1.1
Marketing	780,100	1.0
Information Technology	552,400	0.7
Conferences and Sponsorship	365,900	0.5
Travel	342,100	0.4
Other[2]	396,800	0.5
Total	**$80,059,400**	**100.0%**

[1] Based on available information.

[2] Includes items such as materials and supplies, insurance, vehicle repairs and maintenance, office expenses, and professional development.

In FY 2011-12, WEDC did not monitor the amounts spent on each of its economic development programs.

WEDC did not determine FY 2011-12 expenditures incurred by its individual divisions, including the amounts the divisions spent on most of its 30 economic development programs. WEDC's methodology for recording certain transactions, such as grant and loan disbursements, was modified multiple times during the fiscal year. In addition, WEDC adjusted its FY 2011-12 total expenditures until late-February 2013. As a result, for purposes of this report, we were unable to determine expenditures for individual economic development programs or categorize expenditures definitively.

WEDC did not determine FY 2011-12 expenditures incurred by its individual divisions and for most of its economic development programs for several reasons. Although it became fully operational in July 2011, WEDC did not implement an accounting system until August 2011. After the accounting system was implemented, WEDC did not establish accounting policies and procedures that would have allowed it to monitor each division's and program's expenditures, in part because of its initial unfamiliarity with the accounting system. For a period of time in FY 2011-12, WEDC stopped using the accounting system to track encumbered funds that had been awarded to recipients but had not yet been spent. In addition, WEDC indicated that at times it employed too few financial staff to complete all budgetary and financial management tasks in FY 2011-12. We also note that turnover among WEDC officials has affected the continuity of WEDC's financial management and operations. WEDC's chief financial officer departed in July 2012 and was replaced by the individual who had been the chief operating officer. This individual and the chief executive officer departed in October 2012.

DOA requested that WEDC submit FY 2011-12 financial statements for inclusion in the State of Wisconsin's Comprehensive Annual Financial Report (CAFR), which includes the State's financial statements. Other entities that are not state agencies, such as the Wisconsin Housing and Economic Development Authority (WHEDA) and the UW Hospital and Clinics Authority, provide DOA with audited financial statements. However, WEDC provided DOA with unaudited financial information in November 2012 because it did not finalize its audited financial statements for FY 2011-12 until March 2013.

Not determining FY 2011-12 expenditures has hindered WEDC's efforts to establish an accurate budget for FY 2012-13. In May 2012, WEDC created a budget that it provided to each of its divisions but not to its governing board. This budget was based on estimated expenditures in FY 2011-12 but did not take into account the amount of economic development grants and loans the divisions had already awarded but had not yet disbursed to recipients, which reduces the amounts available to be awarded in FY 2012-13.

In June 2012, WEDC presented its governing board with a separate budget for FY 2012-13. Similar to the budget that was created for WEDC's divisions, the budget given to the governing board was also based on estimated expenditures in FY 2011-12 and excluded the amounts that had been awarded but not yet disbursed. In March 2013, WEDC indicated to its governing board that it was in the process of modifying its FY 2012-13 budget and planned to ask the governing board to approve a revised version of the budget shortly before the fiscal year will end in June 2013.

To help with its financial management, WEDC contracted with four firms.

To help with its financial management, WEDC contracted with four firms:

- Baker Tilly Virchow Krause, LLC contractually agreed in May 2012 to help improve WEDC's IT systems. Through December 3, 2012, WEDC paid the firm $92,000.

- Schenck, SC, contractually agreed in June 2012 to audit WEDC's financial statements for FY 2011-12. Through December 3, 2012, WEDC paid the firm $41,700.

- Titus contractually agreed in May 2012 to help WEDC prepare the information that Schenck needed to complete its audit. Through November 2012, when the contract was terminated, WEDC paid the firm $193,000, including a $23,400 fee to recruit one of the firm's employees to work as WEDC's controller.

- Financial Institution Products Corporation (FIPCO), which is a wholly owned subsidiary of the Wisconsin Bankers Association, contractually agreed in November 2012 to advise WEDC on monitoring the repayment of economic development loans and managing delinquent amounts. At the time of our audit fieldwork, WEDC had not yet paid FIPCO for any services under the $26,000 contract.

These four firms raised concerns with WEDC's financial management practices. In a June 2012 report, Baker Tilly identified problems with WEDC's IT systems, including those used to manage WEDC's finances. WEDC staff had indicated to the firm that they lacked confidence in the integrity and accuracy of the data in the IT systems. The firm's June 2012 report indicated that WEDC was not collecting overdue amounts on economic development loans that had been made by Commerce through June 2011 and by WEDC from July 2011 onward. In October 2012, WEDC officials told the governing board they became aware one week earlier that WEDC had never monitored repayment of the loans, including those that were past due.

In September 2012, Titus identified concerns with the accuracy of WEDC's expenditure records for FY 2011-12 and, as a result, indicated that the scope of its work was insufficient to allow it to prepare the information that Schenck needed to complete its audit.

WEDC subsequently amended its contract with Titus to include additional services, such as reconciling key financial accounts. The amended contract also required Titus to develop policies for internal controls, procurement, delegation of authority, and IT. While Titus was in the process of providing these services, WEDC terminated its contract in November 2012 after it determined that it had not managed the contract properly and, as a result, had not received the services it needed to improve its financial management.

To more effectively manage taxpayer funds appropriated to it, WEDC should improve its financial management practices.

To more effectively manage taxpayer funds appropriated to it, WEDC should improve its financial management practices. It should monitor its expenditures, including the amounts disbursed through each of its economic development programs, and develop a budget that accurately reflects the amount of funds available to each of its divisions and programs. Doing so would allow it to finalize its financial accounts in a timely manner and provide audited financial statements for inclusion in the CAFR.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *monitor expenditures of its divisions and economic development programs;*
- *establish an annual budget that accurately specifies the amount of funds available to each of its divisions and economic development programs;*
- *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.*

Vendor Selection

WEDC has considerable flexibility when procuring goods and services.

WEDC has considerable flexibility when procuring goods and services. Unlike state agencies and certain statutorily designated authorities, including the State of Wisconsin Investment Board (SWIB) and WHEDA, it is not statutorily required to announce procurement opportunities publicly or to accept proposals from all interested vendors. WEDC is also allowed without restriction to select a preferred vendor without soliciting competitive bids, even if the desired good or service is available from multiple vendors. In contrast, state agencies and certain statutorily designated authorities are allowed to use such a sole-source process only when they can demonstrate to DOA's satisfaction that only one vendor can provide the good or service, the vendor's price is equitable, or foregoing negotiation with other vendors is in the State's best interests.

DOA has negotiated purchasing contracts that are intended to reduce the costs for a variety of goods and services that range from office supplies to temporary staffing and IT services. Executive branch agencies are generally required to make purchases from a DOA-approved list of contract vendors, while the legislative and judicial branches and all local governments are permitted and encouraged to do so. WEDC did not use the DOA-negotiated purchasing contracts in FY 2011-12 because DOA had instructed Commerce before July 2011 that WEDC would not be permitted to use them. In September 2012, after we asked why WEDC was not permitted to use the contracts, DOA decided to permit WEDC to begin using them. Assessing the DOA-negotiated purchasing contracts and using them when appropriate may allow WEDC to identify instances when it could procure goods and services more quickly or at a lower cost than it has been paying.

WEDC's bylaws authorize its chief executive officer to delegate purchasing authority to other WEDC staff. The chief executive officer has delegated to WEDC's vice presidents the authority to approve purchases up to $15,000. Purchases between $15,000 and $100,000 must be approved by the chief executive officer, chief operating officer, or chief financial officer. Purchases of more than $100,000 must be approved by the chief executive officer and either the chief operating officer or the chief financial officer.

WEDC did not have policies for staff to use to purchase goods and services.

WEDC did not have policies for staff to use to purchase goods and services, and it did not negotiate any purchasing contracts for commonly used goods and services. Negotiating purchasing contracts in advance saves time and effort when staff need to obtain goods and services covered by the contracts. In addition, WEDC may be able to purchase commonly used goods and services for a lower cost through such contracts.

An open and competitive procurement process typically includes soliciting proposals from multiple vendors and then instructing several impartial individuals to assess the submitted proposals and make recommendations for selecting a vendor. Purchasing in this manner increases the likelihood of receiving the needed goods or services at a reasonable price and helps avoid potential conflicts of interest.

WEDC contracted for management services without conducting open and competitive procurement processes.

From July 2011 through December 2012, WEDC contracted for management services without conducting open and competitive procurement processes. Although statutes permit WEDC to contract in this manner, problems have resulted. For example:

- Before selecting Titus in May 2012 to prepare information needed by Schenck to audit WEDC's FY 2011-12 financial statements, WEDC did not solicit proposals from other firms. As noted, WEDC paid Titus $193,000 before terminating the contract in November 2012 after WEDC determined that it had not managed the contract properly and, as a result, had not received the services it needed to improve its financial management. WEDC indicated it received all work that Titus had completed when the contract was terminated.

- Before contracting with Baker Tilly in May 2012 to help improve its IT systems, WEDC did not solicit proposals from other firms. Because WEDC did not solicit proposals, it did not require Baker Tilly to disclose any potential conflicts of interest. While under contract, Baker Tilly had access to information on WEDC's financial awards and recipients. We identified seven instances in which Baker Tilly had potential conflicts of interest because it represented and provided consulting services to firms that applied for and negotiated awards with WEDC before, during, and after it was under contract with WEDC. In one instance that occurred while Baker Tilly was under contract, WEDC offered a $750,000 loan to a firm that Baker Tilly represented. After the firm rejected the offer and indicated Illinois had offered it an amount of assistance that the firm declined to reveal to WEDC, WEDC increased its offer to a $1.0 million forgivable loan that would not need to be repaid if the firm fulfilled its contractual obligations. WEDC had not executed the contract as of March 2013.

In addition, WEDC publicly solicited proposals from firms to provide auditing services, but its solicitation did not specify the types of services WEDC wanted, the time period to be audited, or other details that firms might require to submit a proposal involving particular auditing services. WEDC indicated that only Schenck, with which it contracted in June 2012, submitted a proposal.

WEDC's request for proposal required any firm that submitted a proposal to disclose any existing or potential conflicts of interest arising from its representation of other parties or its participation in other matters that might affect its engagement with WEDC. Schenck's submitted proposal indicated that the firm was independent of WEDC. However, in reviewing information maintained by WEDC, we found that from February 2012 through August 2012, Schenck represented a firm and negotiated a financial award with WEDC, which offered the firm $900,000 in tax credits and a $237,200 grant. After the firm requested additional assistance, WEDC allocated it $1.1 million in tax credits and a $300,000 grant.

Developing procurement policies could help prevent inefficient and ineffective use of taxpayer funds.

Although WEDC is statutorily permitted to select vendors without publicly soliciting proposals from multiple vendors and assessing each of the submitted proposals, foregoing these actions raises concerns about the transparency of the procurement process and increases the likelihood that WEDC will not receive the desired goods and services at a reasonable price. Developing procurement policies could help prevent inefficient and ineffective use of taxpayer funds. Such policies should specify when it is necessary to publicly solicit proposals from multiple vendors and how submitted proposals will be assessed. In addition, procurement policies should stipulate how a vendor's potential conflicts of interest are to be assessed, such as when a vendor represents firms seeking economic development awards from WEDC.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation develop procurement policies that specify situations in which proposals should be solicited from multiple vendors, how those proposals are to be evaluated, and how vendors' potential conflicts of interest are to be assessed.

