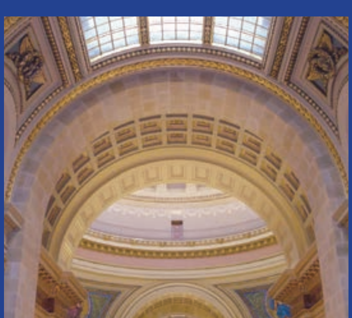
Report 15-3
May 2015

Wisconsin Economic Development Corporation

State of Wisconsin


Legislative Audit Bureau

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STATE OF WISCONSIN
Legislative Audit Bureau
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Joe Chrisman
State Auditor

May 8, 2015

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

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94(1)(dr), Wis. Stats., we have completed a biennial financial audit of the Wisconsin Economic Development Corporation (WEDC) and a program evaluation audit of WEDC's economic development programs. In fiscal year (FY) 2013-14, WEDC administered 29 economic development programs through which it provided $88.7 million in tax credits to businesses and individuals, authorized local governments to issue $28.4 million in bonds, and awarded $19.4 million in loans and $17.2 million in grants to businesses, local governments, and other organizations.

In our last biennial audit (report 13-7 and report 14-11), we identified concerns with WEDC's administration and oversight of its economic development programs and its financial management. In completing the current audit, we found that WEDC did not require grant and loan recipients to submit information showing that contractually required jobs were actually created or retained. We also found that WEDC allocated tax credits in ways that did not consistently comply with statutes and its policies. We found no documentation that WEDC complied with statutes by verifying information submitted by tax credit recipients on the extent to which contractually required jobs were actually created or retained.

WEDC's October 2014 economic development program report addressed certain concerns we had previously identified. However, the report did not contain clear, accurate, and complete information on the numbers of jobs created and retained as a result of its programs.

WEDC improved its financial management practices in FY 2013-14. However, its policy for managing its fund balance allowed it to maintain an unassigned fund balance of $15.6 million as of June 30, 2014, which was larger than necessary. We include recommendations for WEDC to revise its fund balance policy and to improve its administration and oversight of its economic development programs.

A response from WEDC's chief executive officer follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DS/ss

Report Highlights ▪

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

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

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

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

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

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

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

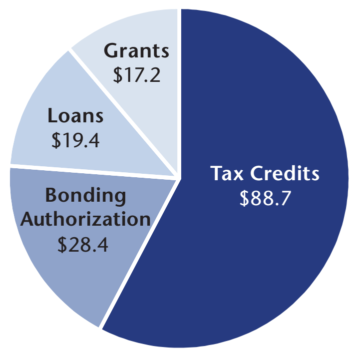
- WEDC's administration and oversight of its programs;
- the results achieved by WEDC's programs; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

As shown in Figure 1, WEDC authorized local governments to issue bonds to fund economic development projects and awarded grants and loans to businesses, local governments, and other organizations in FY 2013-14. It also allocated tax credits to businesses and individuals.

Figure 1

Economic Development Awards
FY 2013-14
(in millions)



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

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

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

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

Program Results and Accountability

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

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

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

Financial Management

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

Future Considerations

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

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

Recommendations

We include recommendations for WEDC to improve its:

☑ administration of grant and loan programs (*pp. 23, 24, 26, 27*, and *31*);

☑ administration of tax credit programs (*pp. 40, 41, 43, 46, 48, 49*, and *50*); and

☑ financial management practices related to credit cards (*p. 76*).

We include recommendations that WEDC's governing board:

☑ improve its oversight of programs (*pp. 54, 57, 58, 58, 59*, and *60*);

☑ ensure its annual economic development program report presents clear, accurate, and complete information on each program's results (*p. 63*);

☑ revise its fund balance policy so that the target for the unassigned fund balance is based on its annual administrative expenditures (*p. 69*); and

☑ ensure its policies comply with statutory requirements and its staff comply with its policies (*p. 82*).

We include recommendations that the Legislature:

☑ consider modifying statutes to require the governing board to include in its annual economic development program report the total numbers of jobs created and retained as a result of all awards made since July 1, 2011 (*p. 66*); and

☑ consider WEDC's unassigned fund balance when determining the amount to appropriate to either WEDC or the Forward Wisconsin Development Authority for the 2015-17 biennium (*p. 84*).

In addition, the Legislature could consider modifying statutes to:

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

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

■ ■ ■ ■

Introduction ▪

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

Economic development assistance includes a variety of programs that provide financial and other support 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.

Since July 2011, WEDC has been Wisconsin's lead organization for economic development. 2011 Wisconsin Act 7, which was enacted in February 2011 and created WEDC, authorized the Department of Administration (DOA) to transfer Department of Commerce funds used to support economic development programs to WEDC before July 1, 2011. Act 7 also authorized DOA to eliminate Commerce positions that were responsible for administering economic development programs. 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., provides 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 Assembly speaker, including 1 representative from the majority party, 1 representative from the minority party, and 1 individual employed in the private sector;
- 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; 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 bylaws, policies, and procedures;
- establishing WEDC's annual budget and monitoring its fiscal management;
- employing any officers, agents, and employees that WEDC 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 DOA secretary.

In July 2013, the governing board approved the *Budget and Operations Plan* that specified several goals for WEDC in FY 2013-14, including:

- providing assistance to 2,140 businesses and 150 communities;
- impacting 20,825 jobs, which the *Budget and Operations Plan* indicates refers to "the effect of our programs on jobs because not all of our programs are aimed at creating new jobs"; and
- leveraging $3 from other sources for every $1 of financial assistance that WEDC contributes to entities.

The Governor is statutorily required to appoint WEDC's chief executive officer, with the advice and consent of the Senate.

The Governor is statutorily required to appoint WEDC's chief executive officer, with the advice and consent of the Senate. WEDC's governing board is statutorily authorized to determine the chief executive officer's compensation and is statutorily permitted to delegate to the chief executive officer any powers and duties that it considers proper. Through WEDC's bylaws, which were amended in July 2013 and September 2014, the governing board has delegated to the chief executive officer the authority to establish WEDC's budget and monitor WEDC's fiscal management; employ staff; accept grants from public and private sources; accept gifts for WEDC's benefit from public and private sources; and execute documents on WEDC's behalf. The bylaws include provisions that authorize the chief executive officer, with the governing board's approval, to create and manage for WEDC's benefit a corporation organized under ch. 181, Wis. Stats., which concerns non-stock corporations such as private foundations.

In FY 2013-14, a chief operating officer served as the chief executive officer's deputy and managed WEDC's day-to-day operations. A chief financial officer managed WEDC's finance division. Six vice presidents managed other divisions:

- The economic and community development division worked to develop and improve business and community assistance opportunities through programs that provided grants, loans, tax credits, and technical assistance.

- The business and industry division worked to identify industries that WEDC believes have a high potential for growth and supported them through programs that provided grants and technical assistance.

- The international business development division worked to increase the state's exports and attract foreign direct investment in Wisconsin businesses. It provided grants to cover the costs of staff training and technical assistance for businesses that wanted to begin exporting to foreign countries or expand existing export operations.

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

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

- The credit and risk division worked to ensure that economic development awards were made on a sound and reasonable basis. It also worked to collect loan repayments and statutorily required reports from award recipients on their progress toward meeting contractual obligations.

Economic Development Programs

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

- grants or loans, which are funds that WEDC provides to businesses and other organizations to finance economic development projects;

- tax credits, which can offset the income tax liability of businesses and individuals or provide funds to businesses and individuals whose tax credits exceed their tax liability;

- bonding authorization, which signifies 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 2013-14, WEDC administered 29 economic development programs.

In FY 2013-14, WEDC administered 29 economic development programs, including 13 programs that it was statutorily required to administer and 16 programs that it administered based on its statutory authority to develop and implement programs. Appendix 1 describes each of the 29 programs.

The programs WEDC administered can be categorized based on the primary type of assistance provided, as shown in Table 1. In FY 2013-14, WEDC provided financial assistance through 18 programs, including 17 grant and loan programs and 1 bonding authorization program. It provided tax credits through nine programs. Two programs provided only technical assistance.

Table 1

Primary Type of Assistance Provided by WEDC's Economic Development Programs

	Number of Programs		
	FY 2011-12	FY 2012-13	FY 2013-14
Financial Assistance			
Grants and Loans	16	16	17
Bonding Authorization	3	2	1
Subtotal	19	18	18
Tax Credits	8	8	9
Technical Assistance	3	2	2
Total	**30**	**28**	**29**

Table 2 shows the amount of assistance awarded through WEDC's economic development programs from FY 2011-12 through FY 2013-14. The amounts awarded in a given year may be actually provided to recipients in either that fiscal year or future fiscal years, depending on the extent to which recipients fulfill their contractual obligations, such as creating jobs or providing training to employees.

Table 2

Amount of Assistance Awarded through WEDC's Economic Development Programs
(in millions)

	FY 2011-12	FY 2012-13	FY 2013-14
Tax Credits	$110.8	$122.3	$88.7
Bonding Authorization	346.4	179.7	28.4
Loans[1]	20.5	13.8	19.4
Grants	41.3	7.7	17.2

[1] Includes loan guarantees.

Audits of WEDC

In report 13-7, we reported concerns with WEDC's administration and oversight of its programs and with its financial management.

Section 13.94(1)(dr), Wis. Stats., requires the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. In May 2013, we issued report 13-7, which fulfilled the requirement for a program evaluation audit of WEDC's programs and partially fulfilled the requirement for a financial audit of WEDC. We reported concerns with WEDC's administration and oversight of its programs and with its financial management. However, at the time of our fieldwork, WEDC did not have adequate familiarity with its accounting system, had not established accounting policies and procedures, and had experienced turnover in key management positions. Therefore, we included only estimates of WEDC's FY 2011-12 expenditures.

In response to report 13-7, 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, required WEDC to report to the Joint Legislative Audit Committee no later than October 1, 2013, on its efforts to address the issues we had identified. Act 20 made a number of statutory changes to WEDC's economic development programs, and it required WEDC's governing board to include additional types of information in its annual economic development program report. In addition, Act 20 required the governing board, beginning in 2014, to have an independent audit conducted of WEDC's financial statements for the previous fiscal year and submit the audit report to the Joint Legislative Audit Committee and the chief clerk of each house of the Legislature.

In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed all recommendations we made in report 13-7. To do so, it indicated that it had taken a number of actions, including establishing new policies, implementing new procedures and processes, reorganizing existing staff, and hiring new staff.

When combined, report 13-7 and report 14-11 fulfilled our statutory requirement to conduct biennially a financial audit and a program evaluation audit.

In September 2014, we issued report 14-11, which completed certain analyses related to WEDC's financial management in FY 2011-12 and FY 2012-13 and updated certain information in report 13-7. When combined, report 13-7 and report 14-11 fulfilled our statutory requirement to conduct biennially a financial audit and a program evaluation audit. In report 14-11, we found that supporting documentation maintained for administrative and grant expenditures was sometimes inadequate, that some expenditures were not consistently recorded in WEDC's accounting system, and that WEDC did not have formal written procedures for reconciling its accounting system and its separate loan and grant tracking system. In addition to including recommendations to address these issues, we recommended that WEDC establish delinquency rate goals that include both loan repayments 90 days or more past due and the entire loan balance for loans with repayments 90 days or more past due.

To complete our current audit, we analyzed WEDC's administration of its economic development programs through FY 2013-14 and its efforts to comply with statutorily required program oversight duties, in part by reviewing available information for more than 100 economic development awards WEDC made. We examined the results achieved by WEDC's programs and the extent to which the programs have created and retained jobs since WEDC began making financial awards in FY 2011-12. We analyzed WEDC's revenues and expenditures in FY 2013-14 and certain financial management issues, and we determined the extent to which WEDC had implemented the recommendations we made in report 13-7 and report 14-11. We also contacted 14 organizations interested in and involved with economic development issues in Wisconsin. Thirteen of the 14 organizations indicated that they were satisfied with WEDC's responsiveness to their requests for information and assistance, and all 14 organizations were satisfied with the quality of assistance provided by WEDC. In addition, almost all of the 14 organizations indicated that the businesses they assist have been satisfied with WEDC's responsiveness to requests for information.

■ ■ ■ ■

Financial Assistance Programs ▪

Through its economic development programs, WEDC authorized local governments to issue bonds to fund economic development projects, and it awarded grants and loans to businesses, local governments, and economic development organizations throughout the state. In report 13-7, we found concerns with WEDC's management of its grant and loan programs, including concerns that WEDC did not have sufficient policies to administer its programs effectively and that WEDC made awards to ineligible recipients, for ineligible projects, and for amounts that exceeded specified limits. Although WEDC subsequently established additional policies for administering its grant and loan programs, in our current audit we found that it did not consistently comply with its policies for administering grant and loan programs and did not require award recipients to submit information showing that contractually required jobs were actually created or retained. We recommend WEDC further improve its administration of grant and loan programs.

In FY 2013-14, WEDC administered 18 programs that provided financial assistance.

In FY 2013-14, WEDC administered 18 programs that provided financial assistance. This included 1 program that authorized local governments to issue tax-exempt bonds to finance economic development projects and 17 programs that awarded grants and loans.

Bonding Authorization Program

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. In addition, the bonds are attractive to private investors because earned income is typically exempt from federal taxes.

Through the Industrial Revenue Bond program, which was the only bonding authorization program that WEDC administered in FY 2013-14, WEDC authorized 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. Through the program, WEDC authorized:

- three municipalities (De Pere, Franklin, and Menomonee Falls) in FY 2012-13 to issue a total of $17.9 million in bonds; and
- seven municipalities (East Troy, Fond du Lac, Germantown, Green Bay, Kiel, Port Washington, and Rothschild) in FY 2013-14 to issue a total of $28.4 million in bonds.

Grant and Loan Programs

WEDC awarded grants and loans directly to businesses, as well as to economic development organizations and local governments that distributed 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 performing environmental remediation. WEDC contractually agreed to provide recipients with grant and loan funds after specified project activities are completed. If recipients do not achieve contractually specified outcomes or meet loan repayment requirements, the contracts contain provisions for default that allow WEDC to attempt to recoup the funds, such as by initiating collection proceedings. However, recipients can request to amend contractual terms, such as the deadline for creating jobs or repaying loans, in order to extend the time available to meet contractual provisions.

In FY 2013-14, WEDC made 141 economic development grants totaling $17.2 million.

As shown in Table 3, WEDC made 141 economic development grants totaling $17.2 million in FY 2013-14. Appendix 2 shows the 11 recipients awarded the largest amounts of grants and loans in FY 2013-14.

Table 3

Economic Development Grants Awarded by WEDC
(in millions)

Program	FY 2012-13 Grants	FY 2012-13 Amount	FY 2013-14 Grants	FY 2013-14 Amount
Idle Industrial Sites Redevelopment	–	–	6	$ 5.1
Brownfield Grant	9	$2.7	11	3.8
Capital Catalyst	2	0.3	7	1.7
Brownfield Site Assessment Grants	9	0.5	17	1.5
Community Development Investment Grants	5	0.1	15	1.3
Target Industry Projects	2	0.2	12	1.2
Global Business Development Grant	34	0.4	53	0.6
Minority Business Development Revolving Loan Fund	2	0.3	4	0.5
Seed Accelerator	2	0.4	4	0.5
Workforce Training Grant	6	0.8	4	0.5
Entrepreneurial Micro-Grants	1	0.3	1	0.3
ExporTech	2	0.4	1	0.1
Capacity Building Grants	4	0.2	3	0.1
Opportunity Research Project	1	<0.1	3	<0.1
Business Retention and Expansion Investment	2	0.9	–	–
Regional Revolving Loan Fund Expansion	1	0.3	–	–
Total	**82**	**$7.7**	**141**	**$17.2**

We examined the amounts awarded, which may differ from expenditure amounts because expenditures can occur over several fiscal years and award recipients may not use the entire amounts awarded. In FY 2013-14, WEDC's grant expenditures under these programs totaled $10.4 million. Because its contracts typically allow recipients to complete projects over multiple years, these expenditures related to grants that WEDC awarded in FY 2013-14 and earlier.

WEDC indicated that its loans are not intended to be the primary funding source for an economic development project. 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 without WEDC's financial assistance. In addition to collectible loans that recipients must repay, WEDC awarded 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 2013-14, WEDC made 40 economic development loans totaling $19.4 million.

As shown in Table 4, WEDC made 40 economic development loans totaling $19.4 million in FY 2013-14, including 4 loan guarantees totaling $460,000 through the Emergency Loan Guarantee for Certified Propane Dealers program. Although the Business Opportunity Loan Fund program replaced the Business Retention and Expansion Investment program in FY 2013-14, WEDC made nine awards through the Business Retention and Expansion Investment program through March 2014. WEDC made these nine awards because it had begun to negotiate the terms of the awards in FY 2012-13 and decided to continue to use that program's policies to complete the awards.