Purchasing Cards

WEDC did not have sufficient policies governing staff use of purchasing cards.

DOA has negotiated a contract with U.S. Bank to provide purchasing card services to all state agencies, but WEDC separately contracted with U.S. Bank in July 2011 because it was prohibited from using DOA's contract. Although WEDC had a policy requiring cardholders to document their purchases, it did not have sufficient policies governing staff use of purchasing cards. Instead, it relied on Commerce's October 2000 purchasing card manual, which references DOA policies that WEDC is not required to follow. In September 2012, 77 purchasing cards had been issued to 76 of WEDC's 90 staff.

To assess how frequently WEDC staff used their cards, we determined the number of transactions made on each of 48 cards that were active for at least six months in FY 2011-12. As shown in Table 13, 2 of the 48 cards were not used during FY 2011-12, 9 cards were used 1 to 10 times, and 37 cards were used 11 times or more. One card was used 124 times, which was the highest number of times any of the 48 cards were used.

Table 13

Frequency of Purchasing Card Transactions, by Card[1]
FY 2011-12

Purchases	Cards
0	2
1 to 10	9
11 or More	37
Total	**48**

[1] Includes purchasing cards that were active for at least six months in FY 2011-12.

Some purchasing cards may go unused for long periods of time because they are intended for use in emergencies only. Nevertheless, concerns regarding purchasing flexibility and ease of administration must be balanced with the need to adequately control financial risk. This risk could be reduced by closing the accounts of cards that are unused or seldom used and are not designated for emergency use.

Spending Limits

Purchasing card spending limits represent an important internal control for managing the risk of inappropriate card use. A credit limit, which is the maximum account balance a card can have during each billing cycle, determines the amount a cardholder can spend before supervisory review occurs. A single-purchase limit, which is the maximum amount that can be charged in a single transaction, can prevent cardholders from making large inappropriate purchases.

Assessing the appropriateness of credit limits is challenging because cardholders are not intended to spend up to their limit every billing cycle. For example, some cardholders may need to use their purchasing cards only at certain times of the year. In addition, credit limits should be set high enough to ensure cardholders are able to purchase goods and services when needed. DOA has no policies for credit limits, which it indicates that individual state agencies can establish. However, DOA's policies require state agencies to establish a single-purchase limit of $5,000.

In October 2012, the credit limit was $3,500 on 70 of WEDC's 83 purchasing cards that were in use that month, $7,500 on 1 card, $10,000 on 8 cards, and $20,000 on 4 cards. When we compared cardholders' credit limits to their total card expenditures in FY 2011-12, we found instances in which credit limits appeared to be significantly higher than necessary. For example:

- one staff member with a $20,000 credit limit never spent more than $6,466 in a single billing period;
- a second staff member with a $10,000 credit limit never spent more than $705 in a single billing period; and
- a third staff member with a $10,000 credit limit never spent more than $4,225 in a single billing cycle.

WEDC did not establish single-purchase limits for any of its cards, although 70 of its 83 purchasing cards had credit limits that were less than DOA's $5,000 single-purchase limit. In FY 2011-12, the average transaction made on the cards was $131. However, 27 cardholders made a total of 90 purchases of $1,000 or more, including 4 purchases of $5,000 or more. The largest purchase was for $5,615.

Oversight of Purchasing Card Use

Each month, U.S. Bank electronically sends WEDC's controller a summary of all purchases made by all WEDC cardholders during the prior billing period. In addition, it electronically sends each cardholder summary information about each of their purchases in the prior billing period, including the amount, date, and vendor. Cardholders are supposed to verify the information's accuracy and completeness, electronically enter a description of each purchase's purpose, and submit electronic copies of receipts for all purchases to a specified WEDC e-mail address that can be accessed by supervisory staff and the controller. WEDC indicated that each cardholder's supervisor is supposed to review the information and approve it before the controller pays U.S. Bank.

In FY 2011-12, WEDC's purchasing card transactions totaled $348,400.

As shown in Table 14, WEDC's 2,700 purchasing card transactions in FY 2011-12 totaled $348,400. Lodging, information technology, and air travel accounted for almost half the total. A total of $11,000 was spent at Madison hotels, restaurants, and parking structures.

Table 14

WEDC Purchasing Card Transactions, by Type[1]
FY 2011-12

	Amount	Percentage of Total
Lodging	$ 66,400	19.1%
Information Technology	65,400	18.8
Air Travel	37,100	10.6
Office Supplies	21,800	6.3
Food	13,600	3.9
Gasoline	10,300	3.0
Parking	2,600	0.7
Other[2]	131,200	37.7
Total	**$348,400**	**100.0%**

[1] Includes 2,700 transactions.

[2] U.S. Bank categorized some transactions as "other."

We reviewed 141 purchasing card transactions totaling $95,800 made by WEDC staff in FY 2011-12. Our review was not random but instead focused on transactions at hotels, restaurants, airlines, and electronics stores. We reviewed the transactions to identify:

- unknown purchases, including instances in which there was insufficient documentation for us to determine what was purchased or whether a purchase was appropriate;
- questionable purchases, including purchases for personal use or that may be otherwise unallowable; and

- excessive or unnecessary purchases, including purchases that have a business purpose but may include excessive or avoidable costs.

Unknown Purchases

WEDC cardholders did not indicate the purpose for 79 transactions totaling $46,100, or 56.0 percent of the 141 purchasing card transactions we reviewed.

We found that WEDC cardholders did not indicate the purpose for 79 transactions totaling $46,100, or 56.0 percent of the 141 purchasing card transactions we reviewed. Because purchasing card transactions typically do not involve preapproval, maintaining adequate oversight depends on the adequacy of supervisory review and subsequent audits to identify inappropriate purchases. Both of these controls are less effective when a transaction's purpose is not documented. Among the transactions that lacked a description of their purpose were:

- $1,789 for six season tickets to UW-Madison football games;
- $208 in long-distance telephone calls made over two days by a WEDC staff member from a hotel in Texas; and
- $120 for four iTunes gift cards.

Although WEDC cardholders indicated the purpose for 62 transactions we reviewed, they typically provided only cursory information that made it difficult to determine whether the transactions were appropriate. For example:

- three transactions totaling $1,109 indicated that rooms were rented in Madison for unspecified meetings;
- one $831 transaction indicated that hotel costs were incurred for an unspecified meeting; and
- one $743 transaction indicated that software costs were incurred, but the cardholder listed the vendor's name as the transaction's purpose.

Questionable Purchases

As noted, WEDC relied on Commerce's purchasing card manual, which indicates that purchasing cards cannot be used to purchase gasoline, gifts, alcoholic drinks, or meals. The purchasing card manual indicated this because cardholders could charge such expenses to their cards and also request reimbursement for the same expenses, which could be difficult to detect. In addition, when employees are reimbursed for meals that are not accompanied by an overnight out-of-town stay, federal law requires the employer to report the reimbursement to the Internal Revenue Service as taxable income. We note that WEDC required all cardholders to sign an agreement stating that the cards should be used in accordance with its personnel administration and procedure manual policies for travel and business entertaining, which identify gasoline, gift, and meal expenses as reimbursable. These policies, therefore, indicate that the cards can be used to purchase gasoline, gifts, and meal expenses.

We question whether several purchasing card transactions we reviewed are allowable.

We question whether several purchasing card transactions we reviewed are allowable under Commerce's purchasing card manual or WEDC's personnel administration and procedure manual, including:

- $1,190 for UW-Madison Memorial Union Terrace chairs to be given away as a prize by WEDC at a biotechnology conference;
- $82 in alcoholic drinks at a Wisconsin restaurant for three WEDC staff and three WEDC contractors; and
- $77 in alcoholic drinks at a Wisconsin restaurant for four WEDC staff and three WEDC contractors.

In addition, we noted purchasing card transactions for train tickets in China and meal expenses in India that appeared to have been incurred for two family members of the former chief executive officer. After we inquired whether WEDC had been reimbursed for these expenses, WEDC obtained $432 in reimbursement from the former chief executive officer in February 2013.

Excessive or Unnecessary Purchases

The personnel administration and procedure manual indicates that WEDC staff are to use the federal General Services Administration's rate structure as the "primary guideline" for the amounts they are allowed to spend on lodging, but it does not require staff to use the federal rates. We found that WEDC staff paid a total of $1,536 more than the applicable federal rates for 25 of the 50 transactions we reviewed that involved lodging.

Because WEDC has tax-exempt status, its staff should not pay sales tax when using their cards in Wisconsin. However, we found that WEDC staff paid $162 in Wisconsin state and local sales tax on 17 of the 70 transactions we reviewed that were made in Wisconsin.

Additional efforts are needed to improve WEDC's management of its purchasing cards.

Additional efforts are needed to improve WEDC's management of its purchasing cards, which will help to ensure that taxpayer funds appropriated to WEDC are spent appropriately. WEDC should provide purchasing cards only to those staff who need to use them regularly and establish credit limits and single-purchase limits on each card. In addition, it should develop policies that, among other issues, stipulate the types of transactions that are appropriate for cards and how staff should document the purpose of each transaction.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation limit the number of staff who have purchasing cards, close the accounts of unused or seldom used purchasing cards, and develop purchasing card policies that:

- *specify how credit limits and single-purchase limits will be established for all purchasing cards;*
- *specify the types of purchasing card transactions that are unallowable;*
- *require staff to explicitly document the business-related purpose for each purchase made with a purchasing card; and*
- *prohibit staff from paying state and local sales tax on purchasing card transactions in Wisconsin.*

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Personnel Management ▪

Although comprehensive personnel policies are important management tools, we found that WEDC did not have its own personnel policies until 6 months after it was fully operational and did not develop detailed personnel policies until almost 15 months after it was fully operational. WEDC indicated that it reports personnel policies and practices to the governing board's compensation and benefits committee, and that it is the committee's responsibility to inform the full governing board about those policies and practices. We found that WEDC's full governing board has not always been informed about certain personnel policies and practices, including the amounts and types of compensation and fringe benefits provided to WEDC staff. We provide recommendations that WEDC's governing board assess these personnel policies and practices and determine whether any modifications are needed.

Creation of Personnel Policies

WEDC's bylaws stipulate that the governing board's compensation and benefits committee is to be composed of three members who cannot be directly employed by a government agency or authority. The bylaws stipulate that the compensation and benefits committee shall determine all elements of the chief executive officer's compensation package. In addition, the compensation and benefits committee advises the governing board on benefits provided to all WEDC staff but does not have the authority to act without the governing board's approval or delegation of authority, except with respect to determining the chief executive officer's compensation package. The bylaws further stipulate that the chief executive officer may determine the compensation and benefits provided to WEDC staff, subject to decisions made by the governing board, and may also establish and enforce personnel and human resources policies and procedures.

WEDC did not have its own personnel policies until December 2011.

WEDC did not have its own personnel policies until December 2011, when its governing board approved a 20-page employee handbook that explained WEDC's personnel policies on topics such as ethics, confidentiality, and employee conduct. In December 2011, meeting minutes indicate that several members of the governing board informed WEDC that they wanted to be notified of any subsequent modifications to the employee handbook, but the governing board did not formally require WEDC to notify it of such modifications.