Table 4

Economic Development Loans Awarded by WEDC
(in millions)

	FY 2012-13		FY 2013-14	
Program	Loans	Amount	Loans	Amount
Business Opportunity Loan Fund	–	–	10	$ 8.3
Business Retention and Expansion Investment	15	$ 8.0	9	6.4
Technology Development Loans	14	5.8	17	4.3
Emergency Loan Guarantee for Certified Propane Dealers	0	0.0	4	0.5
Total	**29**	**$13.8**	**40**	**$19.4**

We examined the amounts awarded, which may differ from disbursement amounts because disbursements can occur over several fiscal years and award recipients may not use the entire amounts awarded. WEDC indicated that it did not disburse any funds in FY 2013-14 as a result of loan guarantees because no recipients defaulted. In FY 2013-14, WEDC loan disbursements totaled $17.1 million, including $6.5 million in forgivable loans. Because loan agreements typically allow recipients to complete projects over multiple years, these disbursements related to loans awarded in FY 2013-14 and earlier.

Administration of Grant and Loan Programs

We examined WEDC's administration of its 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;
- appropriately assess the eligibility of businesses and others to be awarded grants and loans;
- comply with statutory and policy requirements when making award decisions and executing contracts;
- appropriately manage and oversee its contracts with award recipients; and
- appropriately monitor the repayment of collectible loans.

To assess WEDC's administration of its programs, we reviewed information for 29 grant and loan contracts totaling $16.9 million that WEDC executed in FY 2013-14. We selected these contracts based on several factors, such as whether the contracts were for larger amounts and whether they required jobs to be created. Appendix 3 contains summary information about these 29 contracts.

WEDC indicated that it makes grant and loan awards based on the program policies in effect when it decides to make the awards, and not based on the policies in effect when it executes contracts with the award recipients. WEDC's underwriters complete a document called a "staff review," which determines whether a business is eligible for an award based on a program's statutory and policy requirements. After WEDC completes a staff review, it decides whether to make an award. We found that several months often passed between when WEDC decided to make the awards and when it executed the contracts. During this time WEDC's policies sometimes changed, but WEDC indicated that it did not typically update its staff reviews. WEDC indicated that its approach is reasonable, in part because a business may rely on its decision to make an award in order to secure other project funding and may initiate projects before contract execution. An alternative approach is to execute contracts based on the program policies in effect at contract execution, which is a legally binding decision to award funds and requires the recipient to achieve specified results in order to receive the funds. We assessed WEDC's program administration based on the policies in effect when it decided to make awards and based on the policies in effect at contract execution. In both instances, we found that WEDC did not consistently comply with its policies. We note that WEDC decided to make all of the grant and loan awards we reviewed.

Establishing Program Policies

Statutes provide general criteria for making awards through grant and loan programs. In addition, WEDC established policies that govern program administration. In report 13-7, we found that WEDC had established some program policies but did not have sufficient policies to administer its grant and loan programs effectively. Therefore, we recommended that WEDC establish sufficient policies to administer its grant and loan programs effectively. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation.

In FY 2013-14, WEDC established policies for all of its grant and loan programs.

In our current audit, we found that WEDC established additional policies for all of its grant and loan programs in FY 2013-14. However, we noted that policies for the Business Opportunity Loan Fund and the Business Retention and Expansion Investment programs indicated that WEDC should award forgivable loans only under "extraordinary circumstances," but such circumstances were defined imprecisely. In FY 2013-14, six of the nine loans WEDC awarded through the Business Retention and Expansion Investment program were forgivable loans. In FY 2014-15, WEDC revised its policies for the Business Opportunity Loan Fund program to include specific criteria for awarding forgivable loans.

Assessing Eligibility for Grants and Loans

WEDC's underwriters review applications submitted by businesses and other organizations seeking grants and loans. In a staff review, underwriters determine if an applicant's proposed project is eligible for an award based on a program's statutory and policy requirements; recommend the amount, if any, to award; and specify the time period in which the applicant could receive awarded funds for achieving outcomes. Thorough and accurate staff reviews help to ensure that funds are awarded to eligible recipients and for eligible projects. Depending on the award amount recommended by underwriters, the chief executive officer, a governing board committee, or the full governing board considers the staff review and determines the amount, if any, to award. After this determination is made, WEDC sends the business a letter of intent that states it is not a binding contract but that describes its offer of assistance and the proposed obligations of the business. After the business returns a signed letter of intent, WEDC prepares a contract.

In FY 2013-14, three of the nine loans WEDC awarded through the Business Retention and Expansion Investment program were based on staff reviews in which WEDC underwriters had evaluated the eligibility of the businesses to receive tax credits through different programs. For example, in August 2013, WEDC awarded a $1.5 million forgivable loan after determining that the business would likely be unable to create jobs in which employees work at least 2,080 hours annually, which was a statutory requirement of the tax credit program for which the staff review was completed. In a brief addendum to the staff review, underwriters recommended that the business be awarded the forgivable loan, but this addendum did not address how the business would ensure that its employees work at least 1,950 hours annually, which was the minimum required by the loan program's policies. WEDC indicated that it considered this issue but did not document it in the addendum to the staff review. Not completing a full staff review for the program through which an award is made increases the risk of WEDC making awards to ineligible recipients and for ineligible projects.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation execute a grant or loan contract only after a full staff review has been completed for the program through which the award is made.

Timeliness of Assessing Eligibility

It is important for WEDC to execute contracts in a timely manner because the circumstances of a business may change and, as a result, the business may decide not to undertake its project in Wisconsin. As indicated in Table 5, 27 of the 29 grant and loan contracts we reviewed were executed no more than 180 days after completion of the staff reviews, but 2 contracts were executed 181 days or more after completion of the staff reviews. WEDC indicated that some award recipients negotiated contract terms and conditions over many months.

Table 5

Days Elapsed from Completion of Staff Reviews to Execution of Grant and Loan Contracts

Days	Awards[1]	Percentage of Total
0 to 90	14	48.3%
91 to 180	13	44.8
181 to 270	2	6.9
Total	**29**	**100.0%**

[1] Based on our review of 29 grant and loan contracts that WEDC executed in FY 2013-14.

Executing Contracts

In report 13-7, we found that WEDC made some grant and loan awards in ways that did not comply with its program policies and that WEDC's contracts with award recipients did not always contain provisions required by its program policies. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had established policies and implemented procedures for ensuring that grant and loan awards comply with its program policies.

During our current audit, our file review found that WEDC's grant and loan contracts did not contain all statutorily required provisions, and that WEDC continued to execute grant and loan contracts in ways that did not consistently comply with its policies.

WEDC's contracts specify project activities businesses must complete in order to receive grant or loan funds. Our file review found that WEDC's grant and loan contracts in FY 2013-14 did not contain all statutorily required provisions. Statutes prohibit the awarding of grants or loans unless the contract "requires" the recipient to repay a grant or loan if, within five years after being awarded the funds, the recipient ceases to conduct the economic activity in Wisconsin for which it received the award and commences substantially the same economic activity outside Wisconsin. This provision was enacted in July 2005. Grant and loan contracts we reviewed that require such a provision indicated that WEDC "may" require the recipients to repay the grants and loans if this situation occurs. Although WEDC may be able to use the permissive language to enforce the contractual provisions, WEDC's contracts should explicitly require recipients to repay grants and loans if, within five years after being awarded the funds, the recipients cease to conduct the economic activity in Wisconsin for which they received the awards and commence substantially the same economic activity outside Wisconsin. Including such contractual language would clearly indicate to recipients that they will be required to repay the funds in these circumstances.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation execute only grant and loan contracts that contain all statutorily required provisions.

Our file review found that WEDC continued to execute grant and loan contracts in ways that did not consistently comply with its policies.

During our current audit, our file review found that WEDC continued to execute grant and loan contracts in ways that did not consistently comply with its policies. In addition, our file review found that WEDC's most-recent staff reviews did not consistently evaluate all grant and loan program policy requirements that were in effect when these staff reviews were completed. For example:

- Although Business Retention and Expansion Investment program policies required recipients of loans in amounts of $200,000 or more to pay a 2.0 percent origination fee, five of six contracts did not require origination fees totaling $114,000. WEDC indicated that it waived the fee for these five recipients, but the program's policies did not contain provisions allowing the fee to be waived, and the staff reviews for the five projects did not document the fee's waiver. When the most-recent staff reviews associated with the five projects were completed, policies required recipients to pay the fee. Policies for the Business Opportunity Loan Fund program, which replaced the Business Retention and Expansion Investment program in FY 2013-14, do not require origination fees.

- Although Workforce Training Grant program policies required recipients of grants in amounts of $200,000 or more to pay a 2.0 percent administrative fee, one of two contracts did not require a $4,000 administrative fee. WEDC indicated that it waived the fee, but the staff review for this project did not document the fee's waiver. When the most-recent staff review associated with this project was completed, policies required recipients to pay the fee. In its FY 2014-15 program policies, WEDC removed the requirement for recipients to pay an administrative fee.

- Although Workforce Training Grant program policies required grant recipients to maintain newly created jobs for two years, one $200,000 contract that WEDC executed in July 2013 required a business to retain newly created jobs for only one year. When the most-recent staff review associated with this project was completed, these policies were in effect, and the staff review documented this issue. WEDC indicated that the one-year retention requirement in the contract was an oversight.

- Although Business Retention and Expansion Investment program policies required recipients that contractually agreed to create or retain jobs to be awarded funds based on the wages paid to employees earning at least 150.0 percent of the federal minimum wage, five contracts did not contain wage requirements for retained jobs, and one of the five contracts did not contain wage requirements for created jobs. When the most-recent staff reviews associated with these five projects were completed, these policies were in effect, and the five staff reviews documented this issue.

- Although Business Retention and Expansion Investment and Business Opportunity Loan Fund program policies provided that contracts must require recipients to submit annual reports for five years documenting their expenditures and achievement of specified outcomes, eight contracts contained annual reporting requirements, but not for the full five-year periods.

- Although Business Opportunity Loan Fund program policies did not list debt repayment as an allowable use of awarded amounts, in May 2014 WEDC executed a $4.0 million loan contract that allowed a business to use $1.6 million of the awarded amount in this manner. WEDC indicated that in this instance it considered debt repayment to be working capital, and its policies indicated that working capital was an allowable use of program funds. We also noted that the award amount was four times greater than the maximum amount "generally" allowed by program policies. WEDC indicated that award maximums in its grant and loan policies are guidelines that can be exceeded if warranted by a recipient's unique circumstances.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *ensure staff reviews evaluate all grant and loan program policy requirements; and*

- *execute only grant and loan contracts that comply with its program policies.*

Managing and Overseeing Contracts

To assess WEDC's management and oversight in FY 2013-14 of grant and loan contracts that it had awarded in prior fiscal years, we conducted a separate file review. We reviewed information for 23 contracts totaling $22.1 million that WEDC executed in FY 2011-12 and FY 2012-13. We selected these contracts based on several factors, such as whether the contracts were for larger amounts and whether they required jobs to be created. Appendix 3 contains summary information about these 23 contracts.

Our file review found that recipients contractually required to create or retain jobs were not contractually required to submit information showing that jobs were actually created or retained.

WEDC expended grant funds and disbursed loan funds based on the extent to which recipients met contractually specified obligations, such as making capital investments. Having received the funds, recipients were also contractually obligated to achieve certain results during the terms of the contracts, such as creating or retaining full-time jobs paying specified wages over a specified time period. However, our file review found that those recipients that were contractually required to create or retain jobs were not contractually required to submit information, such as payroll records, showing the number of the recipients' existing jobs. Similarly, WEDC did not contractually require recipients to submit information showing that the jobs were actually created or retained in accordance with contractual obligations. As a result, the potential exists that recipients may not fulfill all of their contractual obligations.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation contractually require grant and loan recipients to submit information showing that jobs were actually created or retained.

Monitoring Loans

In its capacity as a lender, WEDC is responsible for collecting loan repayments, monitoring loans not fully repaid, pursuing collection of delinquent loans, and reporting loan portfolio information. WEDC indicated that it sends notices to recipients of loans for which repayments are 30 days or more past due and considers other actions when loan repayments are 90 days or more past due. WEDC also compiles information on past-due loans, including the current principal balance of these loans.

WEDC uses two methodologies to calculate loan delinquency rates. First, the payment delinquency rate measures loan repayments that were 90 days or more past due as a percentage of WEDC's total outstanding loan balance for the loan portfolio. Although this delinquency rate helps WEDC to monitor the success of its efforts to bring delinquent loans into current repayment status, as a measure of risk it is limited because it does not consider the entire loan balance that is potentially uncollectible. Second, the principal delinquency rate considers the potentially uncollectible balance of loans. It measures the total loan balance for loans with repayments 90 days or more past due as a percentage of WEDC's total outstanding loan balance for the loan portfolio. WEDC began to calculate the principal delinquency rate in response to our findings in report 14-11.

WEDC's loan delinquency rates declined from December 31, 2013, to December 31, 2014.

Table 6 shows WEDC's two loan delinquency rates. On December 31, 2014, WEDC's total outstanding loan balance for the loan portfolio was $74.4 million. The payment delinquency rate was based on $112,200 of loan repayments that were 90 days or more past due, and the principal delinquency rate was based on a $1.3 million total balance for loans with repayments 90 days or more past due. Both delinquency rates declined since December 31, 2013.

Table 6

WEDC's Loan Delinquency Rates

	December 31, 2013	December 31, 2014
Payment Delinquency Rate	2.7%	0.2%
Principal Delinquency Rate	8.8	1.7

In report 14-11, we recommended that WEDC establish goals for each of the two delinquency rates and include these goals in its overall approach for monitoring loans. WEDC reported to the Joint Legislative Audit Committee on January 15, 2015, that it will report quarterly to the governing board on both the payment delinquency rate and the principal delinquency rate. However, it indicated that a governing board committee decided not to establish goals for each of the two delinquency rates because WEDC's current delinquency rate is lower than any goal that would be established, based on industry-standard measures. Nevertheless, we maintain that establishing such goals would improve WEDC's monitoring of its loans and help to ensure effective oversight of state-provided funds. For example, if the delinquency rates were to increase in the future, established goals would allow the Legislature, the governing board, and the public to more readily assess the rates.

In 2014, the potentially uncollectible loan balance decreased largely because WEDC amended loan contracts, wrote off loans, and forgave loans.

As shown in Table 7, the potentially uncollectible balance of loans with repayments 90 days or more past due decreased by $4.2 million in 2014. This decrease occurred largely because WEDC amended 13 loan contracts to defer loan repayments, wrote off 9 loans, and forgave 2 loans. In addition, two loans were no longer 90 days or more past due because the recipients made loan repayments. The decrease in the potentially uncollectible loan balance was partially offset by eight loans totaling $0.9 million for which loan repayments became 90 days or more past due.

Table 7

Reasons for the Decrease in the Potentially Uncollectible Balance of Loans with Repayments 90 Days or More Past Due
(in millions)

	Loan Amount
Loans Past Due on December 31, 2013	**$ 5.5**
Reasons for the Decrease[1]	
Loan Contracts Amended to Defer Repayments	(2.8)
Loans Written Off	(1.4)
Loans Forgiven	(0.5)
Loans No Longer Past Due	(0.3)
New Loans Past Due on December 31, 2014	0.9
Loans Past Due on December 31, 2014	**$ 1.3**

[1] The amounts amended, written off, forgiven, and no longer past due reflect the potentially uncollectible balance of the loans on December 31, 2013, and exclude any repayments collected or interest accrued.

Loan recipients may seek, and WEDC may approve, loan contract amendments for various reasons. For example, an amendment may defer the dates on which a recipient must make loan repayments. If the repayment dates are deferred, WEDC no longer considers the loan to be delinquent, and the balance of loans with repayments 90 days or more past due is reduced.

In 2014, WEDC amended 13 contracts to defer repayments of loans.

In July 2013, WEDC implemented a policy for amending loan contracts. Under the policy, when a loan recipient requests a contract amendment, WEDC staff determine whether the request is complete, prepare an amendment authorization form, and recommend whether to amend the loan. In considering a contract amendment, the policy indicates that staff should consider factors such as the recipient's compliance with the contract and whether the amendment is likely to affect the ability of the business to repay the loan. However, the policy does not provide guidance on when an amendment should and should not be approved. Depending on the loan amount, the chief executive officer, a governing board committee, or the full governing board decides whether to approve an amendment. From December 31, 2013, to December 31, 2014, WEDC amended contracts to defer repayments on 13 loans that were 90 days or more past due on December 31, 2013, and had a total value of $2.8 million on that date.

We reviewed the repayment status of the 13 loans that had repayments 90 days or more past due on December 31, 2013, and that WEDC had amended in 2014. On December 31, 2014:

- eight loan recipients were in compliance with their amended contracts;
- two loan recipients were 30 to 59 days past due with loan repayments due under their amended contracts; and
- three loan recipients were 60 to 89 days past due with loan repayments due under their amended contracts.

From December 31, 2013, to December 31, 2014, WEDC wrote off nine loans that were 90 days or more past due on December 31, 2013, and had a total value of $1.4 million on that date. This included seven loans totaling $800,700 that the former Department of Commerce had awarded and two loans totaling $600,800 that WEDC had awarded. WEDC turns over loans awarded by Commerce that it considers uncollectible to DOA, which works with the Department of Justice to pursue collection. Because any amounts collected are retained by DOA, WEDC writes off the loans turned over to DOA.