In September 2012, the governing board's compensation and benefits committee approved a 71-page personnel administration and procedure manual that provides additional information about some personnel policies in the employee handbook, as well as describes additional personnel policies that were not discussed in the employee handbook, such as those concerning:

- staff bonuses and performance-based pay;
- the amount of paid time off provided to staff with varying amounts of experience;
- staff use of WEDC-owned vehicles; and
- the situations in which newly hired staff can be reimbursed for relocation expenses incurred as a result of accepting employment at WEDC.

WEDC indicated that because the personnel administration and procedure manual is only an expansion of certain information in the employee handbook, the compensation and benefits committee decided that it did not need to be provided to the governing board before being distributed to staff. As a result, the full governing board may be unaware of certain key aspects of staff compensation and benefits that are detailed only in the personnel administration and procedure manual.

Salaries

WEDC established salary ranges for each of its staff positions.

WEDC established salary ranges for each of its staff positions in October 2011 based on research conducted by Management Resource Associates, which is a nonprofit employers association with which WEDC contracted to provide information on the pay ranges and other financial incentives of comparable private and nonprofit positions. In October 2011, WEDC presented the compensation and benefits committee with the salary ranges it had established but did not ask the committee to approve them. In October 2012, WEDC provided us with draft documents indicating that it planned to increase the salaries of all staff who do not receive negative performance evaluations. Under the plan, staff paid less than the midpoint of the salary range for their position would receive a larger salary increase, as a proportion of their salaries, than other staff. As of January 2013, WEDC indicated that it had not yet awarded any salary increases based on the salary ranges established.

In response to questions about compensation levels, we determined the salaries paid to selected WEDC officials. As shown in Table 15, seven officials were each paid annual salaries of more than $100,000 as of November 2012, while the chief financial officer had also been paid a salary of more than $100,000 before leaving employment at WEDC one month earlier. While all of the vice presidents were paid approximately at the midpoint of the October 2012 salary range for their positions, the chief executive officer was paid $28,300 less than the minimum of that position's salary range, the chief operating officer was paid $22,800 less than the minimum of that position's salary range, and the chief legal counsel was paid $11,700 less than the minimum of that position's salary range. In February 2013, the governing board's compensation and benefits committee increased the chief executive officer's salary to $185,000.

Table 15

Annual Salaries of Selected WEDC Officials
November 2012

	Amount
Chief Executive Officer[1]	$120,000
Vice President of Entrepreneurship and Innovation	116,100
Chief Financial Officer[2]	113,700
Vice President of Economic and Community Development	113,100
Vice President of Business and Industry Development	106,100
Vice President of International Development	106,100
Chief Operating Officer	105,000
Vice President of Marketing and Communications	103,300
Chief Legal Counsel	98,500

[1] In February 2013, the chief executive officer's salary was increased to $185,000.

[2] As of October 2012.

Merit Strategy

In December 2012, WEDC presented the compensation and benefits committee with a merit strategy it implemented to help recruit and retain staff and provide it with the ability to reward those who demonstrate a strong work performance. Meeting minutes indicate that WEDC has not informed its full governing board about the merit strategy, which includes two components. At their discretion, WEDC managers may distribute recognition awards, which are gift certificates up to $50 in value, to reward staff for accomplishments or special efforts. Individual staff members can receive multiple recognition awards in a given year. As of January 2013, WEDC indicated that it had not distributed any recognition awards to staff.

In addition, the merit strategy allows WEDC vice presidents to nominate staff to receive merit awards for exceptional performance or in recognition of a notable accomplishment. WEDC's chief executive officer, chief operating officer, and chief financial officer consider such nominations quarterly. If they approve a nomination, a staff member may receive a cash award not to exceed 10.0 percent of his or her base salary. WEDC has budgeted $182,000 for merit awards in FY 2012-13.

In December 2012, 17 WEDC staff received merit awards totaling $59,500.

In December 2012, WEDC informed the governing board's compensation and benefits committee about the first merit awards it planned to pay later that month. As shown in Table 16, 17 WEDC staff received merit awards totaling $59,500, which is approximately one-third of the total amount that WEDC budgeted for merit awards in FY 2012-13. Six staff, including a WEDC vice president, each received a $5,000 merit award. Approximately one-fifth of all WEDC staff received a merit award in December 2012.

Table 16

Merit Awards Provided to WEDC Staff
December 2012

Award Amount	Number of Awards	Total Amount Awarded
$1,000	2	$ 2,000
$1,500	1	1,500
$2,500	2	5,000
$3,000	2	6,000
$3,500	2	7,000
$4,000	2	8,000
$5,000	6	30,000
Total	**17**	**$59,500**

Fringe Benefits

We reviewed the fringe benefits that WEDC provides its staff. Although WEDC staff are not state employees, they participate in the Wisconsin Retirement System (WRS) and are eligible to receive health care insurance, life insurance, and income continuation insurance in the same manner as state employees receive them. WEDC provides its staff with 11 paid holidays annually, compared to the 9 paid holidays provided to state employees.

The personnel administration and procedure manual indicates that WEDC staff receive an allotment of paid-time-off that can be used for any purpose, including sick leave and vacation time. Staff who did not previously work for Commerce receive 160 hours of paid-time-off annually during their first four calendar years of service, while those who previously worked for Commerce receive 200 hours. Both types of staff receive an additional 40 hours when they have 5 and 15 calendar years of service. WEDC executives receive 240 hours annually until they have 15 calendar years of service, when they receive 280 hours. Staff are allowed to carry over up to 240 hours of unused paid-time-off from one calendar year to the next. Paid-time-off can be used in only four-hour increments.

WEDC staff who have used all of their paid-time-off can request to receive up to 80 hours of additional paid leave time if they face certain situations specified in the personnel administration and procedure manual. Such situations include the birth or adoption of a child; caring for a seriously ill spouse, parent, or child; or dealing with their own serious health condition.

In total, newly hired WEDC staff who had not previously worked at Commerce receive up to 240 hours of leave time during their first year of service, while those who had previously worked for Commerce receive up to 280 hours. In comparison, during their first year of service newly hired full-time state employees receive a total of 286 hours of leave, including 130 hours of sick leave, 120 hours of vacation time, and 36 hours of personal holiday leave.

In November 2011, WEDC indicated to the governing board's compensation and benefits committee that former Commerce staff had received pay raises of up to 3.0 percent in order to compensate them for the reduced amount of paid-time-off that they receive at WEDC, compared to the amounts of sick leave, vacation time, and personal holiday time that they had received as state employees. WEDC allows former Commerce staff to maintain any accumulated hours of sick leave that they had earned before they became WEDC employees, but these staff no longer earn additional sick leave and may use their accumulated sick leave only in special circumstances that are approved by the chief executive officer.

The personnel administration and procedure manual indicates that certain staff will be personally assigned WEDC-owned vehicles. As of October 2012, five vehicles were assigned to five staff, including the chief executive officer and four regional account managers, whose job duties include traveling around assigned areas of the state in order to assess the economic development needs of businesses and determine how WEDC can best meet those needs. Personally assigned vehicles may be used for incidental personal use if staff reimburse WEDC.

The personnel administration and procedure manual indicates that staff who relocate at the request of management are eligible to be reimbursed for relocation expenses, including moving and insuring household goods, transporting the staff member and his or her family, undertaking trips to locate a new residence, paying for temporary housing during the first 30 days after relocating, and paying for the closing costs associated with selling the staff member's old residence and purchasing a new residence. In addition, the personnel administration and procedure manual provides that in special circumstances that are decided on a case-by-case basis, a relocating staff member may be eligible for special pay or reimbursement adjustments to compensate for higher cost-of-living expenses, housing expenses, or mortgage rates, or for other cost differentials arising from the relocation.

As of October 2012, WEDC had compensated four staff for relocation expenses in moving to Wisconsin.

As of October 2012, WEDC indicated that four staff had been compensated for relocation expenses in moving to Wisconsin, including:

- one individual who was offered up to $7,000 to cover the costs of moving, storage, and one month of this individual's lease payment on a residence in Alabama;

- one individual who was offered up to $10,000 to cover the cost of packing and transporting household items, as well as a $5,000 performance bonus to support transition expenses incurred during the transition from Portland, Oregon, to Eau Claire, payable after a 90-day probationary period;

- one individual who was offered up to $7,500 to cover the cost of packing and transporting household items, as well as $5,000 to support transition expenses incurred during the move from Missoula, Montana, to southwest Wisconsin, payable after a 90-day probationary period; and

- one individual who was offered up to $5,500 to cover the cost of packing and transporting household items from Iowa.

WEDC's general ledger indicates that these four staff were paid a total of $25,300 to cover relocation expenses. However, it does not specify the amounts paid to individual staff members or the reasons for the payments.

For comparative purposes, we examined SWIB's and WHEDA's policies for reimbursing relocation expenses. SWIB and WHEDA may reimburse certain moving, transportation, and incidental expenses. SWIB requires individuals to obtain bids from three moving companies and submit the bid information to SWIB, which directly pays the lowest-cost bidder. Its policies also detail the types of reimbursable expenses that are nontaxable and taxable.

Personal iPhones

Before WEDC's creation, Commerce provided state-owned cellular telephones to some staff in order to facilitate work-related communication and help staff complete their assigned duties. In July 2011, these telephones became WEDC's property, and former Commerce staff who accepted employment with WEDC continued using them. In November 2011, WEDC began decommissioning these telephones and reimbursing certain staff who had purchased personally owned iPhones and related telecommunication services for use, in part, to complete their assigned duties. WEDC provided us with iPhone policies that it distributed to staff in March 2012 and October 2012.

WEDC reimbursed staff for their purchase and use of personally owned iPhones.

Under WEDC's October 2012 policy, staff purchased iPhones, paid the monthly service charges, used the iPhones for personal use, and retained the iPhones after terminating employment. WEDC reimbursed each staff member for:

- up to $150 to break an existing cellular telephone contract before purchasing an iPhone and entering into a new contract;
- up to $210 to purchase an iPhone;
- up to $35 to activate a new iPhone; and
- $89 per month ($1,068 annually) to cover the service charges of a telephone and data plan. This amount represents 70.0 percent of a plan's

monthly cost, plus an additional amount to take into account payroll taxes that a staff member incurs from being compensated for the service charges. WEDC presumes that a staff member will pay 30.0 percent of the monthly service charges, to take into account personal use of the iPhone.

Through November 2012, WEDC had reimbursed 46 staff, including vice presidents, regional account managers, and other staff who are required to complete job duties while traveling, for iPhone and related expenses specified in the October 2012 policy. The information we obtained did not indicate the total amount that WEDC had reimbursed staff under its iPhone policies, nor the number of iPhones that have been retained by staff who no longer work for WEDC. However, given that staff were reimbursed for purchasing the iPhones and may use them for personal purposes, it is unlikely that WEDC would be able to retain any of the iPhones when staff terminate employment.

We found that WEDC did not incorporate its iPhone policies into either its employee handbook or personnel administration and procedure manual. WEDC's employee handbook, which the governing board approved, indicates that WEDC provides cellular telephones to staff and owns the telephones, and that staff must return the telephones to WEDC when they terminate employment.

For comparative purposes, we examined SWIB's and WHEDA's policies relating to wireless devices. SWIB and WHEDA purchase wireless devices, provide the devices to staff who need them to complete their job duties, and pay for the monthly data plans. Only limited personal use of these devices is permitted. SWIB allows staff to access its IT systems through personally owned devices but will not pay any service or other charges. WHEDA allows staff to use personally owned devices for work purposes and reimburses them for business calls. Both entities' policies discuss information security, while SWIB's also discusses the potential that information on a device could be subject to an open records request. WHEDA is further developing its policies for staff using their own devices for work purposes.

Improving Accountability

To help ensure that taxpayer funds are spent effectively, the governing board needs additional information about WEDC's personnel policies.

To help ensure that taxpayer funds are spent effectively, the governing board needs additional information about personnel policies and practices that WEDC has implemented so that it can assess these policies and practices and determine whether modifications are needed. As noted, the governing board has not assessed the contents of the personnel administration and procedure manual, including policies related to relocation expenses for which staff can be reimbursed. Similarly, the governing board has not assessed the salary ranges that WEDC established in October 2011. Although WEDC has informed the compensation and benefits committee about its merit strategy, it has not informed the full governing board about it.

The governing board should also assess WEDC's iPhone policy and consider whether any modifications are needed. Although certain staff may need telecommunications devices to complete their job duties, it may be preferable for WEDC to purchase these devices and assign them to staff. Regardless of the policy's contents, the policy should be included consistently in WEDC's employee handbook and its personnel administration and procedure manual.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board assess:

- *the personnel administration and procedure manual and determine whether any modifications are needed;*
- *the October 2011 salary ranges, determine whether any modifications are needed, and determine how the salary ranges should be used to guide future salary increases;*
- *the merit strategy and determine whether additional criteria need to be considered before staff are provided with bonuses; and*
- *the policy for reimbursing staff for purchasing iPhones, determine whether any modifications are needed, and require the Wisconsin Economic Development Corporation to document the policy in the employee handbook and personnel administration and procedure manual.*

■ ■ ■ ■

Governance ■

Accountability and transparency require WEDC and its governing board to avoid conflicts of interest and provide the Legislature, certain state agencies, and the public with accurate and timely information about WEDC's operations. Although WEDC had policies pertaining to staff acceptance of gifts from businesses and other organizations, the policies were incomplete. In addition, WEDC and its governing board have not always complied with statutory requirements for reporting to the Legislature. We provide recommendations for improvement and identify additional information that WEDC's governing board should report to the Legislature.

Conflicts of Interest

WEDC's chief executive officer and all governing board members filed the statutorily required statement of economic interests for 2011.

Statutes require WEDC's chief executive officer and each member of its governing board to file an annual statement of economic interests with the Government Accountability Board (GAB). The statements, which are available to the public, require individuals to identify their employers, investments, and creditors, as well as disclose certain other financial details that pertain to themselves and their immediate family members. The chief executive officer and all governing board members filed the statements for 2011. Statutes do not require other WEDC senior managers—such as the chief operating officer, chief financial officer, and vice presidents—to file an annual statement of economic interests. In contrast, statutes require all non-clerical staff at WHEDA and senior managers at SWIB to file an annual statement of economic interests.

In addition, the statutory code of ethics stipulates that state public officials are not allowed to use their public positions or offices to obtain financial gain or anything of substantial value for their private benefit or the benefit of their immediate families. State public officials are also not allowed to solicit or accept anything of value if it could reasonably be expected to influence their official actions or judgments, or could reasonably be considered to be a reward for any official action or inaction. Statutes stipulate that the code of ethics applies to WEDC's chief executive officer and members of its governing board but not to any other WEDC staff. In contrast, statutes stipulate that the code of ethics applies to all non-clerical staff at WHEDA and senior managers at SWIB, including the executive director, executive assistant to the executive director, internal auditor, chief investment officer, chief financial officer, chief legal counsel, chief risk officer, and investment directors. SWIB's policies, however, indicate that the code of ethics applies to all staff.

Statutes authorize WEDC's governing board to accept gifts, grants, loans, and contributions from private or public sources.

As noted, statutes authorize WEDC's governing board to accept gifts, grants, loans, and contributions from private or public sources. WEDC's bylaws indicate that unless the chief executive officer has delegated the authority, only the chief executive officer may accept for WEDC's benefit:

- grants of any amount from public and private sources;
- gifts, contributions, donations, and bequests of any amount from public sources; and
- gifts, contributions, donations, and bequests from private sources. The bylaws limit to $25,000 in a 12-month period the value of such gifts provided by an individual, an individual and his or her immediate family, or an individual and any organization in which the individual or his or her immediate family owns or controls at least 10.0 percent of the outstanding equity, voting rights, or indebtedness.

WEDC's employee handbook, which was approved by its governing board, prohibits WEDC staff from accepting a gift:

- if they believe they should do or promise something in return, or if accepting a gift creates the appearance that it would likely influence their official duties or decision-making;

- that does not have a business purpose and is intended for their personal use or enjoyment; or

- from a lobbyist or an individual employed by lobbying firms.

Statutes allow WEDC's chief executive officer and governing board to solicit and receive anything of value on behalf of the State, including when WEDC:

- sponsors a trip to a foreign country that is intended primarily to promote trade between that country and Wisconsin, and WEDC can demonstrate through clear and convincing evidence that the trip is primarily for the benefit of Wisconsin; and

- hosts individuals to promote business, economic development, tourism, or conferences sponsored by multistate, national, or international associations of governments or government officials.

By April 30 of each year, statutes require WEDC to submit a report to GAB that specifies the source and amount of anything of value received by WEDC's chief executive officer and its governing board during the prior year for either of the two statutorily specified purposes related to sponsoring foreign trips and hosting individuals, as well as the program or activity connected with each gift and the location and date of that program or activity. We found that WEDC did not submit the April 2012 report to GAB until October 2012, after we had asked GAB for the report. GAB maintains the report but does not evaluate its contents.

WEDC reported to GAB 40 gifts worth a total of $55,100 that it had received from July 2011 through December 2011, including:

- 18 instances in which firms paid a total of $41,800 to help sponsor the cost of the annual Marketplace Conference that WEDC hosts for minority-owned vendors;

- 1 instance in which Marketplace Conference participants paid a combined total of $8,400 to register for the conference;

- 6 instances in which firms and government agencies paid a total of $4,200 to help cover the costs of transportation, lodging, meals, and registrations for WEDC staff to attend various economic development conferences; and

- 15 instances in which firms and government agencies provided WEDC staff with gifts of art, jewelry, clothing, and other personal items that were worth a total of $700. In most instances, WEDC did not indicate which staff accepted these gifts.

We also reviewed the list of gifts that were provided to WEDC staff from January 2012 through October 2012, including:

- a $150 Amazon gift card given to a former chief financial officer by one of WEDC's IT vendors;

- three Amazon gift cards worth a total of $250 given to three staff by a magazine to which WEDC managers subscribe;

- a $25 restaurant gift card given to WEDC marketing staff by the restaurant; and

- four personal items such as office supplies, gardening tools, and an iPhone case given to four WEDC staff by businesses and UW-Madison's law school.

WEDC had no policies for tracking and handling gifts received by its staff.

WEDC indicated that each of its divisions should maintain a list of all gifts received by its staff, who are then to place the items up for auction and provide the proceeds to charity. However, we found that this requirement for tracking and handling gifts was not documented in any of WEDC's personnel policies, and some divisions were unaware of the requirement until we inquired about it. An initial list of gifts that WEDC provided us indicated that only one gift received from January 2012 through October 2012 was auctioned off. WEDC subsequently provided us with a more extensive list of gifts and indicated that all of the gifts were auctioned off and the proceeds given to Partners in Giving, which is an annual effort by state agencies, UW System, and UW Hospital and Clinics Authority staff in Dane County to raise funds for charities. However, the gift specified in the initial list was not included in the more extensive list.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation develop policies for tracking and handling gifts received by its staff and include the policies in the personnel administration and procedure manual.

Reporting Requirements

WEDC and its governing board have not filed all statutorily required reports on time, and some reports did not contain all required information.

To help facilitate effective oversight of WEDC and ensure WEDC's coordination with state agencies, statutes require WEDC and its governing board to submit periodic reports to the Legislature and SWIB, as shown in Table 17. We found that the reports have not always been submitted in accordance with statutory deadlines, and some reports did not contain all of the statutorily required information.

Table 17

Selected Reporting Requirements for WEDC and Its Governing Board

Report	Report Recipients	Date Required
Economic Development Projects To Be Implemented in the Year[1]	Chief Clerk of each house of the Legislature	January 1 (annually)
Economic Development Program Report[1]	Joint Legislative Audit Committee; Chief Clerk of each house of the Legislature	October 1 (annually)
Economic Development Tax Credit Program Report[1]	Joint Legislative Audit Committee; certain legislative standing committees	April 1 (annually)
Investments Most Likely to Enhance Economic Development in Wisconsin[1]	State of Wisconsin Investment Board	September 30 (biennially)
Information on Grants, Loans, Bonds, and Tax Credits WEDC Has Made	Joint Committee on Finance	Quarterly
Information from Tax Credit Recipients	Joint Committee on Finance	February 1, 2013

[1] This report is statutorily required.

By January 1 of each year, WEDC's governing board must submit to the chief clerk of each house of the Legislature a report identifying the economic development projects that the governing board intends to implement during that calendar year. On December 22, 2011, the report for 2012 was submitted, but it summarized WEDC's operations plan for FY 2011-12. As a result, the report pertained to only the first six months of 2012, rather than to the entire calendar year. On December 28, 2012, the report for 2013 was submitted. It complied with statutes by both summarizing WEDC's activities in FY 2011-12 and outlining initiatives planned for 2013.

By October 1 of each year, WEDC's governing board must submit to the Joint Legislative Audit Committee and the chief clerk of each house of the Legislature an economic development program report that includes certain statutorily specified information on each program WEDC administered during the prior fiscal year, and the governing board must make this information readily accessible to the public on the internet. The governing board did not submit the 2012 annual economic development program report until November 23.

By April 1 of each year, WEDC must submit to the Joint Legislative Audit Committee and the appropriate standing committees of the Legislature a comprehensive report assessing its Economic Development Tax Credit program and updating the information it is statutorily required to include in the prior year's October 1 economic development program report. On March 30, 2012, WEDC submitted the report, which provided summary information about individual tax credits awarded through the program since July 2009 but did not assess the program.

By September 30 of each even-numbered year, WEDC must submit to SWIB a report describing the types of investments in Wisconsin businesses that will have the greatest likelihood of enhancing the state's economic development. Although the first report was required to be submitted on September 30, 2012, WEDC did not submit it until November 28, which was two days after we requested a copy of the report.

In addition to the statutorily required reports, the chief executive officer indicated in August 2012 that WEDC would provide the Joint Committee on Finance with quarterly reports containing aggregated information on the grants, loans, bonds, and tax credits that WEDC has awarded to businesses. On November 26, 2012, and March 1, 2013, WEDC submitted its first two quarterly reports, which provide aggregate data on the number and amount of grants, loans, and tax credits that WEDC had awarded through December 2012. The chief executive officer also indicated in August 2012 that WEDC would report to the Joint Committee on Finance by February 1, 2013, on aggregated information submitted by tax credit recipients through December 2012. This report, which was submitted on time, included the total number of full-time jobs created, retained, or upgraded, compared to the initial estimates; the number of workers who were trained as a result of the tax credits; the total amount invested as a result of the tax credits, compared to the initial estimates; and the total amount of tax credits earned by recipients, compared to the original amount of tax credits allocated.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board ensure that all statutorily required reports to the Legislature and the State of Wisconsin Investment Board are submitted on time and contain the statutorily required information.