Before determining that a loan it had awarded is uncollectible, WEDC may hire a private collection agency to pursue collection of a loan. Amounts collected are remitted to WEDC, and WEDC pays the collection agency for its services. In part because FY 2011-12 was the first year WEDC awarded loans, and loan contracts typically do not require repayments to begin for six months or more, few of the loans WEDC had awarded became delinquent through December 2014. Records for one of the two WEDC-awarded loans written off indicated that the recipient's initial loan application had been rejected in February 2011. Although WEDC's underwriters reviewed a subsequent loan application in July 2011 and determined that the recipient's financial condition had deteriorated, WEDC awarded the loan in October 2011.

From December 31, 2013, to December 31, 2014, WEDC forgave two loans that were 90 days or more past due on December 31, 2013. As noted, recipients are not required to repay some or all of the principal or interest on forgivable loans if they achieve contractually specified outcomes, such as creating or retaining a specified number of jobs. WEDC indicated that it forgave these two loans because the recipients met their contractually specified outcomes.

WEDC's loan delinquency rates declined in 2014, largely because WEDC amended loan contracts to defer repayments, wrote off loans, and forgave loans. To enable the Legislature to assess WEDC's management of its state-funded loan portfolio in the coming year, including the reasons why loan delinquency rates are rising or declining, WEDC should provide the Joint Legislative Audit Committee with semiannual information on past-due loans.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *determine the loan balance and the total amount of past-due repayments for each loan with repayments 90 days or more past due on July 1, 2015, and January 1, 2016;*

- *determine the loan balance for each of those loans that were amended to defer repayments, written off, or forgiven during each six-month period thereafter;*

- *determine each of those loans that were no longer 90 days or more past due during each six-month period thereafter because the recipients made loan repayments;*

- *determine the payment delinquency rate and the principal delinquency rate on July 1, 2015, and six months later and on January 1, 2016, and six months later;*

- *report this information to the Joint Legislative Audit Committee by February 1, 2016, for the six-month period from July 2015 through December 2015; and*

- *report this information to the Joint Legislative Audit Committee by August 1, 2016, for the six-month period from January 2016 through June 2016.*

▪ ▪ ▪ ▪

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 policies for its tax credit programs. They also require WEDC to review applications to determine whether businesses and individuals are eligible for tax credits, execute contracts that set forth the terms under which tax credits will be provided, and verify that tax credit recipients achieve contractually required outcomes. In report 13-7, we found concerns with WEDC's management of its tax credit programs, including that WEDC did not establish all statutorily required policies and that it allocated tax credits to ineligible recipients, for ineligible projects, and for amounts that exceeded specified limits. In our current audit, we found that WEDC still had not established all statutorily required policies and did not consistently comply with statutory requirements or its program policies for administering tax credit programs. We recommend WEDC improve its administration of tax credit programs.

In FY 2013-14, WEDC administered nine economic development programs that provided tax credits.

In FY 2013-14, WEDC administered nine economic development programs that provided tax credits, all of which were statutorily required, including:

- two development zone programs intended to encourage economic development in specific geographic areas through targeted tax credits to businesses;

- four investment tax credit programs intended to increase funding for Wisconsin businesses; and

- three other tax credit programs intended to assist businesses throughout Wisconsin.

WEDC contractually allocates tax credits to businesses and individuals on a fiscal year basis. This allocation represents the maximum amount of tax credits that can be awarded during the term of the contract. The amount of awarded tax credits is based on a business or individual achieving contractually specified economic development outcomes, such as creating jobs. Tax credits are awarded on a calendar year basis. After awarding tax credits, WEDC informs DOR of the award, and businesses and individuals may claim the awarded tax credits against their Wisconsin income taxes. Appendix 4 shows the ten recipients allocated the largest amounts of tax credits in FY 2013-14.

Development Zone Programs

To participate in a development zone program in FY 2013-14, a business either provided WEDC with a plan to operate within an existing zone or requested that a new zone be designated at its current or intended location. When applying to WEDC, a business was required to explain the proposed project and the expected outcomes, such as creating or retaining jobs. Statutes require WEDC to annually verify information submitted to it regarding the extent to which a business met the expected outcomes under the contract for that year before awarding tax credits based on the extent to which those outcomes were met.

Under the Enterprise Zone program, statutes authorized WEDC to designate up to 20 zones in FY 2013-14, and each zone may be effective for up to 12 years. Businesses in the zones were 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 were refundable, meaning that if a business's tax credits exceeded its Wisconsin income tax liability, the business received a payment from DOR for the difference. These payments were made with general purpose revenue (GPR) that the Legislature appropriated through a sum sufficient appropriation separate from WEDC's appropriations. Statutes did not limit the amount of tax credits available through the Enterprise Zone program.

Under the Development Opportunity Zone program in FY 2013-14, statutes authorized WEDC to allocate tax credits to businesses operating in the cities of Beloit, Janesville, and Kenosha. Businesses could be allocated credits for agreeing to create or retain full-time jobs, undertake capital investment, or perform environmental remediation in the three zones over the five-year statutorily defined period that each zone exists. Development Opportunity Zone tax credits were nonrefundable, meaning that they could be claimed only up to the amount of a business's Wisconsin income tax liability in a given year. Unclaimed credits could be carried forward to offset future tax liabilities for up to 15 years. Statutes limited the amount of tax credits available for each of the three zones to $5.0 million, although WEDC could extend a zone for an additional five years, in which case businesses operating in the zone would be eligible for an additional $5.0 million in tax credits.

In FY 2013-14, WEDC allocated $21.1 million in tax credits through two development zone programs.

As shown in Table 8, WEDC allocated $21.1 million in tax credits through the Enterprise Zone and Development Opportunity Zone programs in FY 2013-14. WEDC awarded $25.6 million in tax credits through these two programs in 2014, including to businesses that had been allocated tax credits in prior fiscal years.

Table 8

Tax Credits Allocated through Development Zone Programs[1]
(in millions)

	FY 2012-13		FY 2013-14	
Program	Amount	Awards	Amount	Awards
Enterprise Zone	$62.5	1	$18.3	2
Development Opportunity Zone	0.0	0	2.8	4
Total	**$62.5**	**1**	**$21.1**	**6**

[1] Tax credits are allocated on a fiscal year basis.

Investment Tax Credit Programs

In FY 2013-14, WEDC administered four investment tax credit programs intended to support new Wisconsin businesses: the Qualified New Business Ventures, Angel Investment Tax Credit, Early Stage Seed Investment Tax Credit, and Qualified Wisconsin Business programs.

In FY 2013-14, 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 be certified, 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. WEDC certified 26 businesses in FY 2013-14.

Through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in FY 2013-14, statutes permitted WEDC to award tax credits in amounts equal to 25.0 percent of investments made in certified new business ventures and held for at least three years, up to a maximum amount specified by WEDC for individual businesses. Certain individuals and groups of individuals who provided start-up financing to certified businesses were awarded tax credits through the Angel Investment Tax Credit program, while venture capital funds that invested in certified businesses were awarded tax credits through the Early Stage Seed Investment Tax Credit program. In 2013 and 2014, statutes permitted up to $20.0 million in tax credits to be claimed per calendar year under the Angel Investment Tax Credit program, and up to $20.5 million in tax credits to 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 2014, investors were awarded $8.6 million in tax credits through two investment tax credit programs.

As shown in Table 9, investors in 70 businesses were awarded $8.6 million in tax credits through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in 2014.

Table 9

Tax Credits Awarded through Investment Tax Credit Programs[1]
(in millions)

	2013		2014	
Program	Amount	Businesses[2]	Amount	Businesses[2]
Angel Investment Tax Credit	$6.0	69	$5.6	65
Early Stage Seed Investment Tax Credit	2.8	24	3.0	21
Total	**$8.8**	69	**$8.6**	70

[1] Tax credits are awarded on a calendar year basis.

[2] Some businesses had investors awarded tax credits through both programs.

To be certified to participate in the Qualified Wisconsin Business program, statutes required a business, in the taxable year immediately prior to applying for the program, 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. Investors in certified businesses could receive benefits to lower their Wisconsin income tax liability. WEDC certified 203 businesses under this program from July 2013 through December 2013. 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, transferred administration of the Qualified Wisconsin Business program from WEDC to DOR, effective January 1, 2014.

Other Tax Credit Programs for Businesses

Under the Economic Development Tax Credit program in FY 2013-14, statutes provided that certain projects, including those involving capital investment, employee training, job creation, or either retaining a corporate headquarters in or relocating a corporate headquarters to Wisconsin, were eligible for nonrefundable tax credits. A business was required to submit an application indicating the type of project it planned to complete. If WEDC approved the application, it contracted with the business and allocated a specified amount of nonrefundable tax credits. Statutes required WEDC to annually verify the extent to which a business met the contractual terms for that year before awarding tax credits based on the extent to which those contractual terms were met. Unclaimed tax credits could be carried forward 15 years to offset future tax liabilities.

Under the Jobs Tax Credit program in FY 2013-14, statutes authorized WEDC to award businesses or individuals refundable tax credits for up to ten years, based on the wages paid to employees in existing and newly created full-time jobs. A business could also be awarded tax credits for training costs if it increased its net employment in Wisconsin in each year for which it claimed a tax credit for training costs. A business could be awarded up to 10.0 percent of its payroll costs or up to 100.0 percent of its training costs.

Through the Historic Preservation Tax Credit program in FY 2013-14, statutes authorized WEDC to allocate businesses or individuals nonrefundable tax credits based on expenditures to preserve or rehabilitate properties certified as historic or built before 1936. DOR awarded recipients tax credits in an amount equal to 20.0 percent of a recipient's qualified costs, and recipients could transfer credits to a third party in exchange for cash or other valuable consideration.

In FY 2013-14, WEDC allocated $59.0 million in tax credits through three other tax credit programs.

As shown in Table 10, WEDC allocated $59.0 million in tax credits through the Economic Development Tax Credit, Jobs Tax Credit, and Historic Preservation Tax Credit programs in FY 2013-14. WEDC awarded $25.7 million in tax credits through the Economic Development Tax Credit and Jobs Tax Credit programs in 2014, including to businesses that had been allocated tax credits in prior years.

Table 10

Tax Credits Allocated through Other Programs for Businesses[1]
(in millions)

	FY 2012-13		FY 2013-14	
Program	Amount	Awards	Amount	Awards
Jobs Tax Credit	$ 9.4	8	$30.8	17
Economic Development Tax Credit	41.5	83	25.3	64
Historic Preservation Tax Credit	0.0	0	2.9	10
Total	**$51.0**	**91**	**$59.0**	**91**

[1] Tax credits are allocated on a fiscal year basis.

Administration of Tax Credit Programs

We examined WEDC's administration of its tax credit programs. Based in part on statutory requirements, effective program administration requires WEDC to:

- establish sufficient policies for all of its tax credit programs;
- appropriately assess the eligibility of businesses and individuals to be allocated tax credits for projects;
- comply with statutory and policy requirements when making allocation decisions and executing contracts; and
- appropriately manage and oversee its contracts with tax credit recipients.

To assess WEDC's administration of its programs, we reviewed information for 42 tax credit contracts totaling $68.7 million that

WEDC executed in FY 2013-14. We selected these contracts based on several factors, such as whether the contracts were for larger amounts and whether they required jobs to be created. Appendix 3 contains summary information about these 42 contracts.

WEDC indicated that it makes tax credit allocations based on the statutes and program policies in effect when it decides to make the allocations, and not based on the statutes and policies in effect when it executes contracts with the recipients. Similar to the process used to award grants and loans, WEDC's underwriters complete staff reviews that determine whether businesses are eligible for tax credits based on a program's statutory and policy requirements. We found that often several months and, in one instance, more than two years passed between when WEDC decided to make the allocations and when it executed the contracts. During this time, statutes and WEDC's policies sometimes changed, but WEDC indicated that it typically did not update its staff reviews. WEDC indicated that its approach is reasonable, in part because a business may rely on its decision to make an allocation in order to secure other project funding and may initiate projects before contract execution. An alternative approach is to execute contracts based on the statutes and program policies in effect at contract execution, which is a legally binding decision to allocate tax credits and requires the recipient to achieve specified results in order to be awarded the tax credits. We assessed WEDC's program administration based on the statutes and policies in effect when it decided to make tax credit allocations and based on the statutes and policies in effect at contract execution. In both instances, we found that WEDC did not consistently comply with statutes and its policies. We note that WEDC decided to make all but one of the tax credit allocations we reviewed.

Establishing Program Policies

Statutes provide general criteria for making allocations through each of the nine tax credit programs WEDC administered in FY 2013-14 and require WEDC to establish additional rules for seven of the programs. Because WEDC is not a state agency, it cannot promulgate administrative rules. Instead, it establishes program policies. In report 13-7, we found that WEDC did not establish all statutorily required policies for its tax credit programs and recommended that it establish all such policies. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation.

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

During our current audit, we found that WEDC still had not established all statutorily required policies for its tax credit programs. For example:

- Statutes require WEDC to adopt Development Opportunity Zone program rules that specify how long a full-time job that is created or retained must be retained in order for a business or individual to claim tax benefits for the full-time job. In FY 2013-14, WEDC's policies did not specify how long an existing full-time job must be retained.

- Statutes require WEDC to establish rules for allocating a portion of tax credits through the Economic Development Tax Credit program to rural areas and to small businesses. Although WEDC's FY 2013-14 policies reserved $5.0 million in tax credits for awards to rural areas and $5.0 million for awards to small businesses, in July 2014 the governing board approved revised policies that no longer include the statutorily required provisions for allocating a portion of the program's tax credits to rural areas and small businesses.

☑ Recommendation

We again recommend the Wisconsin Economic Development Corporation establish all statutorily required policies for its tax credit programs.

Assessing Eligibility for Tax Credits

WEDC's underwriters review applications submitted by businesses and individuals seeking tax credits. The underwriters then complete staff reviews that determine eligibility, recommend the amounts of tax credits to allocate, and specify the time periods in which businesses could be awarded tax credits for achieving outcomes. Thorough and accurate staff reviews help to ensure that tax credits are allocated to eligible recipients, for eligible projects, and for amounts that do not exceed limits specified in statutes and WEDC's policies.

Depending on the amount of tax credits recommended in the staff review, the chief executive officer, a governing board committee, or the full governing board considers the staff review and determines the amount of tax credits, if any, to allocate. After this determination is made, WEDC sends the business a letter of intent that is not a binding contract but that describes its offer of assistance and the business's proposed obligations. After the business returns a signed letter of intent, WEDC prepares a contract. WEDC indicated that lengthy negotiations about a contract's provisions can occur, and that if significant changes are made to its offer or if other factors change a project, it completes a revised staff review before executing a contract. WEDC completed staff reviews for all but one of the tax credit allocations we reviewed. This staff review was completed by the Department of Commerce.

Our file review found WEDC's staff reviews did not consistently evaluate whether businesses met all eligibility requirements in its policies.

Our file review found that WEDC's most-recent staff reviews did not consistently evaluate whether businesses met all tax credit eligibility requirements in its policies in effect when the staff reviews were completed. For example:

- The most-recent staff reviews associated with 8 of the 18 projects we reviewed for the Economic Development Tax Credit program did not determine the three-year projected Wisconsin income tax liability of the businesses, even though policies in effect when these staff reviews were completed limited the maximum amount of tax credits that could be allocated to 125.0 percent of a business's projected three-year income tax liability. WEDC allocated a total of $7.1 million through the eight contracts.

- The most-recent staff reviews associated with 7 of the 18 projects we reviewed for the Economic Development Tax Credit program did not evaluate the applications to determine whether the proposed projects would occur without the tax credits, even though policies in effect when the staff reviews were completed required such evaluations to be completed. WEDC allocated a total of $6.5 million in tax credits through the seven contracts.

- The most-recent staff review associated with one project we reviewed for the Jobs Tax Credit program did not include financial information, even though policies in effect when the staff review was completed required the business's application to be evaluated, in part, on the business's financial soundness. WEDC allocated $4.5 million in tax credits through the contract.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation ensure staff reviews evaluate whether businesses meet all eligibility requirements.

Timeliness of Assessing Eligibility

It is important for WEDC to execute a contract in a timely manner after a staff review is completed. If statutes are modified or WEDC's policies are revised after completion of a staff review but before the contract is executed, WEDC may allocate tax credits through a contract that is based on outdated statutory or policy provisions. In addition, the circumstances of a business may change and, as a result, the business may decide not to undertake its project in Wisconsin if there is a delay in contract execution. In FY 2013-14, WEDC did not have policies addressing how long it should typically take to execute contracts. The amount of time necessary to execute a contract depends on a number of factors, such as a project's complexity and the duration of contractual negotiations. We note that 4 of the 14 organizations we contacted stated that businesses had indicated to them that WEDC did not consistently act in a timely manner in executing contracts for financial awards.

As shown in Table 11, 7 of the 42 tax credit contracts we reviewed were executed 181 days or more after completion of the staff reviews, including 2 contracts totaling $1.0 million that were executed more than two years after completion of the staff reviews. The available documentation did not indicate the reasons why these two contracts were executed more than two years after completion of the staff reviews.