Other Issues

WEDC and its governing board have announced plans that may address some of the concerns we raise in this report. For example, in February 2013:

- WEDC informed its governing board's audit committee that it planned to begin reviewing and developing policies for administering 15 of its economic development programs, including 10 programs that are statutorily required. It also indicated its plans to establish policies for staff to use when selecting vendors, using purchasing cards, using and being reimbursed for iPhones, and accepting gifts from private and public entities.

- WEDC announced its plans to hire a vice president for credit and risk administration, who is expected to help assess the creditworthiness of businesses that apply for economic development loans provided through WEDC's programs. WEDC's governing board also plans to create a credit risk committee to help develop policies for assessing risks associated with making economic development loans.

- WEDC informed its governing board that it planned to implement policies for annually and independently verifying the performance measure information reported by recipients of a sample of grants and loans.

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

In March 2013, WEDC's governing board passed a resolution authorizing WEDC to create a nonprofit foundation to solicit donations from regional economic development associations, businesses, and individuals and use the donations to promote economic development in Wisconsin. The foundation is to be controlled by WEDC's chief executive officer and governed by a board of directors separate from WEDC's governing board. Although statutes allow WEDC's governing board to accept gifts, grants, loans, and other contributions from private and public sources, and WEDC's bylaws allow the chief executive officer to accept gifts, contributions, donations, bequests, and grants from private and public sources, WEDC indicated to its governing board that the creation of a foundation would provide it with greater flexibility to solicit and use donations. WEDC further indicated that some regional economic development associations, businesses, and individuals may be more likely to donate to a foundation than to WEDC. We note that WEDC makes financial awards to regional economic development associations, businesses, and individuals, who could then potentially make donations to the foundation, which may raise concerns about conflicts of interest and whether taxpayer funds would indirectly support the foundation.

WEDC indicated to its governing board that the statutes and policies that apply to WEDC will not necessarily apply to any foundation that it creates. It further indicated that it will develop proposed policies for the foundation, present the policies to the governing board in June 2013, and seek the governing board's approval for the policies. WEDC indicated that the governing board has broad authority to authorize the foundation's creation. We note that although s. 238.04, Wis. Stats., stipulates that the governing board shall have all the powers necessary to carry out the purposes and provisions of ch. 238, Wis. Stats., which governs WEDC's operations, statutes neither specifically authorize the governing board to create a separate foundation, nor prevent it from doing so.

A separate foundation could potentially complement WEDC's operations and enhance economic development in Wisconsin if it were to disburse donated funds effectively. However, a number of issues remained unresolved at the time of our audit fieldwork. For example, it is not known whether WEDC staff would oversee the foundation's operations, whether the foundation's board of directors would include legislators or other elected officials, or whether the foundation would report to the Legislature and the public about its operations. Similarly, it is unclear whether the public, the Legislative Audit Bureau, or the Legislative Fiscal Bureau would have access to the foundation's records, including information on the sources and amounts of donations it receives and how those donations are spent. Additional information about WEDC's plans for the foundation is needed in order for the Legislature to assess aspects of the foundation's creation.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board report to the Joint Legislative Audit Committee by July 15, 2013, on its plans to create a nonprofit foundation.

WEDC's governing board should provide the Legislature with additional information about its management of economic development loans. Not until October 2012 did WEDC begin to monitor repayment of loans that it and Commerce had awarded. As of December 2012, recipients of 60 loans were delinquent on $3.5 million in repayments of loans with a total outstanding balance of $11.3 million. As noted, WEDC had no policies for determining whether delinquent amounts should be amended, forgiven, referred to DOJ for collection proceedings, or written off. Continued scrutiny of WEDC's efforts to monitor repayment of taxpayer-funded loans is warranted.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board report to the Joint Legislative Audit Committee by October 1, 2013, on the status of all outstanding economic development loans for which it was responsible from January 2013 through September 2013, including the number and outstanding balance of loans it amended, the number and outstanding balance of loans it forgave, the number and outstanding balance of loans it referred to the Department of Justice for collection proceedings, and the number and outstanding balance of loans it wrote off.

WEDC and its governing board should also provide the Legislature with additional information about their compliance with statutory requirements related to administering and overseeing economic development programs. This is particularly important because WEDC indicated to the Legislature that although it intends to operate more like a bank, it anticipates making financial awards that involve more risk than the loans that banks would typically make to businesses, individuals, and other organizations.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board report to the Joint Legislative Audit Committee by October 1, 2013, on the status of efforts to comply with statutes by:

- *creating all required economic development program rules;*

- *stipulating contractually that all recipients of grants and loans of $100,000 or more must provide the Wisconsin Economic Development Corporation with a verified financial statement describing how the funds were spent and ensuring that recipients submit the verified financial statements;*

- *developing at least one expected result for each of the goals of all economic development programs that it administers;*

- *ensuring that recipients of economic development grants and loans submit the contractually required progress reports;*
- *annually verifying the performance information reported by the recipients of a sample of grants and loans; and*
- *ensuring the annual economic development program report presents clear, accurate, and complete information on each program's results.*

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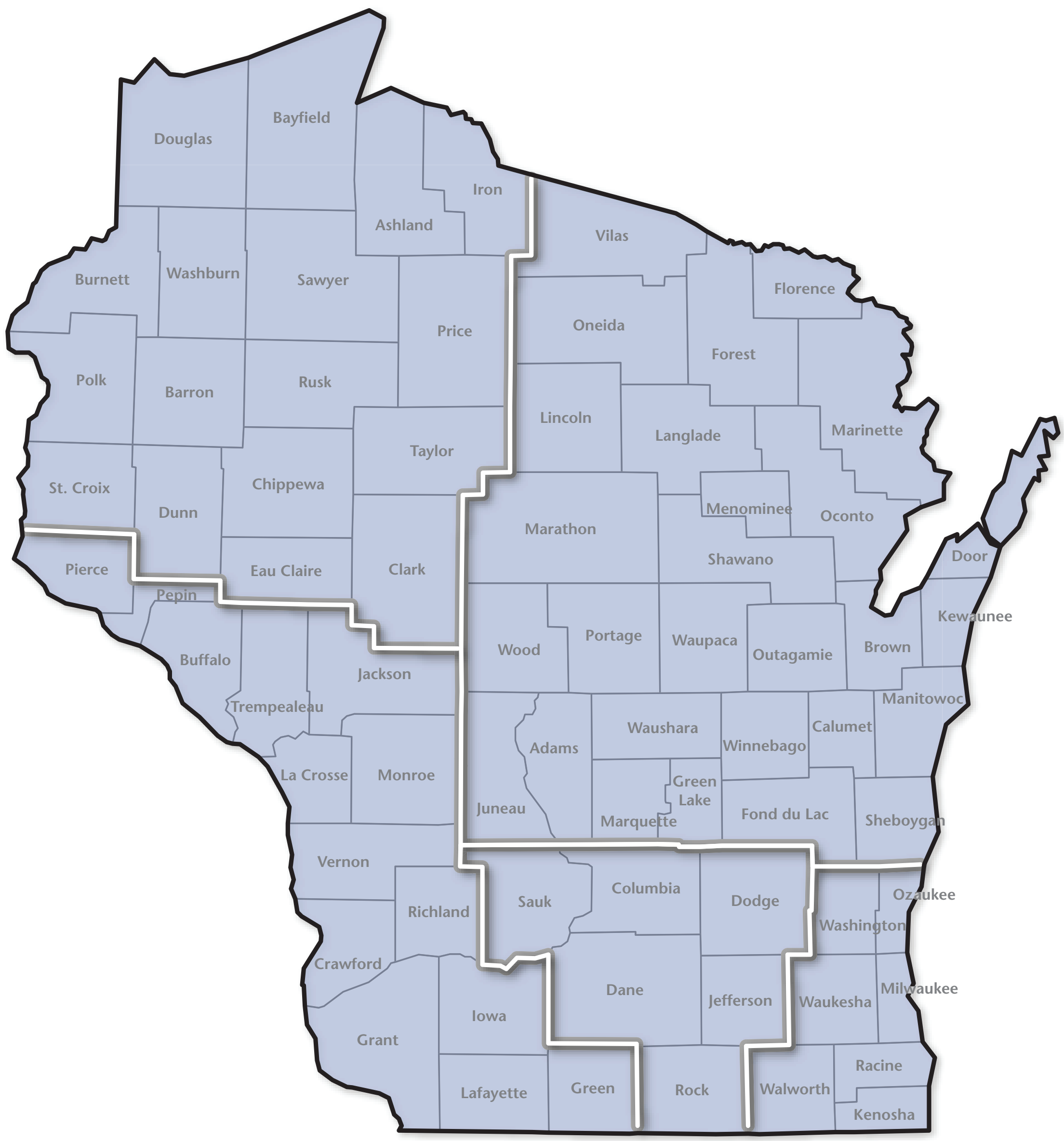
Appendix 1

Regional Account Manager Territories

Appendix 2

Community Account Manager Territories



Appendix 3

Descriptions of WEDC's Economic Development Programs
FY 2011-12

This appendix provides a brief description of the 30 economic development programs WEDC administered at some point in FY 2011-12. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized in the order they appear in WEDC's November 2012 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 4, 5, and 6. The program number and the program to which it refers do not match those used in report 12-11.

Program provides the designated name for each economic development program.

Wisconsin Statutes cites statutory authority for the program. Unless otherwise noted, all citations refer to the 2011-12 statutes. For programs without a specific statutory authorization, we have cited ch. 238, Wis. Stats., which is the chapter that authorizes WEDC's operations.

Description provides a brief description of the main features of the program in FY 2011-12.

Program Number	Program	Wis. Statutes	Description
1	Capital Catalyst	General Authority (ch. 238)	Seed grant program that provided grants from $100,000 to $250,000 to organizations and communities with existing funds in place, or the ability to create funds, to stimulate capital investment at the very earliest stages of business creation. A grant recipient was to provide 1:1 matching funds and commit one-third of the grant to firms in Wisconsin or firms that agreed to locate in Wisconsin.
2	Technology Development Grants and Loans	General Authority (ch. 238)	Provided grants and loans to start-up and emerging growth firms that developed and commercialized a technologically innovative process, product, or service. Funds could be used for working capital, fixed asset financing, or leasehold improvements. Award amounts depended on the stage of growth. Product and process development firms were limited to a $250,000 grant, venture match and commercialization grants were limited to a $500,000 grant, and commercialization grants for firms in growth mode were limited to a $750,000 grant.
3	Angel Investment Tax Credit	238.15(1); 71.07(5d)	Offered tax credits to accredited investors or investment networks that invested for at least three years in firms certified as qualified new business ventures. Accredited investors were awarded credits equal to 25 percent of their investments. Annually, a total of $20.0 million in credits plus carryover from previous years was available for the program. An additional $250,000 in tax credits could be claimed annually for investments in certain technology-related firms.
4	Early Stage Seed Investment Tax Credit	238.15(2); 71.07(5b); 71.28(5b); 71.47(5b); 76.638	Offered tax credits to investment fund managers who invested in firms certified as qualified new business ventures. Investment fund managers were awarded credits equal to 25 percent of their initial investments. Annually, a total of $20.5 million in credits plus carryover from previous years was available for the program. An additional $250,000 in tax credits could be claimed annually for investments in certain technology-related firms.
5	Qualified New Business Ventures	238.20; 71.05(24)	Certified eligible new businesses, allowing investors to receive nonrefundable tax credits under the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs. The program stimulated the capital necessary for emerging growth firms to develop new products and technologies and move products to market. To become certified, a firm needed to meet certain criteria, including being headquartered in Wisconsin, having at least 51 percent of its employees based in the state, having fewer than 100 employees, and having been in operation for no more than ten consecutive years.
6	Qualified Wisconsin Business	238.145; 238.146; 71.05(25) 71.05(26)	The long-term Wisconsin capital assets deferral subset of this program certified firms for s. 71.05(26), Wis. Stats., which authorized claimants calculating their Wisconsin adjusted gross income to subtract from their federal adjusted gross income any amount of a long-term capital gain if the claimant invested the proceeds in a qualified Wisconsin business within 180 days of the sale of the asset generating the gain. The Wisconsin-source assets exclusion subset of this program certified firms for s. 71.05(25), Wis. Stats., which provided an individual income tax exclusion for capital gains on certain Wisconsin-source capital assets that were purchased after December 31, 2010, and held for at least five years. To be certified, statutes required a firm in its taxable year before applying to have paid at least 50 percent of its total payroll compensation in Wisconsin and to have had at least 50 percent of its total real and tangible personal property in Wisconsin.
7	Business Retention and Expansion Grants and Loans	General Authority (ch. 238)	Provided grants and loans to new and existing firms to help expand their operations and remain viable in Wisconsin, maintain full-time jobs, and invest capital to create new jobs. Firms were to have a demonstrable need for assistance, and WEDC was to provide gap funding for their projects. WEDC was not to be considered a primary funding source.

Program Number	Program	Wis. Statutes	Description
8	Community Development Block Grant—Economic Development	General Authority (ch. 238)	Provided grants to local governments for public infrastructure projects to accommodate new firms or expand existing firms. Grants could be used for water systems, sewerage systems, and municipal roads. The maximum grant was $1.0 million per community, with no more than $750,000 benefiting any single firm. Firms were required to provide a match of 25 percent of project costs. Local governments could also grant or loan program funds to firms for working capital, purchasing real estate or equipment, constructing facilities, or expanding and renovating facilities. The maximum grant or loan was typically $1.0 million per firm in any five-year period. Firms were required to provide matching funds equal to 50 percent of project costs. At least 70 percent of the program's total funds must benefit low- to moderate-income individuals.
9	Certified Sites/Ready, Set, Build!	General Authority (ch. 238)	Provided pre-certification of building sites to streamline the permitting process for firms seeking to expand operations. WEDC worked with a firm to create consistent standards for industrial site certification.
10	ExporTech	General Authority (ch. 238)	WEDC contracted with the Wisconsin Manufacturing and Extension Partnership to provide an export accelerator program that included hands-on export planning and strategy training and development to Wisconsin firms seeking to export a product or service. The program was intended to speed a firm's "go-to-market" timeline by developing a customized and actionable international growth plan for the firm's product in key markets.
11	Global Business Development Grant	General Authority (ch. 238)	Provided grants to support the long-term export strategies of firms that had a demonstrable need to expand their markets or were relatively new to exporting and needed help to develop expertise in exporting. The program had two components. First, the export development component provided grants of up to $3,000 per year to Wisconsin firms to develop expertise to expand into global markets, including participating in export seminars, educational events, and expenses related to developing an export strategy. Second, the International Market Access Grant component reimbursed specific expenses associated with executing or expanding in international markets, up to $10,000 per year. Funding could be used for trade show exhibitions, business matchmaker services, trade missions, website and literature translation services, and consulting services.
12	Global Market Technical Assistance	General Authority (ch. 238)	Provided technical assistance and other services to firms in order to increase their exports and foreign direct investment. Services included export accelerator programs, one-on-one guidance on export regulations, and direct market access to global markets through a global network.
13	Wisconsin State Energy	General Authority (ch. 238)	Provided grants and loans to manufacturing firms that implemented energy-efficient measures in their facilities, changed the operations of facilities to manufacture products that support a green economy, expanded and established domestic clean-energy manufacturing, or created and retained jobs related to project activities.
14	Workforce Training Grant	General Authority (ch. 238)	Provided grants to train or retrain employees in the skills necessary for firms to implement new equipment or technology, launch a new product, or enter a new market. Training was provided to Wisconsin residents whose full-time positions needed to be retained for two years after training. Grant recipients were required to make at least a 1:1 funding match.

Program Number	Program	Wis. Statutes	Description
15	Development Opportunity Zone	238.395; 71.07(2di), (2dm), or (2dx); 71.28(1di), (1dm), or (1dx); 71.47(1di), (1dm), or (1dx); 76.636	Offered nonrefundable tax credits to firms that located or expanded in statutorily designated zones in Janesville, Kenosha, and Beloit. Credits were awarded based on the number of full-time jobs created or retained, capital investments made, and environmental remediation expenses incurred over the five-year period that each zone was in effect. Credits could be carried forward for up to 15 years. At least 25 percent of claimed credits must have been earned based on job creation or retention, and at least one-third of these credits must have been based on creating jobs filled by members of the target population. Jobs must have been full-time and have paid at least 150 percent of the federal minimum wage.
16	Economic Development Tax Credit	238.301 to 238.306; 71.07(2dy); 71.28(1dy); 71.47(1dy); 76.637	Offered nonrefundable tax credits to firms for creating jobs, purchasing significant capital assets, training employees, or establishing or retaining a corporate headquarters in Wisconsin. Recipients were required to retain project-related operations in Wisconsin for at least five years. Credits could be carried forward for up to 15 years.
17	Enterprise Zone	238.399; 71.07(3w); 71.28(3w); 71.47(3w)	Offered refundable tax credits to firms within WEDC-designated zones. Firms that located or expanded within a zone could claim income tax credits based on wages paid, payroll paid, jobs created or retained, employee training costs, significant capital expenditures, and purchases from Wisconsin suppliers. Zones were effective for up to 12 years, and a total of 20 zones could be designated. Recipients were required to retain project operations in Wisconsin for at least five years. Statutes did not limit the amount of tax credits available.
18	Jobs Tax Credit	238.16; 71.07(3q); 71.28(3q); 71.47(3q)	Offered refundable tax credits to firms or individuals, based on the wages paid to employees in existing and newly created full-time jobs or the costs to train employees. Firms could earn up to 10 percent of their increased payroll costs or up to 100 percent of their training costs within a tax year. The program was intended to encourage major expansion of firms or relocation of major out-of-state firms to Wisconsin. Recipients were required to retain project-related operations in Wisconsin for at least five years. Statutes authorize WEDC to allocate up to $10 million in tax credits each calendar year.
19	Industrial Revenue Bond	66.1103; 238.10; 238.11; 238.125	WEDC approved counties and municipalities to issue bonds on behalf of specific firms to finance capital investment projects or to purchase land, real estate, or equipment. The firms were responsible for debt service on the bonds.
20	Midwestern Disaster Area Bond	66.1103(2)(k)22	WEDC authorized federal tax-exempt bonds to be issued by local governments in 30 southern Wisconsin counties that were affected by natural disasters in 2008. Bond proceeds could finance costs related to acquiring, building, or renovating nonresidential property, public utilities, and some residences. The total bonding authority was $3.8 billion, and all bonds must have been issued before January 2013.

Program Number	Program	Wis. Statutes	Description
21	Qualified Energy Conservation Bond	General Authority (ch. 238)	WEDC authorized local governments, including school districts, to issue taxable bonds. Bond proceeds were to be used to finance solar and energy-efficiency projects, such as capital improvements to reduce energy consumption in publicly owned buildings by at least 20 percent. The total bonding authority was $58.0 million. All proceeds must be spent by three years from the bond issue date.
22	Brownfield Grant	238.13	Provided grants to firms, local governments, and nonprofit organizations to clean contaminated commercial and industrial properties. Through June 2012, the maximum grant was $1.25 million, with a required match of 20 percent of project costs for grants under $300,000, 35 percent for grants between $300,000 and $700,000, and 50 percent for grants under $1,250,000.
23	Community Development Block Grant—Community Development	General Authority (ch. 238)	Provided grants to local governments for public infrastructure projects, such as municipal water and sewer improvements, construction of public facilities such as community and senior centers, slum and blight elimination, and community planning activities. Technical assistance was also provided to plan and perform projects. Services included administering the federal Community Development Block Grant program, identifying contaminated properties, conducting business retention and expansion surveys, and helping local governments and organizations manage revolving loan funds. Planning activities required local governments to demonstrate that the projects benefited low- and moderate-income persons, eliminated slums or blighted areas, or addressed an urgent local need. The maximum grant was $25,000, with a required match of 25 percent of project costs. Awards could exceed $25,000 if certain criteria were met.
24	Grants to Regional Economic Development Organizations	238.135	Provided funding to regional economic development organizations to offset the costs associated with regional coordination efforts. Funds were used for coordinating, hosting, and facilitating meetings that involved economic development organizations and representatives from workforce development, education, and the private sector. Funds were also used to support technical assistance in economic development efforts. These services included deployment of common business assistance support tools, forming or expanding regional revolving loan capacity, aligning regional marketing plans with the statewide marketing campaign, and an international component to provide direct assistance to firms seeking to export products or receive foreign investment.
25	Community Development Block Grant—ARRA	General Authority (ch. 238)	Provided grants to local governments to fund public infrastructure projects with a long-term impact on local economies. Projects were financed with funds appropriated through the federal American Recovery and Reinvestment Act (ARRA) of 2009. No maximum grant or matching amount was specified. The program ended on September 30, 2012.
26	Minority Revolving Loan Fund Expansion	General Authority (ch. 238)	Provided financial and technical assistance to members of Wisconsin's minority communities to encourage the capitalization of renewable sources of minority financing and to facilitate minority business development, which is generally underserved by commercial lenders.
27	Brownfield Site Assessment Grants	20.192(1)(s); 238.133	Provided grants to local governments to complete environmental assessments and remediate contaminated industrial and commercial properties. Eligible projects included abandoned, idle, or underused facilities that were unlikely to be redeveloped because of actual or perceived contamination.

Program Number	Program	Wis. Statutes	Description
28	Wisconsin Main Street	238.127	Provided technical assistance to local governments participating in historic preservation and economic development of traditional business districts under federal guidelines established by the National Trust for Historic Preservation. This included employment of an on-site director and helping municipalities plan, manage, and implement programs for revitalizing business areas.
29	WEDC Partner Operations Assistance	General Authority (ch. 238)	Provided funding to a network of organizations that delivered an array of services to entrepreneurs and small businesses throughout Wisconsin. That network included the Wisconsin Entrepreneur's Network, the Wisconsin Women's Business Initiative Corporation, the Wisconsin Technology Council, the Wisconsin Procurement Institute, the UW Stout/Northwest Wisconsin Manufacturing Outreach Center, and the Wisconsin Manufacturing Extension Partnership.
30	Business and Industry Development—Target Industry Projects	General Authority (ch. 238)	Helped Wisconsin firms through targeted industry sector investment and technical support, including by promoting workforce development and leveraging industry leadership in order to accelerate industry growth and job creation.