Table 11

Days Elapsed from Completion of Staff Reviews to Execution of Tax Credit Contracts

Days	Awards[1]	Percentage of Total
0 to 90	19	45.2%
91 to 180	16	38.1
181 to 270	4	9.5
271 to 730	1	2.4
More than 730	2	4.8
Total	**42**	**100.0%**

[1] Based on our review of 42 tax credit contracts that WEDC executed in FY 2013-14.

Because the information in a staff review becomes outdated over time, WEDC should establish policies that specify how long a completed staff review remains valid. For example, if WEDC determined that the information remains valid for 180 days, the policies should require the completion of a new staff review if a contract has not yet been executed within that time period. Establishing such policies would increase the likelihood that the staff review reflects the most recent statutory and policy requirements for making allocations through a given tax credit program, and that the staff review accurately reflects the financial conditions and needs of the business that is applying for the tax credit.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation establish policies that specify how long a completed staff review remains valid and that require a new staff review to be completed if a contract has not been executed within that specified time period.

Executing Contracts

WEDC allocates tax credits through contracts that specify the outcomes businesses must achieve in order to be awarded the tax credits. In report 13-7, we found that in some instances WEDC allocated tax credits for economic development projects in ways that did not comply with statutes or its program policies. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had established policies and implemented procedures for ensuring that tax credit allocations comply with statutes and its program policies.

Our file review found that WEDC continued to allocate tax credits in FY 2013-14 in ways that did not consistently comply with statutes.

During our current audit, our file review found that WEDC continued to allocate tax credits in FY 2013-14 in ways that did not consistently comply with statutes. For example:

- Since June 2009, statutes have required project activities funded by the Jobs Tax Credit program to occur in Wisconsin. Through this program, WEDC allocated one Illinois business $500,000 in July 2013 and a second Illinois business $6.3 million in February 2014. The contracts stipulated that after the businesses relocated jobs to Wisconsin, the businesses would be awarded tax credits in amounts based on the wages they had paid to their employees while working in Illinois, and such amounts would increase the longer the jobs remained in Illinois. The contracts did not specify deadlines for relocating the jobs. As of December 2014, WEDC had awarded one of the two businesses $53,678 in tax credits.

- 2013 Wisconsin Act 20, which took effect in July 2013, increased from $20,000 to $22,620 the minimum annual wage businesses needed to pay certain employees in order to be awarded tax credits based on the employees' wages through the Jobs Tax Credit and Enterprise Zone programs. From July 2013 through December 2013, WEDC allocated four businesses a total of $9.2 million in tax credits. The contracts were executed after the effective date of the Act and allow these four businesses to be awarded tax credits based on wages paid to employees earning at least $20,000 annually. When the most-recent staff reviews associated with two of the four projects were completed, statutes required businesses to pay minimum annual wages of at least $22,620.

- Since May 2006, statutes have required the revocation of an allocation of tax credits made through the Enterprise Zone program if a business "leaves the enterprise zone to conduct substantially the same business outside of the enterprise zone" or "ceases operations in the enterprise zone and does not renew operation of the business or a similar business in the enterprise zone within 12 months." In March 2014, WEDC executed a contract that allocated $10.3 million in tax credits to a business but permits WEDC to revoke the allocation for these reasons during only the first 5 years of the 11-year contract. As a result, the business could leave the enterprise zone after five years, not be required to repay previously claimed tax credits, and continue to claim additional tax credits previously awarded.

- Since March 2009, statutes have required the Department of Commerce and WEDC to establish a schedule of hourly wage ranges and "the corresponding per employee tax benefit for which [a business] may be eligible" through the Economic Development Tax Credit program. WEDC allocated 12 businesses a total of $9.3 million in tax credits based on a schedule of hourly wage ranges, but it contractually agreed to award tax credits based on a per-job amount that did not depend on hourly wages. As a result, these businesses could be allocated tax credits based on the expected creation of higher-paying jobs but be awarded tax credits for actually creating lower-paying jobs.

- Since July 2005, statutes have prohibited the allocation of tax credits through the Development Opportunity Zone program unless the contract "requires" the recipient to repay the tax credits if, within five years after the allocation, the recipient ceases to conduct the economic activity in Wisconsin for which it was allocated the tax credits and commences substantially the same economic activity outside Wisconsin. All four contracts executed through the program in FY 2013-14 indicated that WEDC "may" require the recipient to repay the tax credits if this situation occurs. Although WEDC may be able to use the permissive language to enforce the contractual provisions, its contracts should explicitly require recipients to repay the tax credits if, within five years after being allocated the tax credits, the recipients cease to conduct the economic activity in Wisconsin for which they were allocated the tax credits and commence substantially the same economic activity outside Wisconsin. This would clearly indicate to recipients that they will be required to repay the tax credits in these circumstances.

Our file review found that WEDC continued to allocate tax credits in ways that did not consistently comply with its policies.

Our file review also found that WEDC continued to allocate tax credits in ways that did not consistently comply with its policies. For example:

- Economic Development Tax Credit program policies limited tax credit allocations to 125.0 percent of a business's projected three-year Wisconsin income tax liability. However, WEDC allocated two businesses a total of $780,000, which was $126,300 more than allowable under its policies. When the most-recent staff review associated with one of two projects was completed, policies limited allocations to 125.0 percent of a business's projected three-year Wisconsin income tax liability.

- Economic Development Tax Credit and Development Opportunity Zone program policies required a business to provide certain health insurance benefits to employees in "full-time jobs to be created or retained" in order to be awarded tax credits for these jobs. WEDC required the businesses to provide the required health insurance benefits to their employees at the time the staff reviews associated with these projects were completed. However, none of the 17 contracts that allocated tax credits for job creation or retention and that we reviewed for these two programs required the businesses to provide the required health insurance benefits to the employees in the jobs that were later created or retained.

- Economic Development Tax Credit program policies prohibited a business that was allocated tax credits for capital investment from being awarded tax credits for employment, moving, and unrelated fee and permit expenditures. However, three contracts that allocated a total of $1.9 million in tax credits for capital investment did not prohibit the businesses from being awarded tax credits for these expenditures. In contrast, four other contracts contained provisions that allow the businesses to be awarded tax credits only for allowable purposes.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation allocate tax credits only in accordance with statutory requirements and its program policies.

In report 13-7, we found that WEDC sometimes allocated tax credits for economic development projects that began before contracts were executed, and we recommended that WEDC allocate tax credits only for projects that have not yet occurred. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation. During our current audit, our file review found that WEDC in FY 2013-14 continued to allocate tax credits for projects that began before contracts were executed. WEDC did so by contractually allowing recipients to earn tax credits for project-related activities that occurred before it executed the contracts.

In FY 2013-14, WEDC allowed recipients to earn tax credits for projects that began before it executed the contracts.

As shown in Table 12, our file review found that 36 of 42 contracts (85.7 percent) allowed recipients to earn tax credits for projects that began before WEDC executed the contracts, as was permitted by WEDC's policies in FY 2013-14. This included seven contracts that allowed the recipients to earn tax credits for projects that began more than one year before WEDC executed the contracts. Through December 2014, WEDC awarded recipients at least $2.1 million for project-related activities that had occurred before it executed these seven contracts. WEDC indicated that it contractually allowed recipients to earn tax credits for project-related activities that had occurred before it executed contracts because some recipients began their projects in anticipation of later receiving tax credits. However, we found that recipients began three of these seven projects before they applied for the tax credits.

Table 12

Time Periods that Recipients Could Begin to Earn Tax Credits for Projects

	Contracts[1]	Percentage of Total	Amount Allocated	Percentage of Total
Days Before Contract Execution				
0 to 180	21	50.0%	$33.1	48.2%
181 to 365	8	19.0	12.7	18.5
366 to 730	3	7.1	1.8	2.6
More than 730	4	9.5	5.5	8.0
Subtotal	36	85.7	53.2	77.4
After Contract Execution	6	14.3	15.6	22.7
Total	**42**	**100.0%**	**$68.7**	**100.0%**

[1] Based on our review of 42 tax credit contracts that WEDC executed in FY 2013-14.

We reviewed more closely the seven contracts for projects that had begun more than one year before WEDC executed the contracts and found that:

- Two contracts executed with one business in March 2014 allocated $3.5 million in tax credits through the Economic Development Tax Credit program for creating jobs from June 2011 through May 2014. WEDC indicated that after the business accepted a letter of intent in May 2011, it ceased communicating with the business for a period of time. The December 2013 staff review indicated that the business had already started the project. Through December 2014, WEDC had awarded the business $2.5 million in tax credits, including at least $1.6 million in tax credits for creating jobs before the two contracts were executed.

- A contract executed in May 2014 allocated one business $2.0 million in tax credits through the Jobs Tax Credit program for creating and retaining jobs from January 2012 through December 2017. Through December 2014, WEDC had awarded the business $130,000 in tax credits, all of which was for creating and retaining jobs before the contract was executed.

Separate from our file review, we found that in May 2014 WEDC executed a contract allocating one business $140,000 in tax credits through the Economic Development Tax Credit program for activities occurring from January 2013 through December 2016. The business subsequently submitted information to WEDC indicating that the project had been completed before the contract's execution and would have occurred even without the tax credits. Through December 2014, WEDC had not awarded the business any tax credits.

☑ Recommendation

We again recommend the Wisconsin Economic Development Corporation allocate tax credits only for projects that have not yet begun when contracts are executed.

The absence of specific contractual language in some instances may hinder WEDC's ability to enforce contractually specified outcomes. For example, two tax credit contracts that allocated a total of $3.0 million and were executed in FY 2013-14 required the businesses to retain all existing full-time jobs at specific locations, but the contracts did not specify the number of existing jobs at the businesses. Although WEDC may have collected information on the numbers of existing jobs, having these numbers in the contract could make it easier for WEDC to enforce contractual terms if the businesses do not retain all existing full-time jobs.

Managing and Overseeing Contracts

To assess WEDC's management and oversight in FY 2013-14 of tax credit contracts that it had awarded since it became fully operational in July 2011, including its efforts to award recipients accurate and allowable amounts of tax credits, we conducted a separate file review. We reviewed information for 23 contracts totaling $151.9 million that WEDC executed from FY 2011-12 through FY 2013-14. We selected these contracts based on several factors, such as whether the contracts were for larger amounts and whether they required jobs to be created. Appendix 3 contains summary information about these 23 contracts.

Our file review found that WEDC did not consistently comply with statutes when it awarded tax credits in FY 2013-14.

Our file review found that WEDC did not consistently comply with statutes when it awarded tax credits in FY 2013-14. WEDC awarded tax credits based on the extent to which it determined that businesses met contractually specified outcomes. Statutes require WEDC to annually verify information submitted by businesses on the extent to which contractually specified outcomes were achieved. Our file review found that recipients that were contractually required to create or retain jobs generally submitted lists of their employees and the wages of those employees to WEDC. WEDC accepted the submitted information as accurate and complete and used it to calculate the amount of tax credits to award. In doing so, it indicated that it complied with the statutory requirement to verify the information submitted. However, verification should involve an assessment of the information's accuracy, such as by reviewing a business's official payroll records. Our file review found no documentation that WEDC attempted to verify the submitted information before awarding tax credits. In addition, WEDC did not have policies for verifying the information.

Our file review found another instance in which WEDC awarded tax credits in a way that did not comply with statutes. Statutes permitted a business to claim tax credits through the Enterprise Zone program for retaining jobs if the business employed at least as many eligible employees in the Enterprise Zone as it did in the year before the Enterprise Zone took effect. In FY 2013-14, WEDC awarded one business $517,000 in tax credits for retaining jobs, even though it determined that the business employed 307 fewer eligible employees in the Enterprise Zone than it did in the year before the Enterprise Zone took effect.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *establish policies for verifying information submitted by businesses on the extent to which contractually specified outcomes were achieved; and*

- *award tax credits only in accordance with statutory requirements.*

Separate from our file review, we noted other issues with WEDC's management and oversight of its contracts. In FY 2013-14, WEDC did not have procedures for recovering previously awarded tax credits from recipients that did not meet contractual obligations, and it did not consistently act in a timely manner to recover tax credits. From July 2013 through January 2015, WEDC indicated that it exercised its contractual authority to recover tax credits awarded through two contracts, including a contract executed by the Department of Commerce in August 2010 that allocated a business $100,000 in tax credits through the Economic Development Tax Credit program. In March 2013, the business notified WEDC that it had closed the facility for which it had been awarded tax credits. However, not until April 2014 did WEDC ask DOR to recover

$10,000 in previously awarded tax credits. WEDC indicated that the delay occurred because it did not have procedures for recovering awarded tax credits.

To manage and oversee its tax credit contracts effectively, WEDC should establish procedures for recovering previously awarded tax credits from recipients that do not meet contractual obligations. The procedures should specify the actions that WEDC will take and the deadlines when those actions must be completed. Acting in a timely manner increases the likelihood of recovering tax credits.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation establish procedures for recovering previously awarded tax credits from recipients that did not meet contractual obligations.

Separate from our file review, we noted that a contract executed in August 2014 allocated one business $5.5 million in tax credits through the Enterprise Zone program for retaining jobs and making capital investments from April 2014 through March 2019. After the contract was executed, the business indicated that it would not make all of the planned capital investments during this period. In January 2015, WEDC's governing board authorized an amendment to the contract that would allow the business to be awarded tax credits for capital investments that the business had made from January 2013 to April 2014, which was earlier than the time period initially anticipated. The amendment was executed in March 2015.

Issues for Legislative Consideration

The Legislature could consider modifying statutes to prohibit tax credits from being allocated based on projects that occur before contracts are executed.

In report 13-7 and in our current audit, we note that WEDC allocated tax credits for projects that began before contracts were executed. Based in part on letters of intent, WEDC indicated that recipients may begin projects in expectation of subsequently being allocated tax credits, although letters of intent state that they are not binding contracts. WEDC also indicated that Wisconsin benefits from job creation and other projects that begin before contracts are executed. However, allocating tax credits in this manner can result in businesses being awarded tax credits for projects that would have occurred even without the tax credits. The Legislature could consider modifying statutes to prohibit tax credits from being allocated based on projects that occur before contracts are executed.

The Legislature could consider modifying statutes to require all tax credit recipients to increase net employment in Wisconsin in order to be awarded tax credits.

WEDC's tax credit contracts frequently require recipients to create jobs at specific project locations. If a recipient operates in other Wisconsin locations, it could reduce employment at the other locations in order to increase employment at the project location and be awarded tax credits. Statutes governing the Jobs Tax Credit program address this potentiality by requiring a recipient to increase net employment in Wisconsin each year that tax credits are awarded. The Legislature could consider modifying statutes for other tax credit programs to require recipients to increase net employment in Wisconsin in order to be awarded tax credits. However, some recipients, particularly large businesses, may be unable to commit to increasing net employment statewide.

■ ■ ■ ■

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. In report 13-7, we found that the governing board did not comply with all statutory requirements related to program oversight and needed to report more clearly on the numbers of jobs created and retained as a result of the financial awards made through the programs. In our current audit, we found similar concerns with program oversight. Although WEDC's October 2014 economic development program report addressed certain concerns we had previously identified, the report did not contain clear, accurate, and complete information on the numbers of jobs created and retained as a result of its programs. We recommend WEDC's governing board improve its program oversight and its reporting of program results.

Establishing Program Goals

WEDC's October 2014 economic development program report included at least one goal for each program.

For each economic development program implemented, statutes require WEDC's governing board to establish clear and measurable goals that are tied to the program's statutory or programmatic policy objectives. We reviewed the statutorily required economic development program report that WEDC submitted to the Legislature in October 2014 and found that each program had at least one goal.

For each economic development program, statutes require the 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. The expected results WEDC establishes are quantifiable benchmarks. Although the October 2014 report includes at least one expected result for each program, it does not include expected results for all program goals. For example:

- The goals of the Development Opportunity Zone tax credit program are to encourage award recipients to create jobs, retain jobs, make capital investments, and undertake environmental remediation, but the October 2014 report contains expected results only for creating jobs and the number of projects to receive tax credits.

- The goals of the Enterprise Zone tax credit program are to encourage award recipients to create jobs, retain jobs, make capital investments, provide job training, and make Wisconsin supply chain investments, but the October 2014 report contains expected results only for creating jobs, retaining jobs, and the number of businesses to receive tax credits.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by establishing at least one quantifiable benchmark for each goal of its economic development programs.

Monitoring Program Performance

WEDC's governing board is statutorily required to monitor the performance of its economic development programs.

WEDC's governing board is statutorily required to monitor the performance of its economic development programs, including by:

- contractually requiring certain award recipients to submit progress reports that demonstrate the extent to which the recipients have met their contractual obligations;

- contractually requiring certain award recipients to submit schedules of expenditures that demonstrate how recipients spent awarded funds; and

- verifying information in a sample of progress reports.

Progress Reports

Statutes provide that WEDC's governing board must require each recipient of a grant or loan to submit a report to WEDC, and that the governing board's contracts must specify the frequency and format of the report and the performance measures to be included in the report. In addition, WEDC contractually requires recipients of tax credits to submit such progress reports. WEDC used the information in the progress reports to help complete its statutorily required annual economic development program report, which provides information on each of its programs, and to help compile the accompanying online data that show the results of each program, including the numbers of jobs created and retained as a result of its financial awards.

In report 13-7, we found that recipients of a sample of financial awards WEDC made from July 2011 through December 2012 submitted 45.0 percent of contractually required progress reports. Therefore, we recommended that the governing board comply with statutes by ensuring that recipients submit the progress reports. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation and created a policy for tracking whether recipients submit the required progress reports. This policy required WEDC to send a recipient a written notice when a progress report was past due by 30 days, 60 days, and 90 days.

WEDC's information indicated that as of December 2014, recipients had submitted 94.6 percent of progress reports that were due from July 2013 through November 2014.

In our current audit, information provided by WEDC indicated that as of December 2014, award recipients had not submitted 81 of 1,491 contractually required progress reports (5.4 percent) that were due from July 2013 through November 2014. The information indicated that recipients had submitted 1,410 progress reports (94.6 percent) as of December 2014, including:

- 701 progress reports (47.0 percent) submitted on time;
- 420 progress reports (28.2 percent) submitted from 1 day to 29 days late;
- 131 progress reports (8.8 percent) submitted from 30 days to 59 days late; and
- 158 progress reports (10.6 percent) submitted 60 days or more late.

To evaluate WEDC's compliance with its policy for tracking whether award recipients submit the required progress reports, we examined the available information pertaining to the 17 progress reports we selected to review. These 17 progress reports were associated with awards WEDC made in FY 2013-14, were due from January 2014 through July 2014, but were not submitted within 120 days of the contractually specified due dates. Under its policy, WEDC should have sent a 30-day, a 60-day, and a 90-day past-due notice for each of these 17 overdue progress reports.

WEDC did not send all required past-due notices to award recipients that had not submitted contractually required progress reports on time.

As shown in Table 13, WEDC sent 11 of the 17 required 30-day past-due notices, 8 of the 17 required 60-day past-due notices, and 4 of the 17 required 90-day past-due notices as of December 2014. When WEDC sent past-due notices, it typically did not do so in a timely manner. For example, it sent the eleven 30-day past-due notices an average of 134 days after the progress reports were due. Not sending the past-due notices, or sending them only after lengthy delays, increases the likelihood that award recipients will not submit the contractually required progress reports WEDC needs in order to report on the results of its financial awards.

Table 13

Extent to Which WEDC Sent Past-Due Notices to Award Recipients That Did Not Submit Contractually Required Progress Reports on Time[1]

Type of Past-Due Notice	Number of Past-Due Notices Required	Number of Past-Due Notices Sent	Percentage Sent	Average Days After the Progress Reports Were Due That WEDC Sent the Past-Due Notices
30-Day	17	11	64.7%	134
60-Day	17	8	47.1	139
90-Day	17	4	23.5	121

[1] As of December 2014. The 17 progress reports were due from January 2014 through July 2014 but were not submitted within 120 days of the contractually specified due dates.

If a progress report is not submitted within 120 days of the contractually required due date, WEDC's policy indicated that it would determine the appropriate action to take, such as assessing a financial penalty. WEDC indicated that through December 2014, it did not take any such action against recipients that did not submit progress reports within 120 days.

☑ **Recommendation**

We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy to send, in a timely manner, past-due notices to all award recipients that do not submit contractually required progress reports on time.

Schedules of Expenditures

Through FY 2012-13, statutes required WEDC's governing board to include in each contract for a grant or loan of $100,000 or more a requirement that the recipient 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. In report 13-7, 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, we found that 12 recipients had not provided the statutorily required verified financial statements. We recommended that the governing board comply with statutes by contractually requiring all recipients of grants or loans of at least $100,000 to submit verified financial statements.

2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, eliminated the requirement for award recipients to provide verified financial statements. Beginning in FY 2013-14, statutes require WEDC's governing board to require in its contracts that each recipient of a grant or loan of $100,000 or more to provide a schedule of expenditures of the grant or loan funds, as well as the expenditure of any matching funds or in-kind match. Statutes require a schedule of expenditures to be submitted within 120 days after the end of a recipient's fiscal year in which any grant or loan funds were spent, and to be signed by the award recipient's director or principal officer to attest to its accuracy. In addition, statutes require a recipient to engage an independent certified public accountant to determine whether award funds and any matching funds or in-kind match were spent in accordance with contractual provisions.

In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation in report 13-7, including by assigning staff to oversee policies intended to ensure compliance with the statutory requirement. One of these policies required WEDC to send notices to an award recipient when a schedule of expenditures was 30 days past due, 60 days past due, and 90 days past due. If the recipient did not submit a schedule of expenditures within 120 days after the due date, the policy indicated that WEDC would determine the appropriate next steps, such as assessing a penalty.

In our current audit, we found that WEDC did not comply with the statutory requirements pertaining to schedules of expenditures. As part of our file review of grant and loan contracts WEDC executed in FY 2013-14, we found that 11 of 25 contracts for grants or loans of $100,000 or more did not require the recipients to provide the statutorily required schedules of expenditures. Instead, these 11 contracts required the recipients to provide verified financial statements. WEDC indicated that despite the contractual language, it required the recipients to provide schedules of expenditures.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by contractually requiring all recipients of grants and loans of at least $100,000 to submit schedules of expenditures.

WEDC did not send past-due notices to, or take any action against, recipients that did not submit contractually required schedules of expenditures.

On December 1, 2014, we asked WEDC to provide information on the extent to which recipients had submitted contractually required schedules of expenditures. Later that month, WEDC provided information indicating that recipients were required to submit 22 schedules of expenditures in FY 2013-14, but that only 7 schedules of expenditures had actually been submitted as of December 2014. In response to our request for additional information about this issue, WEDC indicated that it did not send any past-due notices to, or take any action against, the recipients that had not submitted the 15 schedules of expenditures, which were associated with contracts that had a total value of $8.4 million. In addition, WEDC indicated that it had not regularly sent past-due notices since January 2014. WEDC staff subsequently indicated to the governing board that the past-due notices were sent in February 2015, but we did not attempt to verify this. Because WEDC has not consistently collected either the statutorily required verified financial statements or schedules of expenditures since it became fully operational in July 2011, any determination of whether grant and loan funds have been spent appropriately is limited.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy by sending notices in a timely manner to all grant and loan recipients that do not submit contractually required schedules of expenditures on time.

Verification of Performance Measure Information

Statutes require WEDC's governing board to annually and independently verify the performance measure information in the progress reports submitted by a sample of grant and loan recipients. Verifying this information allows WEDC to determine, for instance, whether the jobs reported in the progress report were actually created and retained and met contractually specified wage requirements.

In report 13-7, we found that WEDC did not conduct any verification efforts from July 2011 through December 2012 and had no policies for doing so. We recommended that the governing board comply with statutes by annually verifying the performance information reported by a sample of grant and loan recipients. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation, in part by hiring new staff to implement an internal monitoring policy intended to ensure compliance with the statutory requirement. In April 2014, WEDC established another policy that required it to annually verify the information in at least 25 progress reports and the information in all progress reports associated with tax credits allocated through the Enterprise Zone program.

In our current audit, we asked WEDC to provide us with information on its efforts to conduct the statutorily required verification efforts, and WEDC indicated that such efforts were ongoing as of January 8, 2015. Late in April 2015, WEDC provided us with a memorandum, dated January 12, 2015, that indicated the verification efforts had recently been completed for the period from April 2013 through April 2014,as well as supporting documentation for the verification efforts. Because we were not provided with the information until April 2015, we did not fully assess it. However, we note that the memorandum and supporting documentation indicate that WEDC did not assess the wages paid to or hours worked by employees for whom recipients received awards. WEDC instead compared the numbers of jobs reported in the progress reports to the numbers indicated in other information submitted by recipients. WEDC's contracts typically required recipients to create or retain full-time jobs that annually pay at least minimum specified amounts. Without an assessment of wages paid and hours worked, WEDC has a limited ability to determine whether award recipients actually complied with contractual provisions.

☑ Recommendation

We again recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by annually verifying the performance information reported by a sample of grant and loan recipients.

In addition to completing statutorily required annual verification efforts, visiting the locations of projects funded by WEDC's awards could be a method of ascertaining whether awarded funds were spent appropriately and whether award recipients actually created and retained contractually specified jobs. Under a policy created in April 2014, WEDC was required to conduct a site visit for each recipient of a grant, loan, or tax credit of $1.0 million or more after the funded project was substantially completed, and to conduct an additional site visit at a project's midpoint for each recipient of an award of $2.0 million or more. During a site visit, the policy required WEDC to review invoices and payroll records or view capital investments.

During site visits, WEDC did not review documents that would verify whether award recipients had complied with contractual provisions.

We reviewed the available information for eight site visits WEDC conducted from April 2014 through October 2014 and found no documentation that WEDC had reviewed invoices, payroll records, or other documents that would verify whether award recipients had made contractually required capital investments or had created and retained contractually required jobs. WEDC indicated that rather than reviewing invoices and payroll records or verifying that jobs were created and retained, it interviewed its contact individuals and, at times, toured the facilities during site visits.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy for site visits and review information needed to determine whether award recipients spent awarded funds in accordance with contractual provisions and achieved contractually specified outcomes.

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 to the Legislature 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 contain statutorily specified information pertaining to the prior fiscal year, including:

- a program description;
- a comparison of expected results and actual outcomes;
- the number of grants and loans made, the amount and recipient of each grant and loan, and the total amount of grants and loans awarded to and received by each recipient;

- the location and industry classification, by municipality, of each job created or retained in the state as a result of the program;
- the total amount of tax benefits allocated and the total amount of tax benefits verified to DOR under the program;
- the recipient of each allocated tax benefit and each verified tax benefit under the program; and
- any recommended changes to the program.

In report 13-7, we identified concerns with the economic development program report that WEDC submitted to the Legislature in November 2012. We recommended that WEDC's governing board ensure that its annual economic development program report presents clear, accurate, and complete information on each program's results. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation.

In our current audit, we reviewed WEDC's October 2014 economic development program report, which includes information on the programs WEDC administered in FY 2013-14, and the online data on WEDC's website that accompany the report and include information on individual awards WEDC made from FY 2011-12 through FY 2013-14. Appendix 5 summarizes the results of individual programs, based on FY 2013-14 awards.

WEDC's October 2014 economic development program report addressed certain concerns we had previously identified.

We found that WEDC addressed certain concerns we had previously identified. In report 13-7, we noted a number of inconsistencies in WEDC's online data and other information, whereas we found the online data in October 2014 presented program results consistently across multiple formats that included an interactive map and spreadsheets. In report 13-7, we noted that WEDC presented expected results as actual results, whereas we found the October 2014 report more clearly indicated expected program results that had not been achieved. In report 13-7, we noted that WEDC combined the expected numbers of jobs to be created and retained, whereas we found the October 2014 report presented separate numbers of jobs expected to be created and retained for awards made through a given program.

It continues to be difficult to assess the accuracy of WEDC's jobs-related information.

Despite these improvements, it continues to be difficult to assess the accuracy of WEDC's jobs-related information. Some information that should remain constant, such as the expected results associated with contracts WEDC had awarded in prior years, changed in the online data from one year to the next. For example, the online data in

October 2013 indicated that the recipients of 29 awards were expected to retain 9,091 jobs, but the online data in October 2014 indicated that these recipients were expected to retain 8,484 jobs, which is 607 fewer jobs than one year earlier. WEDC indicated that such changes occurred because it initially included in the online data the estimated numbers of jobs that the recipients were expected to retain, but that it subsequently obtained information from progress reports that it used to update the online data. Because WEDC typically did not require award recipients to submit payroll records indicating the numbers of existing jobs before it executed contracts, it was initially uncertain how many jobs were expected to be retained.

We also noted that the online data in October 2014 indicated that 16 award recipients had created 512 jobs but had retained only 3,581 of an expected 4,034 jobs. WEDC indicated that the online data included inaccurate numbers of expected jobs to be retained by these 16 award recipients. According to WEDC, these inaccuracies occurred because it included in the online data the estimated numbers of jobs that the recipients were expected to retain, rather than information from submitted progress reports.

Although award recipients were not contractually required to retain more than the number of their existing jobs, the online data in October 2014 indicated that recipients of 23 awards, including 6 awards made in FY 2013-14 and 17 awards made in earlier years, were expected to retain 3,625 jobs but had actually retained 5,884 jobs. We reviewed WEDC's files for the 23 awards and found concerns with how WEDC collected and reported jobs-related information. For example, the recipient of one tax credit award was contractually required to retain all existing jobs, but the precise number was not specified in the contract. The online data indicated that the recipient was expected to retain 529 jobs and actually retained 643 jobs through FY 2013-14. We found that the recipient's tax credit application indicated that it had 529 employees in 2011, but the progress report it submitted in 2014 indicated that it had retained 643 employees.

WEDC's online data in October 2014 did not contain information about all financial awards made in FY 2013-14.

In some instances, WEDC's online data in October 2014 did not contain information about all financial awards made in FY 2013-14. Three tax credit allocations WEDC made in May 2014 were excluded from the online data. These included a $1.0 million allocation that was made through the Jobs Tax Credit program and that required the recipient to create up to 202 jobs. The other two allocations, which were made through the Historic Preservation Tax Credit program, did not require any jobs to be created or retained.

It is difficult for the Legislature and the public to assess the effectiveness of WEDC's economic development programs unless clear, accurate, and complete information is presented about each program's results in the annual economic development program report. Although our current audit found that steps were taken to improve how program results are presented, we continue to identify concerns with the governing board's compliance with statutory reporting requirements.

☑ Recommendation

We again recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by ensuring that its annual economic development program report presents clear, accurate, and complete information on each program's results.

Assessing Program Effectiveness

A definitive method of assessing whether WEDC's economic development programs have been effective involves determining the extent to which award recipients met their contractual obligations, such as by creating and retaining prescribed numbers of jobs. Such an analysis could also demonstrate whether particular grant, loan, or tax credit programs are more effective than other programs. However, it was not possible to complete such an analysis because WEDC executed contracts with multi-year durations that had not yet ended at the time of our audit. For example, an award recipient may have agreed to create 100 jobs during a five-year contract period that began in FY 2011-12. Until that five-year period ends, it is difficult to conclude whether the contractual obligations were actually fulfilled.

As of December 2014, WEDC's information indicated that only two of the contracts it executed since July 2011 had reached their contractually specified completion dates.

As of December 2014, WEDC's information indicated that only two of the contracts it executed since it became fully operational in July 2011 had reached their contractually specified completion dates. Nine contracts it executed had ended for other reasons, including because they were closed or cancelled before their contractually specified completion dates. In November 2012, for example, WEDC executed a $300,000 contract through the Economic Development Tax Credit program that required a business to retain 496 existing jobs and create 48 new jobs. After a fire destroyed one of the business's buildings, WEDC cancelled the contract in September 2013.

A less definitive method of assessing the effectiveness of WEDC's programs is to measure the extent to which award recipients have achieved outcomes specified in the not-yet-completed contracts WEDC executed since July 2011. Although statutes require WEDC to report each October on the outcomes of contracts it executed in the prior fiscal year, they do not require it to report on the ongoing progress of recipients in fulfilling the obligations of contracts executed in earlier fiscal years.

Through FY 2013-14, online data indicated that recipients of awards WEDC made over a three-year period had created 9,257 of an expected 28,862 jobs.

As shown in Table 14, WEDC's online data in October 2014 indicated that 28,862 jobs are expected to be created as a result of financial awards WEDC made from FY 2011-12 through FY 2013-14, and that 9,257 jobs (32.1 percent of the expected number) were actually created through FY 2013-14. Because the contract periods for almost all of these awards had not ended, award recipients had additional time to create and retain the expected jobs. In addition, because not all recipients of the awards WEDC made in FY 2013-14 were contractually required to have submitted an initial progress report by the end of the fiscal year, the online data likely do not fully reflect the numbers of jobs that were created and retained through FY 2013-14.

Table 14

Reported Jobs Created or Retained through FY 2013-14[1, 2]
As a Result of Awards WEDC Made from FY 2011-12 through FY 2013-14

	Jobs Created		Jobs Retained	
Fiscal Year	Expected by Contract End	Actual through FY 2013-14	Expected by Contract End	Actual through FY 2013-14
2011-12	8,754	4,391	17,382	17,781
2012-13	10,552	3,503	25,202	20,959
2013-14	9,556	1,363	21,385	8,963
Total	**28,862**	**9,257**	**63,969**	**47,703**

[1] WEDC did not complete statutorily required efforts to verify the reported jobs numbers, which also contained inaccuracies and were incomplete.

[2] Based on WEDC's online data in October 2014, which reflected jobs actually created and retained through FY 2013-14. Award recipients had additional time to create and retain jobs because almost all of the contracts had not ended. Not all recipients of the awards WEDC made in FY 2013-14 were contractually required to have submitted an initial progress report by the end of the fiscal year.

Although Table 14 represents the best available information, we noted a number of concerns with the accuracy and completeness of WEDC's job-related information. For example:

- For each of the three fiscal years shown in Table 14, WEDC did not annually and independently verify the performance information in the progress reports submitted by a sample of grant and loan recipients, as it was statutorily required to do. WEDC used information in the progress reports to help determine the numbers of jobs created and retained.