Appendix 4

Comparison of WEDC's Economic Development Programs

This appendix compares the 30 economic development programs WEDC administered in FY 2011-12. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized in the order they appear in WEDC's November 2012 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 3, 5, and 6. The program number and the program to which it refers do not match those used in report 12-11.

Program provides the designated name for each economic development program.

Start Year identifies the year the program was created by the Legislature and the Governor or the first year of program operations if the program was not created directly through legislation.

FY 2011-12 Amount Awarded represents the estimated amount of state funds awarded to the program in FY 2011-12, as reported by WEDC, including both program and administrative costs.

Source identifies the sources of funding for the program, which may include a combination of general purpose revenue (GPR), program revenue (PR), segregated revenue (SEG), or federal revenue (FED).

Type of Assistance identifies the types of assistance provided by the program, which is either technical assistance or one or more types of financial assistance.

- *Technical Assistance*—includes providing information, regulatory assistance, technology transfer, networking, coordination, or other nonfinancial services.

- *Financial Assistance*—includes all forms of cash payments and financial incentives, which can be one or more of the following types:

    - loans, which, unless forgivable, require repayment of the principal amount borrowed, with or without interest;

    - grants, which are either directly awarded or awarded competitively and do not require repayment; and

    - other financial assistance, including tax credits, bonding authority, loan guarantees, or loan subsidies.

Eligible Recipients identifies the types of entities eligible for assistance from the program.

- *Businesses and Individuals*—includes individuals and businesses such as sole proprietorships, partnerships, corporations, and cooperatives.

- *Local Governments*—includes local units of government such as municipalities and counties.

- *Nonprofit and Other Organizations*—includes nonprofit organizations, community-based organizations, and economic development corporations.

	Program	Start Year	FY 2011-12 Amount Awarded	Source	Types of Assistance				Eligible Recipients		
					Technical Assistance	Grants	Loans	Other	Businesses and Individuals	Local Govt.	Nonprofits and Other Organizations
1	Capital Catalyst	2012	$ 150,000	GPR, SEG		✓			✓	✓	
2	Technology Development Grants and Loans	2011	2,119,000	GPR, FED, SEG		✓	✓		✓		
3	Angel Investment Tax Credit[1]	2004	6,631,039	GPR				✓	✓		
4	Early Stage Seed Investment Tax Credit[1]	2004	4,621,736	GPR				✓	✓		
5	Qualified New Business Ventures[1]	2004	–	–				✓	✓		
6	Qualified Wisconsin Business	2011	–	–				✓	✓		
7	Business Retention and Expansion Grants and Loans	2011	16,416,000	GPR, SEG		✓	✓	✓	✓		
8	Community Development Block Grant—Economic Development	1981	12,500,570	FED		✓				✓	
9	Certified Sites/Ready, Set, Build!	2011	143,083	GPR	✓				✓		
10	ExporTech	2010	40,550	GPR	✓	✓			✓		
11	Global Business Development Grant	2012	140,851	SEG		✓			✓		
12	Global Market Technical Assistance	2011	–	GPR	✓				✓		
13	Wisconsin State Energy	2010	6,248,628	FED		✓	✓		✓		
14	Workforce Training Grant	2011	485,269	GPR, SEG		✓			✓		
15	Development Opportunity Zone[2]	1994	1,856,000	GPR				✓	✓		
16	Economic Development Tax Credit[2]	2009	26,610,750	GPR				✓	✓		
17	Enterprise Zone[2]	2005	61,000,000	GPR				✓	✓		
18	Jobs Tax Credit[2]	2009	10,114,000	GPR				✓	✓		
19	Industrial Revenue Bond	1973	22,327,000	PR				✓	✓		
20	Midwestern Disaster Area Bond	2008	323,284,145	PR				✓	✓		
21	Qualified Energy Conservation Bond	2009	750,000	PR				✓	✓	✓	
22	Brownfield Grant	1997	4,485,000	GPR, SEG		✓			✓	✓	✓
23	Community Development Block Grant—Community Development	1974	9,875,000	FED	✓	✓				✓	✓
24	Grants to Regional Economic Development Organizations	2011	659,360	GPR	✓	✓					✓
25	Community Development Block Grant—ARRA	2009	4,782,920	FED		✓				✓	
26	Minority Revolving Loan Fund Expansion	2011	200,000	GPR, SEG	✓	✓					✓
27	Brownfield Site Assessment Grants	1999	305,500	SEG		✓				✓	
28	Wisconsin Main Street	1987	461,306	GPR	✓					✓	
29	WEDC Partner Operations Assistance	2011	2,047,730	GPR	✓	✓			✓	✓	✓
30	Business and Industry Development—Target Industry Projects	2011	1,325,000	GPR, SEG	✓	✓			✓		

[1] Amount awarded in calendar year 2011.

[2] Amount awarded represents allocated tax credits.

Appendix 5

File Review of Selected Awards Made through WEDC's Economic Development Programs

FY 2011-12

Program Number	Program	Awards Reviewed	Amount
1	Capital Catalyst	1	$ 150,000
2	Technology Development Grants and Loans	10	2,089,000
4	Early Stage Seed Investment Tax Credit[1]	2	–
5	Qualified New Business Ventures	3	3,600,000
7	Business Retention and Expansion Grants and Loans	12	11,356,000
13	Wisconsin State Energy	1	3,400,000
14	Workforce Training Grants	2	325,000
16	Economic Development Tax Credit[2]	11	3,709,000
17	Enterprise Zone[2]	3	61,000,000
18	Jobs Tax Credit[2]	9	10,114,000
22	Brownfield Grant	9	2,282,000
26	Minority Revolving Loan Fund Expansion	1	100,000
		64	**$98,125,000**

[1] The files did not indicate the amount of tax credits awarded.

[2] Amounts represent allocated tax credits.

Appendix 6

Reported Results of WEDC's Economic Development Programs

FY 2011-12

This appendix provides information on the reported actual results of WEDC's 30 economic development programs in FY 2011-12. Statutes define an economic development program as a program or activity that has the primary purpose of encouraging the establishment and growth of business in Wisconsin, including the creation and retention of jobs.

The programs are organized in the order they appear in WEDC's November 2012 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 3, 4, and 5. The program number and the program to which it refers do not match those used in report 12-11.

Program provides the designated name for each economic development program.

Actual Results includes a description of actual results achieved by recipients of economic development awards, as reported by WEDC.

Program Number	Program	Actual Results
1	Capital Catalyst	Provided one grant of $150,000 to one business.
2	Technology Development Grants and Loans	Provided nine loans totaling $2.0 million and two grants totaling $130,000 for a total of 11 businesses assisted.
3	Angel Investment Tax Credit[1]	45 investors in businesses were awarded $6.6 million in Angel Investment Tax Credits.
4	Early Stage Seed Investment Tax Credit[1]	19 investors in businesses were awarded a total of $4.6 million in Early Stage Seed Investment Tax Credits.
5	Qualified New Business Ventures[1]	28 new companies were certified; 154 companies were certified as qualified new business ventures in 2011; $152.3 million in total leveraged financing, of which $119.1 million was from private investments.
6	Qualified Wisconsin Business	This program was not administered in FY 2011-12.
7	Business Retention and Expansion Grants and Loans	Provided 21 loans totaling $12.4 million and two grants totaling $4.0 million.
8	Community Development Block Grants—Economic Development	Provided 22 grants totaling $12.5 million to communities.
9	Certified Sites/Ready, Set, Build!	27 businesses applied to receive direct service assistance through this program, and 14 on-site reviews were conducted.
10	ExporTech	Assisted 29 businesses, of which 17 received a total of $40,550 in grants; 15 jobs created; 53 jobs retained; $9.9 million in return on investment. Contracted with the Wisconsin Manufacturing and Extension Partnership to provide an export accelerator program that includes hands-on export planning and strategy training and development to Wisconsin firms seeking to export products and services.
11	Global Business Development Grant	Assisted 22 businesses; provided 19 grants through the Global Business Development Grant program totaling $124,827; provided 1 scholarship grant of $3,071; provided 3 grants through the Wisconsin Trade Project totaling $12,953.
12	Global Market Technical Assistance	130 businesses assisted; 48 prospective clients. Provided guidance on export regulations and direct market access to global markets through in-country business activities and assistance.
13	Wisconsin State Energy	Provided one $100,000 grant and three loans totaling $6.1 million, for a total of four businesses assisted.

Program Number	Program	Actual Results
14	Workforce Training Grant	Provided six grants totaling $485,269 to six businesses.
15	Development Opportunity Zone	In 2011, five businesses completed tax credit verifications; 29 jobs created; $10.6 million in capital investments. In FY 2011-12, $1.9 million in tax credits allocated to four businesses.
16	Economic Development Tax Credit	In 2011, 66 businesses completed tax credit verifications; 655 jobs created; 700 jobs retained; $92.9 million in capital investments. In FY 2011-12, $26.6 million in tax credits allocated to 74 businesses.
17	Enterprise Zone	In 2011, three businesses completed verifications; 1,653 jobs created; $83.3 million in capital investments; $1.1 billion in supply chain investments over a ten-year period; $1.9 million in training expenditures. In FY 2011-12, $61.0 million in tax credits allocated to three businesses.
18	Jobs Tax Credit	In 2011, three businesses completed verifications; 42 jobs created; $4.7 million in training expenditures. In FY 2011-12, $10.1 million in tax credits allocated to nine businesses.
19	Industrial Revenue Bond	$22.3 million in bonding authorized for four businesses.
20	Midwestern Disaster Area Bond	$323.3 million in bonding authorized for 21 businesses.
21	Qualified Energy Conservation Bond	$750,000 in bonding authorized for one business.
22	Brownfield Grant	16 grants totaling $4.5 million provided to 11 businesses and 3 communities.
23	Community Development Block Grant—Community Development	42 grants totaling $9.9 million provided to communities. Direct services included identifying contaminated properties, conducting business retention and expansion surveys, and helping local governments and organizations manage revolving loan funds.
24	Grants to Regional Economic Development Organizations	Eight grants totaling $659,360 provided to regional economic development organizations. Direct services included providing common business assistance support tools, forming or expanding regional revolving loan capacity, aligning regional marketing plans with the statewide marketing campaign, and helping companies seeking to export products or receive foreign investment.
25	Community Development Block Grant—ARRA	Ten grants totaling $4.8 million provided to ten communities.
26	Minority Revolving Loan Fund Expansion	Assisted four commercial lending agencies and provided two grants totaling $200,000 to agencies; 36 businesses assisted; 34 jobs created; 92 jobs retained. Direct services included helping create revolving loan fund structures and loan policy manuals.

Program Number	Program	Actual Results
27	Brownfield Site Assessment Grant	Provided four grants totaling $305,500 to four communities.
28	Wisconsin Main Street	160 businesses assisted within 38 communities; 293 property improvements; technical assistance included employment of an on-site director and helping municipalities plan, manage, and implement programs for revitalizing business areas.
29	WEDC Partner Operations Assistance	Provided seven grants totaling $2.0 million to six organizations; 912 jobs created; 1,161 jobs retained; 2,300 employees trained; 200 businesses started; 1,871 businesses assisted; 733 new companies served; $238.1 million in federal contracts obtained; $300.2 million in new sales; $12.4 million in cost savings; $37.4 million in new investments; $71.7 million in retained sales; 4 new service lines. The Wisconsin Women's Business Initiative Corporation also offered 9,500 hours of counseling for 1,100 clients.
30	Business and Industry Development—Target Industry Projects	Provided three grants totaling $1.3 million to three organizations; 67 businesses assisted; 43 jobs created; $6.4 million in reduced costs for participating companies.

[1] Actual results for calendar year 2011.

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April 22, 2013

Mr. Joe Chrisman
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's ("LAB") program evaluation audit of the Wisconsin Economic Development Corporation ("WEDC") conducted pursuant to Wis. Stat. § 13.94(1)(dr). We respectfully request that this letter be included with the report.

We appreciate LAB's commitment to monitoring the use of our taxpayer resources. We share your dedication to ensuring the effective deployment of State funds for the benefit of Wisconsin citizens. With its creation on July 1, 2011, WEDC was charged with designing and implementing policies and procedures to be transparent and accountable. The results of LAB's evaluation will help us benchmark our progress toward that goal, ensuring that we deliver the greatest economic development value for Wisconsin.

LAB's audit builds on and reinforces the knowledge WEDC gained from two previous independent reports—one from Schenck, SC, a financial auditing firm, and the other from Financial Institutions Product Corporation (FIPCO), a wholly-owned subsidiary of the Wisconsin Bankers Association, who is serving as a consultant on WEDC's financial policies and procedures. These earlier evaluations were sought proactively when WEDC's current management became aware of insufficiencies in operating and financial procedures related to the transition from the Wisconsin Department of Commerce ("Commerce") to WEDC.

The Legislature's Creation of WEDC

In 2010, *Be Bold Wisconsin: The Wisconsin Competitiveness Study* ("Be Bold") provided an overview of Wisconsin's economic development climate and suggestions for improvement. Be Bold was sponsored by the Wisconsin Economic Development Association, the Wisconsin Counties Association, and Competitive Wisconsin, and conducted by Deloitte Consulting LLP and NKF Global Corporate Services. The nonpartisan report captured input from a diverse pool of businesses, government officials, political figures, academics, organized labor, communities, and economic development organizations.

Be Bold's centerpiece recommendation was the creation of a public-private organization dedicated solely to economic development. Be Bold underscored a longstanding concern that Commerce was charged with a multitude of tasks unrelated to economic development, resulting in a lack of attention and focus on bolstering economic development in the State of Wisconsin.

The Wisconsin legislature responded to Be Bold with 2011 Wisconsin Act 7, replacing Commerce with the Wisconsin Economic Development Corporation. Commerce's economic and community development functions were transferred to WEDC. Other, unrelated, functions were transferred to state agencies such as the new Department of Safety and Professional Services. The bottom line was that, effective July 1, 2011, the new organization went from 300 staff at Commerce to 50.

The legislation was enacted February 9, 2011 and codified in Chapter 238 of the Wisconsin Statutes. It created WEDC as a public body corporate and politic, managed by a 15-member Board of Directors. The Board of Directors is comprised of the following: the Governor, serving as the chairman; six directors appointed by the governor with the consent of the Senate; one representative and one senator from each party; one private sector representative appointed by the Majority Leader; and one private sector representative appointed by the Speaker. The Secretaries of the Departments of Revenue and Administration sit on the Board as nonvoting directors. In addition, WEDC's Chief Executive Officer is appointed by the Governor and confirmed by the Senate. The composition of the Board of Directors reflects the public-private nature of WEDC.

At the inaugural meeting on May 18, 2011, the Board of Directors approved WEDC's Bylaws. The Bylaws delegate many aspects of the day-to-day management of WEDC to the CEO (or his or her designee), including responsibility for approving economic development contracts, personnel, and related matters. The delegation of authority through the Bylaws was necessitated by WEDC's enabling legislation vesting the responsibility for the business and affairs of WEDC with the Board of Directors

The Bylaws also created two committees of the Board: the Compensation and Benefits Committee and the Audit Committee. The Compensation and Benefits Committee has exclusive authority to determine the CEO's salary. As with any Board-managed organization, the committees report to the full Board on their meetings.

WEDC was purposefully created with greater flexibility than a state agency. While WEDC expends state appropriations, it is enabled by statute to follow flexible policies and procedures for its operations. In many ways, WEDC's management practices resemble a private company rather than a state agency, enabling it to efficiently and effectively respond to the economic needs of the residents and businesses of the State. At the same time, WEDC remains subject to reporting requirements and audits by the State. Indeed, WEDC primarily reports to two entities—its Board of Directors and the Legislature. Employees are not state employees, although by statute they have access to some state employee benefits.

This flexibility is essential to WEDC's ability to develop innovative programs, monitor their effectiveness, make necessary modifications, and provide assistance that can adapt to the needs of a dynamic economy and business climate.

WEDC Has Faced Challenges

The challenges faced by WEDC in managing the launch of this new entity are well-known. There are inherent system challenges in an organization when staffing reduces from 300 to 50 employees. LAB's audit reiterates many of the challenges that were previously reported by WEDC to the Board of Directors, disclosed to the public and detailed in the Schenck and FIPCO reports.

The greatest challenge was migrating financial systems, processes and procedures from Commerce to WEDC. As we discovered, and has been widely reported, the inherited systems were insufficient to provide proper monitoring of loans awarded through Commerce and WEDC programs.

Compounding system inefficiencies was a lack of continuity in WEDC's executive and financial leadership. Since inception, WEDC has experienced high turnover in the positions of Controller and Chief Financial Officer. In just over two years, each position has been held by three different people. The position of Chief Financial Officer was only recently filled after the resignation of the organization's second CFO in October 2012. WEDC also experienced a turnover of its Chief Executive Officer in November 2012. Compounding the rapid turnover of key management was the fact that WEDC operated at approximately half of its budgeted staff during the first six months of operation.

In the migration from Commerce to WEDC, the shortcomings of the inherited financial systems, turnover of management and lack of sufficient staff all contributed to failing to keep current on tracking loans in default and delaying the preparation and formal adoption of new policies for WEDC's operations and programs.

WEDC Has Launched Proactive Initiatives to Overcome Its Challenges

When the magnitude of these challenges became apparent in the fall of 2012, WEDC leadership immediately and diligently began implementing process and organizational improvements. Much of the focus has been on improving internal processes, financial accounting and management practices. Changes have been made in WEDC's organizational structure to ensure better work flow and oversight and to address WEDC's staffing and technological needs.

Among these organizational improvements were the addition of a new Chief Financial Officer, a Vice President of Credit & Risk and a Business Analyst. The Vice President of Credit & Risk is charged with overseeing WEDC's servicing of loans, grants, and tax credits; evaluating credit risk; overseeing collections; ensuring compliance with loan policies; and managing the Credit and Risk staff. The Vice President of Credit & Risk will partner with the Chief Financial Officer to provide consistent leadership and oversight of our financial systems and underwriting processes.

The Business Analyst will fill a critical role in overseeing the maintenance and management of the data received from businesses. Businesses receiving financial assistance from WEDC are statutorily and contractually required to provide data on their use of funds, creation and retention of jobs and the impact the assistance has on their growth. Ensuring the data received is accurate and timely will enable WEDC to better meet its obligations to the Legislature and the public. This opportunity for improvement was identified by LAB, but is one WEDC has been addressing by creating and recruiting for this position long before receipt of LAB's audit.

In another effort to improve our processes and oversight, WEDC has realigned its compliance staff under the umbrella of the Chief Legal Counsel & Compliance Officer. The role of the compliance team is to ensure WEDC's adherence to the laws, regulations and policies that govern the organization. Two new compliance staff members have recently been hired and will focus on program and policy development, risk assessment and ensuring reporting obligations are met. As of March 25, 2012, the Legal & Compliance team is fully staffed.

The most critical improvement to WEDC's operations is the decision by leadership to issue an RFP to replace the inadequate financial systems inherited from Commerce. An RFP to acquire and implement a new and robust financial management system is currently being developed by a cross-functional team, including FIPCO consultants, to assure that the system chosen will meet the diverse needs of the organization. This new system will borrow heavily from the banking industry. It will allow WEDC to better track - in real time - the status of financial awards, loans and other assistance, and to report the performance benchmarks and requirements of those receiving awards. WEDC leadership began addressing these needs before LAB began its evaluation.

In addition to the initial evaluation of our financial systems, FIPCO is providing ongoing support and assisting us in drafting new policies governing our financial systems. Schenck has provided us with recommended changes to our financial systems that have been implemented, or will be implemented with the adoption of a new financial management platform.

Without discounting the value of the Schenck audit, it is important to note here that we share LAB's concern that Schenck failed to disclose that it was representing a company applying for assistance from WEDC at the time it performed the audit of our operations. We are continuing to evaluate that situation.

Throughout its audit, LAB points to a lack of sufficient internal policies. In reality, throughout FY 2011-12, the time period of the audit, WEDC was operating under the policies and procedures of the previous Department of Commerce, or under policies and procedures that had not yet been formalized.

WEDC recognizes the importance of having in place formal policies and procedures to guide internal decision-making and operations. To that end, in January of 2013, WEDC created an internal Policy Committee for formally adopting internal operational policies. The scope of this committee spans the breadth of the organization and includes policies and procedures governing the financial administration of our programs. The policies also cover procedures for evaluating the circumstances where a vendor selling services or goods to WEDC is also representing a business seeking assistance from us. This was an area of concern raised by LAB.

Unlike a state agency, WEDC lacks authority to promulgate administrative rules. What we have done instead is create a streamlined, comprehensive procedure for developing policies on WEDC's programs, similar to the process we are employing for internal operational policies. These program policies outline all of the requirements associated with each particular program.

Finally, we have created a steering committee to guide and manage the preparation of the report on WEDC activities and results required by Act 125. An effort is ongoing to improve the means by which information is compiled as well as enhance the robustness and readability of the report.

There is no doubt that a retrospective review of the first year of operations of a new entity is a complex process. This is especially true in reviewing a new structure that operates under different statutes, rules, regulations and procedures than state agencies but is nonetheless charged with dispersing and being accountable for taxpayer funds. Indeed, the legislature created WEDC to be a bold economic development organization instilled with the flexibility and authority to meet the challenges of an evolving and dynamic economy.

It should not be surprising, then, that in a situation such as this, reasonable people can disagree as to both the substance and interpretation of facts, and the conclusions that may be reached from those facts. Such is the case with the viewpoints of LAB and WEDC leadership with regard to parts of LAB's audit of FY2012.

Conclusion

LAB's evaluation of WEDC's first year of operations provides a valuable, third-party perspective on the challenges faced by WEDC in FY2012. We respect the findings of the audit with the recognition that WEDC has made significant progress in addressing operational shortcomings. The vast majority of issues raised by LAB have already been identified by WEDC and other parties, and substantive solutions are already in place or are in the process of being implemented.

We appreciate the diligence and dedication of LAB's staff, and find great value in the fact that many of their findings have provided validation for the changes and improvements that are underway at WEDC. LAB's audit provides a valuable perspective on the opportunities WEDC has as a new organization to better manage our operations, serve our customers, and provide accountability for taxpayer investments in growing businesses in Wisconsin.

With best regards,

Reed E. Hall

Reed E. Hall
CEO & Secretary