- WEDC generally received lists of employees and wages from tax credit recipients that were required contractually to create or retain jobs, but we found no documentation that WEDC complied with statutes and attempted to verify the accuracy of that information, which WEDC used to help determine the numbers of jobs created and retained.

- WEDC did not require grant and loan recipients that were contractually required to create or retain jobs to submit information, such as payroll records, showing that contractually required jobs were actually created or retained.

- The online jobs-related data in October 2014 contained a number of inaccuracies and were incomplete.

In addition and as noted, WEDC allocated and awarded tax credits to projects that had begun before it executed contracts with the recipients. As a result, at least 1,379 of the 9,257 jobs (14.9 percent) were created before WEDC executed contracts with the recipients.

The Legislature could consider modifying statutes to require WEDC to report annually on the total numbers of jobs created and retained as a result of all awards made since July 1, 2011.

As noted, statutes require WEDC's governing board to report to the Legislature annually by October 1 on each economic development program that it administered in the prior fiscal year. Statutes require these reports to include specified information pertaining to the prior fiscal year, including the numbers of jobs created or retained as a result of each program. Although this information provides useful indicators of WEDC's efforts to promote economic development during the prior fiscal year, it does not indicate the extent to which WEDC's efforts are successful over longer periods of time. Contracts executed by WEDC typically permitted award recipients to create or retain jobs at any time during a contract's term, which may extend several years. If the Legislature wishes to obtain more comprehensive information about WEDC's programs, it could consider modifying statutes to require WEDC's governing board to include in its annual economic development program report the total number of jobs created and the total number of jobs retained as a result of all awards it made in each fiscal year since July 1, 2011, when WEDC first administered programs. Although WEDC's online data include the numbers of jobs created and retained for each award WEDC made since July 1, 2011, the data do not summarize in any way the numbers of jobs created and retained, such as by totaling the numbers of jobs created and retained as a result of awards made in a given fiscal year.

☑ Recommendation

We recommend the Legislature consider modifying s. 238.07(2), Wis. Stats., to require the Wisconsin Economic Development Corporation's governing board to include in its annual economic development program report the total number of jobs created and the total number of jobs retained as a result of all economic development awards made since July 1, 2011.

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Financial Management ■

WEDC is funded almost entirely by GPR and segregated revenue. Effective financial management requires WEDC to develop and consistently follow appropriate policies and procedures that include internal controls to help ensure prudent use of WEDC's state-provided resources. In our previous biennial audit, we noted a number of concerns with WEDC's financial management practices during its first two years of operation. Although WEDC improved its financial management practices in FY 2013-14, we make recommendations for further improvements to its management of its fund balance and its credit cards.

Revenues

WEDC's revenues declined from $62.5 million in FY 2012-13 to $43.0 million in FY 2013-14.

As shown in Table 15, WEDC's total revenues declined from $62.5 million in FY 2012-13 to $43.0 million in FY 2013-14, primarily because the Joint Committee on Finance in January 2014 reduced the amount of GPR available to WEDC in FY 2013-14. This reduction occurred because WEDC had accumulated $18.4 million in excess of the amount it had determined was necessary for its operations, programs, and unanticipated contingencies. This reduction was offset, in part, because the Joint Committee on Finance in January 2014 also increased the amount of segregated revenue available for WEDC's economic development programs.

Table 15

WEDC Revenues
(in millions)

	FY 2012-13	FY 2013-14	Percentage Change
Segregated Revenue[1]	$24.2	$34.8	43.8%
General Purpose Revenue	32.1	6.1	(81.0)
Federal Revenue	4.1	0.4	(90.2)
Loan Interest and Fees	0.9	1.2	33.3
Other[2]	1.2	0.5	(58.3)
Total	**$62.5**	**$43.0**	(31.2)

[1] Includes $23.2 million in FY 2012-13 and $33.8 million in FY 2013-14 from the Economic Development Fund, which is funded by a surcharge on Wisconsin businesses.

[2] Includes bond servicing fees, investment income, and fees paid by attendees of WEDC-sponsored conferences and trade missions.

Fund Balance

In July 2013, the governing board approved a policy for managing WEDC's fund balance. WEDC indicated that this policy was developed in consideration of Government Finance Officers Association best practices, which suggest that a government entity should maintain an available fund balance of no less than two months of regular operating revenues or regular operating expenditures in order to mitigate current and future risks. The best practices also indicate that a government entity's specific circumstances should be considered when assessing the adequacy of an available fund balance. An entity's fund balance typically fluctuates throughout the year, depending on the timing of financial activities. We assessed WEDC's available fund balance as of the end of the year, after all activity for the year has been accounted for, and as reported in the financial statements prepared in accordance with generally accepted accounting principles (GAAP).

WEDC's policy states that its unassigned fund balance, which is the portion of the total fund balance that WEDC considers to be available, "provides funding for its daily cash flow and operational needs." WEDC's policy indicates that it developed its target for the unassigned fund balance after considering its daily cash flow needs, the timing of revenue, the volatility of its expenditures, and the fund balance it set aside for other purposes. The policy specifies that WEDC's target for the unassigned fund balance is between 15 percent and 25 percent of its annual revenue, which corresponds to approximately two to three months of annual revenue.

Most of the revenue WEDC received through FY 2013-14 was state funding and was used to fund grants and loans. At the point a grant or loan is approved by WEDC managers, WEDC indicates that its practice is to set aside funds from its unassigned fund balance to cover the amounts approved. WEDC then considers the funds it set aside to be available only for a grant or loan award. We note, however, that there is often a period of several months between when grants and loans are approved and when those grant and loan funds are expended or disbursed to recipients. Because of this time interval, it is unlikely that WEDC would need to expend or disburse a grant or loan before receiving state funds, which are received approximately quarterly. Thus, it is not necessary for WEDC to retain a portion of its unassigned fund balance for funding grants and loans. Given these specific circumstances, WEDC's unassigned fund balance need cover only its administrative expenditures.

WEDC's current fund balance policy allows it to maintain an unassigned fund balance that is larger than necessary.

WEDC's $15.6 million unassigned fund balance as of June 30, 2014, was equivalent to approximately 10.5 months of its $17.7 million in administrative expenditures in FY 2013-14 and approximately 9.0 months of the $20.9 million it budgeted for administrative expenditures in FY 2014-15. If WEDC had used annual administrative expenditures as the basis to set its target for the unassigned fund balance, an unassigned fund balance of approximately $3.0 million as of June 30, 2014, would have equated to approximately two months of administrative expenditures for FY 2013-14. Similarly, two months of the budgeted administrative expenditures for FY 2014-15 would equate to a target June 30, 2015 unassigned fund balance of approximately $3.5 million. Thus, WEDC's current fund balance policy allows it to maintain an unassigned fund balance that is larger than necessary, and the governing board should revise its fund balance policy to base its target for WEDC's unassigned fund balance on annual administrative expenditures.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board revise its fund balance policy so that the target for the unassigned fund balance is based on its annual administrative expenditures.

Administrative Expenditures

WEDC's administrative expenditures increased 17.2 percent from FY 2012-13 to FY 2013-14.

WEDC's administrative expenditures for operations, which are shown in Table 16, increased by 17.2 percent from FY 2012-13 to FY 2013-14. WEDC indicated that marketing expenditures almost tripled in FY 2013-14 because it continued to build a marketing infrastructure, enhanced its social media presence, and began a targeted marketing strategy to promote the state and its strengths in new television markets, including the Chicago and Minneapolis-St. Paul metropolitan areas.

Table 16

Administrative Expenditures
(in millions)

	FY 2012-13	Percentage of Total	FY 2013-14	Percentage of Total
Staff Salaries and Fringe Benefits	$ 8.3	55.0%	$ 8.9	50.3%
Marketing	1.6	10.6	4.7	26.6
Building, Maintenance, and Utilities	1.1	7.3	1.0	5.6
Information Technology	1.1	7.3	1.0	5.6
Professional Services	1.6	10.6	0.7	4.0
Conferences and Professional Development	0.6	4.0	0.6	3.4
Travel	0.4	2.6	0.5	2.8
Recruiting	0.1	0.6	<0.1	0.0
Other[1]	0.3	2.0	0.3	1.7
Total	**$15.1**	**100.0%**	**$17.7**	**100.0%**

[1] Includes business insurance, supplies, equipment, capital lease payments, and other expenditures.

Staff Salaries and Fringe Benefits

Because WEDC is not a state agency and its staff are not state employees, it is not authorized positions through the state budget. As shown in Table 17, WEDC had 96 staff on July 1, 2014. This total included 31 staff WEDC had employed since its inception and 19 staff it had employed for less than one year.

Table 17

Number of WEDC Staff[1]
July 1, 2014

Functional Area	Number
Economic and Community Development Division	20
Credit and Risk Division	14
Business and Industry Division	9
Marketing and Communication Division	8
International Business Development Division	7
Legal Services and Compliance	7
Executive Office	6
Finance	6
Information Technology	6
Entrepreneurship and Innovation Division	5
Human Resources	4
Office of Public Policy	3
Process Improvement	1
Total	**96**

[1] Excludes one University of Wisconsin System Administration staff member who consulted part-time for WEDC.

We found that 22 of 99 staff WEDC employed on July 1, 2013, were no longer employed by WEDC on July 1, 2014.

WEDC experienced staff turnover from July 2013 to July 2014. We found that 22 of the 99 staff WEDC had employed on July 1, 2013, including one vice president, were no longer employed by WEDC on July 1, 2014. As of July 1, 2014, WEDC had filled 19 vacant positions in response to this turnover, and 3 positions were vacant.

WEDC has also experienced turnover in its senior management since July 1, 2014. The vice president of international business development departed in July 2014, the chief operating officer departed in November 2014, and the chief financial officer departed in January 2015. In February 2015, the vice president of economic and community development became the chief operating officer, creating a vacancy in this vice president position. In April 2015, it was announced that the vice president of entrepreneurship and innovation was departing and that a new chief financial officer had been hired.

WEDC's expenditures for staff salaries and fringe benefits increased from $8.3 million in FY 2012-13 to $8.9 million in FY 2013-14, or by 7.2 percent, primarily because of increases in health insurance premiums and salaries. WEDC's governing board approved a 1.0 percent salary increase in FY 2013-14 for staff who met or exceeded performance expectations, similar to the salary increase provided to state employees.

We examined WEDC's expenditures for salaries and fringe benefits, which represented 50.3 percent of its total administrative expenditures in FY 2013-14. We reviewed documentation for ten individuals WEDC employed in FY 2013-14 and found the salary and fringe benefits expenditures for all ten individuals were supported by information WEDC maintained.

We also determined the amounts paid to selected WEDC staff. As shown in Table 18, WEDC paid salaries of more than $100,000 to 11 staff in FY 2013-14.

Table 18

Salaries Paid to Selected WEDC Staff in FY 2013-14

	Salary
Chief Executive Officer	$185,000
Chief Operating Officer	105,800
Chief Financial Officer[1]	122,000
Chief Legal Counsel and Compliance Officer[1]	135,000
Vice President of Entrepreneurship and Innovation	116,900
Vice President of Economic and Community Development	116,600
Vice President of International Business Development[2]	110,300
Vice President of Credit and Risk	110,000
Vice President of Business and Industry	106,800
Vice President of Marketing and Communication	104,000
Director of Global Capital Strategies	102,500

[1] These individuals also received $50 recognition awards.

[2] This individual also received a $3,500 merit award.

In FY 2013-14, WEDC provided 51 staff with merit and recognition awards totaling $63,850.

WEDC may provide staff with merit and recognition awards in addition to their salaries. Merit awards acknowledge staff who exceed performance expectations for a project, and recognition awards acknowledge a special effort or accomplishment. In FY 2013-14, WEDC provided 51 staff with merit and recognition awards totaling $63,850.

As shown in Table 19, WEDC provided 27 staff, including one vice president, with merit awards totaling $62,500 in FY 2013-14. Individual merit awards ranged from $500 to $5,000.

Table 19

Merit Awards Provided to WEDC Staff
FY 2013-14

Award Amount	Staff	Total Amount Awarded
$5,000	6	$30,000
$3,500	1	3,500
$3,000	1	3,000
$2,500	1	2,500
$2,000	5	10,000
$1,500	5	7,500
$1,000	4	4,000
$500	4	2,000
Total	**27**	**$62,500**

For recognition awards, WEDC may provide staff with one or two $25 gift cards. Staff may receive multiple recognition awards in a year. In FY 2013-14, WEDC provided 29 staff, including the chief financial officer and the chief legal counsel and compliance officer, with 54 gift cards with a face value totaling $1,350. Five of the 29 staff were also provided merit awards.

In FY 2013-14, WEDC maintained an inventory of gift cards used as recognition awards and had 42 gift cards on June 30, 2014. WEDC found some gift cards had declined in value because of service fees charged for nonuse of the cards. For example, two $25 gift cards provided to a staff member in FY 2013-14 each had an actual value of only $13. Although the business from which WEDC had purchased these gift cards subsequently restored other gift cards in

WEDC's inventory to their original value, WEDC could consider purchasing gift cards only after a staff member has been given a recognition award. Doing so would eliminate the risk of gift cards declining in value because of nonuse and would also eliminate the physical controls necessary for maintaining an inventory of gift cards.

Other Administrative Expenditures

Non-payroll administrative expenditures represented 49.7 percent of WEDC's administrative expenditures in FY 2013-14. We focused our review on areas that are more susceptible to error or inappropriate activity, such as WEDC's management of its credit cards and its expenditures for staff travel.

Credit Cards

WEDC's staff developed credit card policies that were in effect in FY 2013-14.

Under a contract negotiated with U.S. Bank, WEDC provides approved staff with corporate credit cards, which are similar to purchasing cards used by state agencies. In report 13-7, we recommended WEDC improve its management of credit cards by developing credit card policies, limiting the number of staff who have credit cards, and closing the accounts of unused or seldom used credit cards. In our current audit, we found that WEDC's staff developed credit card policies that were in effect in FY 2013-14 and reduced the number of its credit cards from 77 in September 2012 to 60 in December 2014. However, WEDC should further improve its management of credit cards.

We found that 7 of the 60 credit cards were unused for periods of three months or longer from July 2013 through mid-December 2014. At other times during this period, these seven credit cards were used only infrequently or primarily for travel-related purposes, and most had few individual charges exceeding $500. Although the need to adequately control financial risk must be balanced with purchasing flexibility and ease of administration, WEDC should further reduce its risk by periodically reviewing credit card usage and closing the accounts of unnecessary credit cards, such as those that are seldom or never used. Instead, administrative staff could make purchases such as airline tickets and lodging on behalf of other staff, who could request reimbursement for items that cannot be purchased in advance. We note that the August 2014 travel and expense reimbursement policy indicates that staff should not charge meals on WEDC credit cards when traveling, which would further reduce the need for staff to have credit cards.

For each credit card, WEDC sets a credit limit, which is the maximum balance permitted, and pays the balance each month. Setting appropriate credit limits is an important internal control for managing the risk of inappropriate card use. The credit card policy indicates that WEDC's controller sets the credit limits, and that the chief financial officer must approve credit limits greater than $5,000. Although a staff member typically will not charge amounts up to the credit limit in a given month, the credit limit should be set high enough to ensure that the staff member is able to charge all appropriate purchases of goods and services. As a result, determining the appropriate credit limit for each credit card can be challenging.

We examined the credit limits of WEDC's 60 credit cards in December 2014 and found that 44 cards had a limit of $3,500 and 10 cards had higher limits, as shown in Table 20.

Table 20

Credit Limits on WEDC's Credit Cards
December 2014

Credit Limit	Credit Cards	Percentage of Total
$1,000 to $3,499	6	10.0%
$3,500	44	73.4
$3,501 to $9,999	5	8.3
$10,000 to $25,000	5	8.3
Total	**60**	**100.0%**

We reviewed WEDC's documentation for the ten credit cards with credit limits greater than $3,500. We found that the credit limits for seven of the ten cards were consistent with the documentation provided, but that the documentation did not support the credit limits for the other three credit cards. For example, the documentation for one card with a $5,000 credit limit indicated that this credit limit was temporary and should have been reduced to $3,500 in September 2014. In addition, we noted that the documentation did not provide a complete record of credit limit changes for five of the ten credit cards.

Lower credit limits may have been appropriate for six of ten credit cards we reviewed.

We also reviewed the charges incurred from July 2013 through mid-December 2014 on the ten credit cards with credit limits greater than $3,500. We found that lower credit limits may have been appropriate for six of the ten credit cards because monthly charges:

- never exceeded $3,500 on one credit card with a $20,000 credit limit;
- never exceeded $1,700 on a second credit card with a $10,000 credit limit;
- never exceeded $2,900 on a third credit card with a $10,000 credit limit; and
- exceeded $3,500 only once for each of three other credit cards with credit limits of $5,000.

In addition, we found that 1,421 of the 4,334 charges on WEDC's credit cards in FY 2013-14 were for $15 or less and totaled $10,700. In FY 2013-14, the credit card policy required staff to submit receipts or other support for all credit card charges. In August 2014, the governing board revised the policy to no longer require receipts for charges of $15 or less.

In our September 2009 review of state purchasing cards (report 09-8), we recommended that DOA work with state agencies and University of Wisconsin institutions to close the accounts of unused purchasing cards. Similarly, WEDC should close the accounts of credit cards that are unnecessary, which will help to ensure that it spends its state funds appropriately.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *periodically review credit card usage and close the accounts of unnecessary credit cards, including those that are seldom or never used;*
- *ensure that appropriate credit limits are maintained on all of its credit cards; and*
- *maintain documentation of the approved credit limits on each of its credit cards, including changes to those limits.*

Travel Expenditures

In April 2013, WEDC's chief executive officer approved a travel and expense reimbursement policy indicating that staff members should stay at moderately priced establishments, and the policy refers to the federal per diem rates as additional guidance. We found that WEDC paid more than the federal rate for 3 of the 16 lodging expenditures we reviewed. For example, WEDC paid $229 per night for three nights of lodging for one staff member who attended a training seminar in June 2013. Because the maximum federal rate was $107 per night, WEDC paid $366 more than the guidance referenced in its policy.

In August 2014, the governing board revised the policy to specify that staff are expected to stay at the lowest-cost hotel that reasonably meets business needs and that staff should use government-rate accommodations whenever possible. The policy does not specifically limit lodging expenditures or further define reasonableness. The governing board could revise the policy to provide additional guidance, such as the basis for assessing the lowest-cost hotel that reasonably meets business needs. We found that WEDC paid $239 for one night of lodging in Milwaukee for a staff member related to a presentation made in December 2014 at another Milwaukee location, and the documentation did not indicate how this was determined to be the lowest-cost hotel or why government-rate accommodations could not be used.

Other Issues

WEDC inappropriately paid for some goods.

In report 13-7, we found that WEDC made unknown purchases, questionable purchases, and excessive or unnecessary purchases. In report 14-11, we found that WEDC did not consistently maintain supporting documentation to demonstrate that expenditures were incurred, reasonable, or approved. In our current audit, we found that WEDC inappropriately paid the following:

- $245 to a staff member as reimbursement for the purchase of an iPhone, because WEDC had reimbursed the staff member for this purchase twice;
- $34 to a staff member as reimbursement for iPhone accessories that were not reimbursable under WEDC's policies; and
- $25 for a charge on a WEDC credit card for a staff member's membership to a book store.

After we identified these three inappropriate payments, WEDC requested and received reimbursement from staff for all three amounts.

We also identified seven expenditures totaling nearly $600 for which WEDC had insufficient documentation to support the expenditures, including four reimbursements to staff for mileage. WEDC's travel and expense reimbursement policy requires staff to submit documentation supporting the miles driven, but staff did not do so in these four instances. Although payment of an expenditure may occasionally be inadvertently processed without adequate supporting documentation, WEDC could take additional steps to ensure it obtains sufficient documentation before making payments, particularly for mileage reimbursements.

In report 13-7, we found that WEDC staff sometimes paid Wisconsin state and local sales tax and recommended that staff be prohibited from doing so. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendation, in part by implementing in July 2013 a disbursement policy requiring staff to verify that Wisconsin sales tax was not paid on invoiced purchases they made. In our current audit, we found five instances involving the payment of a total of $134 in Wisconsin sales tax in FY 2013-14, including $70 in sales tax associated with the invoiced purchase of 500 promotional tote bags. In April 2014, the governing board revised the travel and expense reimbursement policy, which now "encourages" staff to have Wisconsin sales tax removed from all purchases, requires staff to notify WEDC's finance division if more than $10 of sales tax was paid, and specifies that the finance division will periodically request a refund of sales taxes paid. However, WEDC's finance division could monitor transactions to identify sales taxes improperly paid, particularly for invoice purchases.

Staff are not required, upon terminating employment, to repay WEDC for any portion of a reimbursement previously received for the purchase of an iPhone used for work-related purposes. We found that one staff member was reimbursed $245 for such a purchase, was employed by WEDC for less than one year, and was not required to repay any of the $245. WEDC could establish a policy for recouping a portion of such reimbursements if it employs a staff member for only a short period of time.

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Future Considerations ■

Although the governing board established policies to help ensure appropriate program administration and oversight, we found that its staff did not consistently comply with these policies. We provide the governing board with recommendations to ensure its compliance with statutory requirements related to program administration and oversight. We also found that WEDC's fund balance policy allowed it to maintain an unassigned fund balance that was larger than necessary. The Legislature should consider this unassigned fund balance when determining the amount to appropriate in the 2015-17 biennium to either WEDC or, if WEDC and the Wisconsin Housing and Economic Development Authority (WHEDA) are merged, to the newly proposed Forward Wisconsin Development Authority.

Governance Issues

Because WEDC cannot promulgate administrative rules prescribing how it will enforce statutory requirements, the governing board instead establishes policies. This is a necessary step for ensuring that WEDC administers its economic development programs effectively. However, the governing board also needs to ensure that its policies comply with statutes and that its staff comply with all policies it establishes. Failure to do so increases the likelihood that WEDC will make financial awards in ways not authorized by statutes or the governing board, and that WEDC will not exercise statutorily required oversight of state funds awarded through grants, loans, and tax credits.

In report 13-7, we found that WEDC did not establish all statutorily required policies for its tax credit programs and did not have sufficient policies to administer its grant, loan, and tax credit programs effectively. As a result, we recommended that WEDC establish such policies. In October 2013, WEDC reported to the Joint Legislative Audit Committee that it had addressed our recommendations.

We identified concerns with policies the governing board established and the staff's compliance with those policies.

In our current audit, we identified concerns with policies the governing board established and the staff's compliance with those policies, including:

- the policies did not consistently comply with statutory requirements;
- staff substantially revised one policy shortly after the governing board had provisionally approved the policy; and
- staff did not consistently comply with all policies the governing board established.

In July 2014, the governing board approved a program guidelines policy for approving and revising other policies pertaining to individual economic development programs, but we found this policy did not comply with statutes. The policy stated that when legislation modifies statutory requirements for any of WEDC's programs and does not include a specific effective date, WEDC has up to 180 days from the effective date of the legislation to update its program policies to be compliant with the statutory modification. During this 180-day period, the policy indicated WEDC will not comply with the statutory modification. However, statutes provide that if legislation does not specify an effective date, the effective date is the day after the legislation is published.

We found in report 13-7 and in our current audit that WEDC's program policies did not consistently comply with statutes. For example, our current audit found that WEDC's FY 2013-14 policies for the Economic Development Tax Credit program included the statutorily required provisions for allocating a portion of the program's tax credits to rural areas and small businesses. However, in July 2014 the governing board revised the policies to no longer include these statutorily required provisions. As noted, we found other instances when WEDC did not establish all statutorily required policies for its tax credit programs in FY 2013-14.

The process used by WEDC staff to develop proposed new and revised policies has been inadequate to ensure that the governing board is presented for its review and approval with policies that comply with statutes. Through this process, WEDC's chief executive officer, chief operating officer, chief legal counsel and compliance officer, and other staff have typically have reviewed proposed new and revised policies before presenting them to the governing board for its review and approval. The process has not required staff to complete a written analysis describing how each new or revised proposed policy complies in all respects with statutory requirements. In comparison and as a part of the process for promulgating administrative rules, state agencies must submit proposed rules to the Legislative Council's Administrative Rules Clearinghouse, which reviews and comments on the proposed rules. The Clearinghouse determines, in part, whether the rules comply with statutory requirements.

WEDC staff did not consistently comply with policies established by the governing board.

As noted, WEDC staff also did not consistently comply with various policies established by the governing board, including:

- program policies for completing staff reviews and executing grant, loan, and tax credit contracts;
- the policy for sending notices to award recipients that did not submit contractually required progress reports on time;
- the policy for sending notices to award recipients that did not submit contractually required schedules of expenditures on time; and
- the policy for reviewing invoices and payroll records or viewing capital investments during site visits.

We found that staff substantially revised its awards administration policy, which prescribes the process staff must follow when making financial awards, shortly after presenting it to the governing board. In July 2013, the governing board discussed this policy and then provisionally approved it and all other policies that the chief executive officer had previously approved, pending its subsequent formal approval and establishment of these policies. The meeting minutes do not indicate that the governing board directed staff to revise the awards administration policy. Three days later, the chief executive officer revised the policy to permit staff to make financial awards in ways contrary to the policies for individual economic development programs, as long as undefined "mitigating factors" existed. The extent to which staff relied on "mitigating factors" to make awards is unknown because WEDC did not document when it relied on them. However, we noted that WEDC did not consistently comply with its program policies when making financial awards in

FY 2013-14. In December 2013, the governing board approved and established a revised version of the awards administration policy, which no longer mentioned "mitigating factors" and required staff to follow program policies when awarding grants and loans and allocating tax credits.

The governing board should direct its staff to present for its review and approval program policies that comply in all respects with statutory requirements. One way to do so would be to assign designated staff with the responsibility for providing the governing board with a written analysis describing how each new or revised policy complies in all respects with statutory requirements. In addition, the governing board should ensure that its staff comply with all policies it establishes.

☑ Recommendation

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

- *direct its staff to present for its review and approval policies that comply in all respects with statutory requirements; and*

- *ensure that its staff comply with all policies it establishes.*

Forward Wisconsin Development Authority

The Governor's 2015-17 Biennial Budget Proposal would combine WEDC and WHEDA into the Forward Wisconsin Development Authority, a newly created organization that would begin operation on January 1, 2016, and administer economic development programs. The Authority would be overseen by a 12-person board, the members of which would be appointed by the Governor and be from the private sector. The Governor would appoint the Authority's chief executive officer, subject to approval by the Authority's governing board with the advice and consent of the Senate.

Currently, statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. Beginning in 2017, the Governor's 2015-17 Biennial Budget Proposal would require the Legislative Audit Bureau to conduct biennially a program evaluation audit of the Authority's economic development programs that are funded through a state appropriation, but it would not require the Legislative Audit Bureau to conduct biennially a financial audit of the Authority. Because most of WHEDA's programs have not received ongoing funding from state appropriations in recent years and would receive no such funding in the 2015-17 Biennial Budget Proposal, the Legislative Audit Bureau would not be required to include these programs operated by the Authority in its biennial program evaluations. However, the Legislative Audit Bureau would have the statutory authority to review these programs at any time.

The Governor's 2015-17 Biennial Budget Proposal would make statutory modifications to the oversight of economic development programs.

The Governor's 2015-17 Biennial Budget Proposal would make statutory modifications to the oversight of economic development programs. Currently, statutes require WEDC's governing board to contractually require each recipient of a grant or loan of $100,000 or more to annually provide a schedule of expenditures of the grant or loan funds and attest to its accuracy within 120 days of the end of the recipient's fiscal year. Recipients must engage an independent certified public accountant to determine whether awarded funds were expended in accordance with the contract. The Biennial Budget Proposal would require all recipients of grants or loans to attest, within 120 days of the end of the recipient's fiscal year or at a time defined in policies approved by the Authority's governing board, that the awarded funds were spent in accordance with the contract. It would also increase to $500,000 the minimum grant or loan amount that would require recipients to engage an independent certified public accountant to determine whether the funds were expended in accordance with the contract.

The Governor's 2015-17 Biennial Budget Proposal would authorize the Authority to establish and maintain a for-profit or nonprofit corporation. Currently, statutes permit WHEDA to establish and maintain a for-profit or nonprofit corporation to insure or guarantee economic development loans, collateral, or bonds or notes issued by WHEDA, but statutes prohibit WEDC from establishing a nonprofit corporation without the approval of the Joint Committee on Finance, which had not provided such approval as of April 2015. In report 13-7, we noted that WEDC's governing board authorized WEDC to create a nonprofit foundation to solicit donations from businesses, individuals, and other organizations and use the proceeds to promote economic development. WEDC indicated to its governing board that the statutes and policies that apply to WEDC would not necessarily apply to any foundation that it creates. We also noted that it was unknown whether WEDC staff would oversee the foundation's operations, whether the foundation would report to the Legislature and the public about its operations, or whether the Legislative Audit Bureau and 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.

The Governor's 2015-17 Biennial Budget Proposal would explicitly authorize the Authority to make equity investments in businesses. Currently, statutes grant WEDC's governing board all the powers necessary to carry out its statutorily required duties, which include developing and implementing economic development programs. WEDC's Technology Development Loans program policies permitted it to convert outstanding loans to equity in businesses. WEDC indicated that it had not issued loans that could be converted to equity as of January 2015 but indicated that it is establishing policies governing such convertible loans, including policies addressing potential conflicts of interest and limiting WEDC's ownership of businesses.

The Governor's 2015-17 Biennial Budget Proposal would make changes to programs WEDC is statutorily required to administer.

The Governor's 2015-17 Biennial Budget Proposal would make a number of changes to economic development programs WEDC is statutorily required to administer. For example, it would eliminate the Jobs Tax Credit and Economic Development Tax Credit programs and would create the new Business Development Tax Credit program through which refundable tax credits would be allocated. In addition, it would create the new Regional Revolving Loan Fund Grant program and appropriate $55.0 million in GPR for this program in FY 2016-17.

Under the Governor's Biennial Budget Proposal, any unencumbered balances in WEDC's appropriations would be transferred to the Authority. Therefore, the Legislature should consider WEDC's unassigned fund balance as it determines the amount to appropriate to either WEDC or the Authority for the 2015-17 biennium. As noted, as of June 30, 2014, WEDC had a $15.6 million unassigned fund balance. This amount was larger than necessary, given that WEDC's unassigned fund balance need cover only its administrative expenditures. As of June 30, 2014, an unassigned fund balance of approximately $3.0 million would have equated to approximately two months of its FY 2013-14 administrative expenditures, which, as noted, is the minimum suggested by Government Finance Officers Association best practices.

☑ Recommendation

We recommend the Legislature consider the Wisconsin Economic Development Corporation's unassigned fund balance when determining the amount to appropriate to either the Wisconsin Economic Development Corporation or the Forward Wisconsin Development Authority for the 2015-17 biennium.

Whether WEDC remains a separate entity or the Governor and the Legislature create the Authority, reporting on the efforts to implement each of our recommendations will provide the Legislature with information to assess the administration and oversight of economic development programs, compliance with statutory requirements and policies, and the management of state funds.

☑ Recommendation

We recommend the governing board of either the Wisconsin Economic Development Corporation or the Forward Wisconsin Development Authority report to the Joint Legislative Audit Committee by February 1, 2016, on its efforts to implement each of our recommendations.

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Appendices ■

Appendix 1

Descriptions of WEDC's Economic Development Programs

FY 2013-14

This appendix provides a brief description of the 29 economic development programs WEDC administered at some point in FY 2013-14. 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 FY 2013-14 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 and 5. The numerical references differ from those used in report 13-7 or report 12-11.

Program provides the designated name for each economic development program.

Wisconsin Statutes cites statutory authority for the program. 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 2013-14.

Program Number	Program	Wis. Statutes	Description
1	Target Industry Projects	General Authority (ch. 238)	Helped Wisconsin firms by providing targeted industry sector investment grants and technical support, including by assisting non-profit and public entities with connections to target industries that support workforce development. The program focused on opportunities with the potential to create jobs and to increase the competitiveness of industry sectors in the state.
2	Minority Business Development Revolving Loan Fund	General Authority (ch. 238)	Provided grant funds to non-profit minority business associations that administer revolving minority loan funds and provide assistance to the minority business community. Funds were used for lending, technical assistance, and training. Eligible recipients included minority chambers of commerce, minority business alliances, and consortia.
3	Business Opportunity Loan Fund	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. Prior to FY 2013-14, this program was known as the Business Retention and Expansion Investment program.
4	Emergency Loan Guarantee for Certified Propane Dealers	General Authority (ch. 238)	Provided loan guarantees to financial institutions for new or expanded lines of credit for propane dealers, some of which faced the exhaustion of their lines of credit due to rising propane prices and increased consumer demand.
5	Industrial Revenue Bond	66.1103; 238.10; 238.11; 238.125	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.
6	Workforce Training Grant	General Authority (ch. 238)	Provided grants to train or retrain employees in the skills necessary for firms to develop a product, process, or service that requires new technology and industrial skills. 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.
7	Capacity Building Grants	General Authority (ch. 238)	Provided grant funds to assist local and regional economic development groups so that they could conduct assessments of the economic competitiveness of the area, develop economic development strategies, and support strategies to improve operational efficiencies and increase collaboration with other development organizations.
8	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. Credits could be carried forward for up to 15 years.

Program Number	Program	Wis. Statutes	Description
9	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 undertook economic activities 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 effective. Credits could be carried forward for up to 15 years. Jobs must have been full-time and have paid at least 150 percent of the federal minimum wage. Recipients were required to retain project-related operations in Wisconsin for at least five years.
10	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, expanded, retained jobs, or made purchases from Wisconsin suppliers within a zone could claim income tax credits based on employee wages, 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. Statutes did not limit the amount of tax credits available.
11	Jobs Tax Credit	238.16; 71.07(3q); 71.28(3q); 71.47(3q)	Offered refundable tax credits for 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 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. Statutes authorized WEDC to allocate up to $10 million in tax credits each calendar year, plus tax credits reallocated from the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs.
12	Historic Preservation Tax Credit	71.07(9m); 71.28(6); 71.47(6); 238.17	Provided transferable tax credits equal to 20 percent of qualified rehabilitation expenses for projects with at least $50,000 in qualified expenditures. WEDC allocated businesses or individuals nonrefundable tax credits based on expenditures to preserve or rehabilitate properties certified as historic or built before 1936.
13	Brownfield Grant	238.13	Provided grants to firms, local governments, and nonprofit organizations to environmentally remediate contaminated commercial and industrial properties. WEDC policy generally limited awards to no more than $500,000. Statutes required a 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 over $700,000 and under $1,250,000.
14	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.
15	Community Development Investment Grants	General Authority (ch. 238)	Provided grants for shovel-ready redevelopment projects to counties, cities, villages, and towns, with an emphasis on downtown sites. Recipients had to demonstrate significant potential for benefits in job opportunities, property values, or leveraged investment by local or private partners and provide a 75 percent funding match.

Program Number	Program	Wis. Statutes	Description
16	Idle Industrial Sites Redevelopment	General Authority (ch. 238)	Offered grants up to $1,000,000 to government entities to redevelop sites larger than 10 acres that had been used for commercial or industrial purposes for over 25 years. Grants could be used for demolition, environmental remediation, or site-specific improvements defined in a redevelopment plan. Grant funds could not exceed 30 percent of total project costs.
17	Main Street and Main Street Connect	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 assistance included employment of an onsite director and helping municipalities plan, manage, and implement programs for revitalizing business areas.
18	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 Deloitte to create consistent standards for industrial site certification. Eligible sites consisted of a minimum of 50 contiguous, developable acres.
19	Technology Development Loans	General Authority (ch. 238)	Provided 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 or equipment. Award amounts depended on the stage of growth. Product and process development firms were limited to a $250,000 grant, commercialization grants were limited to a $500,000 grant, and grants for firms in growth mode were limited to $750,000. Prior to FY 2012-13, this program was known as the Technology Development Grants and Loans program.
20	Capital Catalyst	General Authority (ch. 238)	Provided grants, typically from $100,000 to $200,000, 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 make investment in companies located in, or those that would relocate to, Wisconsin.
21	Seed Accelerator	General Authority (ch. 238)	Provided grants to seed accelerator programs designed to help start-up businesses, usually in the technology field. The accelerator programs were awarded up to $50,000 for operational expenses and up to $300,000 to pass through to companies participating in the accelerator for use as capital in amounts ranging from $5,000 to a maximum of $50,000. Accelerator participants received training in best practices for launching a business and mentorship over a period of three to six months.
22	Entrepreneurial Micro-Grants	General Authority (ch. 238)	Provided funds to a statewide entity that administered grants made to businesses using these funds. The grants, which ranged from $750 to $4,500, allowed businesses to receive professional assistance in applying for federal grant funds, receive business planning education, and develop commercialization plans. In FY 2013-14, the grants were administered by the Center for Technology Commercialization.
23	Angel Investment Tax Credit	238.15(1); 238.15(3); 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.
24	Early Stage Seed Investment Tax Credit	238.15(2); 238.15(3); 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.

Program Number	Program	Wis. Statutes	Description
25	Qualified New Business Ventures	238.15(1)	Certified eligible new businesses, allowing investors to receive nonrefundable tax credits under the Angel Investment 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.
26	Qualified Wisconsin Business	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 provides for 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 preceding its application 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. This program was transferred to the Department of Revenue on January 1, 2014.
27	ExporTech	General Authority (ch. 238)	Contracted with the Wisconsin Manufacturing Extension Partnership and the Northwest Wisconsin Manufacturing Outreach Center to provide an array of services to companies looking for assistance with exporting their products or services. Different programs available were geared toward helping economic development entities identify export development needs in their regions, accelerate the process of taking products to international markets through planning, and providing ongoing support for implementing a marketing plan.
28	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 new to exporting and needed help to develop expertise in exporting. The program had three components. First, the Export Education Grant (EEG) provided grants 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 (IMAG) 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, trade missions, website and literature translation services, and consulting services. Third, the Collaborative Market Access Grant provided intermediaries up to $150,000 to deliver services available under the EEG and IMAG grants.
29	Opportunity Research Project	General Authority (ch. 238)	Provided financial matching assistance grants to qualified organizations, such as regional economic development and industry organizations, for the purpose of strategy development in order to build the foundation for achieving strategic goals. In return for assistance, which could range from $5,000 to $50,000, organizations were required to submit their strategic plans to WEDC. This program was combined with the Targeted Industry Projects program in FY 2013-14.

Appendix 2

Recipients Awarded the Largest Amounts of Grants and Loans

FY 2013-14
(in millions)

Recipient	Type	Amount
SHINE Medical Technologies, Inc.	Loan	$ 4.0
Alliance Laundry Systems, LLC	Loan	1.5
Seneca Foods Corporation	Loan	1.5
Agropur, Inc.	Loan	1.0
Biery Cheese Company	Loan	1.0
City of Beloit	Grant	1.0
City of Wausau	Grant	1.0
Redevelopment Authority of the City of Milwaukee	Grant	1.0
Riverside Machine & Engineering, Inc.	Loan	1.0
Village of Port Edwards	Grant	1.0
Weather Shield Manufacturing, Inc.	Loan	1.0
Total		**$15.0**

Appendix 3

Four File Reviews for Selected Contracts Made through WEDC's Economic Development Programs

Program Number	Program	Number of Contracts	Amount
	Grant and Loan Contracts Executed in FY 2013-14		
3	Business Opportunity Loan Fund[1]	16	$13,477,000
6	Workforce Training Grant	4	490,774
13	Brownfield Grant	2	948,362
14	Brownfield Site Assessment Grants	3	306,419
19	Technology Development Loans	4	1,650,000
	Total	**29**	**$16,872,555**
	Grant and Loan Contracts Executed from FY 2011-12 through FY 2012-13		
3	Business Retention and Expansion Investment[1]	19	$19,631,000
6	Workforce Training Grant	3	421,710
19	Technology Development Loans	1	2,000,000
	Total	**23**	**$22,052,710**
	Tax Credit Contracts Executed in FY 2013-14[2]		
8	Economic Development Tax Credit	18	$15,504,130
9	Development Opportunity Zone	4	2,794,000
10	Enterprise Zone	2	18,300,000
11	Jobs Tax Credit[3]	18	32,150,500
	Total	**42**	**$68,748,630**
	Tax Credit Contracts Executed from FY 2011-12 through FY 2013-14[2]		
8	Economic Development Tax Credit	11	$ 10,978,000
9	Development Opportunity Zone	2	1,084,000
10	Enterprise Zone	5	131,500,000
11	Jobs Tax Credit	5	8,325,000
	Total	**23**	**$151,887,000**

[1] In FY 2013-14, the Business Retention and Expansion Investment Program was renamed the Business Opportunity Loan Fund.

[2] Amounts represent allocated tax credits.

[3] Includes one executed contract that was subsequently cancelled.

Appendix 4

Recipients Allocated the Largest Amounts of Tax Credits

FY 2013-14
(in millions)

Recipient	Amount
Amazon.com, Inc.	$10.3
Weather Shield Manufacturing, Inc.	8.0
Kenall Manufacturing Company	7.0
Meijer Stores, LP	5.3
Schreiber Foods, Inc.	4.5
United Natural Foods, Inc.	3.5
Johnson Controls, Inc.	3.5
Skyward, Inc.	3.0
Kohler Company	2.0
SHINE Medical Technologies, Inc.	2.0
Total	**$49.1**

Appendix 5

Reported Results of WEDC's Economic Development Programs

FY 2013-14

This appendix provides information on the reported actual results of WEDC's 29 economic development programs in FY 2013-14. 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 FY 2013-14 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 1 and 3. The numerical references differ from those used in report 13-7 or 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 through FY 2013-14
1	Target Industry Projects	Provided 12 grants totaling $1.2 million to 10 associations, 1 county, and 1 community.
2	Minority Business Development Revolving Loan Fund	Provided 4 grants totaling $500,000 to 3 associations.
3	Business Opportunity Loan Fund	Provided 19 loans totaling $14.7 million to 18 businesses; created 106 jobs; retained 703 jobs.
4	Emergency Loan Guarantee for Certified Propane Dealers	Provided 4 loan guarantees totaling $460,000 to 4 businesses.
5	Industrial Revenue Bond	Authorized $28.4 million in bonding for 7 businesses.
6	Workforce Training Grant	Provided 4 grants totaling $490,774 to 4 businesses; created 3 jobs; retained 98 jobs.
7	Capacity Building Grants	Provided 3 grants totaling $125,000 to 3 local/regional economic development groups.
8	Economic Development Tax Credit	Allocated $25.3 million in 64 tax credit awards to 62 businesses; created 1,170 jobs; retained 6,863 jobs.
9	Development Opportunity Zone	Allocated $2.8 million in 4 tax credit awards to 4 businesses; created 36 jobs; retained 11 jobs.
10	Enterprise Zone	Allocated $18.3 million in 2 tax credit awards to 2 businesses; retained 798 jobs.
11	Jobs Tax Credit	Allocated $30.8 million in 17 tax credit awards to 16 businesses; created 44 jobs; retained 490 jobs.
12	Historic Preservation Tax Credit	Allocated $2.9 million in 10 tax credits to 10 businesses.
13	Brownfield Grant	Provided 11 grants totaling $3.8 million to 9 businesses and 2 communities.
14	Brownfield Site Assessment Grants	Provided 17 grants totaling $1.5 million to 17 communities.
15	Community Development Investment Grants	Provided 15 grants totaling $1.3 million to 14 communities and 1 local economic development group.
16	Idle Industrial Sites Redevelopment	Provided 6 grants totaling $5.1 million to 5 communities and 1 local economic development group.
17	Main Street and Main Street Connect	Provided technical assistance to 35 Main Street Communities, 20 Connect Communities, and 36 businesses.
18	Certified Sites/Ready, Set, Build!	No new sites were certified in FY 2013-14; 2 projects were announced at existing Certified Site locations.
19	Technology Development Loans	Provided 17 loans totaling $4.3 million to 17 businesses; created 4 jobs.
20	Capital Catalyst	Provided 7 grants totaling $1.7 million to 6 associations and 1 community.
21	Seed Accelerator	Provided 4 grants totaling $498,750 to 4 associations.
22	Entrepreneurial Micro-Grants	Provided 1 grant of $270,000 to 1 association.

Program Number	Program	Actual Results through FY 2013-14
23	Angel Investment Tax Credit	Allocated tax credits to investors in 65 businesses totaling $5.6 million in calendar year 2014.
24	Early Stage Seed Investment Tax Credit	Allocated tax credits to investors in 21 businesses totaling $3.0 million in calendar year 2014.
25	Qualified New Business Ventures	Certified 26 new businesses.
26	Qualified Wisconsin Business	203 businesses met qualification requirements for this certification from July 2013 through December 2014. This program was transferred to the Department of Revenue on January 1, 2014.
27	ExporTech	Provided 27 businesses with technical assistances; provided 1 grant of $125,000 to 1 association.
28	Global Business Development Grant	Provided 53 grants totaling $587,643 to 47 businesses.
29	Opportunity Research Project	Provided 3 grants totaling $77,627 to 3 associations.

Response ■

Wisconsin Economic Development Corporation

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May 6, 2015

Mr. Joe Chrisman, State Auditor
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 financial and program evaluation audits for Fiscal Year 2013-14. We respectfully request that this letter be included with the report.

The Wisconsin Economic Development Corporation (WEDC) was formed in response to a rigorous, forward-looking, non-partisan review of Wisconsin's economic development competitiveness. The guiding document, *Be Bold Wisconsin: The Wisconsin Competitiveness Study,* clearly indicated Wisconsin needed to take a more forward-looking bold approach to attracting, growing and retaining businesses within the state. Since its creation in 2011, WEDC has done just that through a business-like organizational structure and philosophy that implements best practices to position Wisconsin to continue to be the state of choice for companies seeking to start, grow or locate here.

Guided by the leadership of WEDC's bipartisan Board of Directors, the successes of WEDC in the relatively short period of time since its inception are undeniably impressive. While we recognize there have been lessons learned in the first few years of our organization, one cannot overlook the lasting impact WEDC has had on all aspects of the state economy. We are proud of the businesses that have relocated to Wisconsin or expanded here, the communities we have helped to transform, the entrepreneurs we have assisted, the driver industries that have been strengthened, and the partnerships that have been forged. Companies, investors and corporate real estate executives now view Wisconsin as a top-tier competitor when making relocation and expansion decisions. That accomplishment has been achieved through the efforts and support of the Legislature, WEDC's more than 600 partners around the state, WEDC's Board of Directors and its committees, and our organization's incredibly talented staff.

A key element of WEDC's strategy to strengthen the state's economy is to work closely with companies of all sizes and all key industry sectors to help grow the state's economy and create new jobs. Fostering job creation and retention is at the core of WEDC's mission and it is a responsibility we take very seriously – both in deciding which companies should receive awards as well as verifying that the job requirements in WEDC contracts are being attained. Some of the measures WEDC takes in that thorough process include:

- All WEDC applications receive a thorough review from WEDC's underwriting staff, which analyzes each project and each company to ensure the project meets program guidelines, to determine the company's financial stability, and to assess the economic impact of the project. In FY15, WEDC staff reviews were expanded to measure the direct and indirect economic impact of retention, attraction and expansion awards, including the potential impact on state income tax collections.
- Following the underwriting review, all projects are presented to our Management Review Committee that looks at many of those same factors before deciding whether to commit to a project. Depending on the amount of the award and the program, projects require approval from the WEDC Awards Administration Committee or WEDC's bipartisan Board of Directors.
- It is important to understand that the decision date – the date in which an award receives final WEDC approval – essentially gives company officials the "green light" to move forward with a project because they have a firm commitment from the state on the amount of award and the corresponding requirements (jobs, capital investment, etc.) of that award. It is at this time that the company feels confident enough to proceed with making decisions regarding project location, securing financing commitments, and hiring of contractors and/or a project team to facilitate the project. This audit relied on a different method of evaluating our program administration. We feel strongly that our current practice is necessary to accommodate the needs of the companies we work with. Any change in that procedure could have a significant impact on WEDC's ability to negotiate contracts with companies and could hinder job creation efforts in the state.
- All companies receiving awards from WEDC are contractually required to meet certain objectives, which typically include job creation, job retention and/or capital investment.
- After a contract is awarded, recipients are required to submit annual reports to document their performance in meeting job creation/retention and other contract requirements. That report includes a verification form signed by an official representing the recipient, attesting to the accuracy of the information included in the performance report. In the case of job creation and retention, companies receiving tax credits also are required to provide payroll information documenting the company's employees and wages.
- WEDC completes an annual verification of a sample of awards consistent with Wisconsin law.

WEDC, which has been nationally recognized for its achievements in transparency, has consistently demonstrated its commitment to being open and accountable to the public, and to being careful stewards of the taxpayers' dollars. Specific measures WEDC has taken to be completely transparent include:

- Providing online tools that enable the public to see the amount of the awards, and the job creation and retention data, capital investment and other data on each WEDC award. The tools on InWisconsin.com include an interactive map, a searchable database and downloadable spreadsheets. That data is updated quarterly.
- Documenting awards and performance in its annual report and in the Annual Report on Economic Development (Act 125) report, which is presented to the state Legislature.

WEDC's practice of full transparency was highlighted in an April 2014 report by the WISPIRG Foundation that examined how states rate in providing online access to government spending data.

In the annual ranking, Wisconsin tied for sixth in providing online access and saw the biggest improvement in the country over last year. The report said: "Wisconsin is the only state that provides complete information on the public benefits delivered by recipients of economic development subsidies."

Our ongoing commitment to remain a national leader in transparency aligns with the strides WEDC has made over the last two years to strengthen our policies and procedures to enhance our accountability to taxpayers and other stakeholders. In addition to the steps outlined above to ensure that companies are complying with the requirements of their contracts, WEDC has implemented numerous other measures to increase the level of accountability, including:

- Reorganizing WEDC's compliance functions and expanding staff to concentrate on compliance with state statutes and organization policies.
- Adopting process improvements to strengthen the financial award process, reporting and collections.
- Replacing an outdated financial management software system, inherited from the former Department of Commerce, with sophisticated technology to meet WEDC's tracking, reporting and collections objectives.
- Creating new Board committees with public members that are more involved in awards, policies, contracts and audits, and working with those committees to continuously review our policies and procedures to ensure they are efficient, effective and consistent with our accountability and transparency objectives.
- Implementing a more robust and targeted training system for our systems policies.

WEDC has experienced a significant amount of success as a result of these and other improvements to its processes and procedures over the last two years:

- An independent audit of the WEDC's FY14 financial statements conducted by the accounting firm Sikich LLP found no material weaknesses or significant deficiencies in WEDC's financial reporting.
- In April 2014, WEDC received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The certificate is the highest form of recognition in the area of governmental accounting and financial reporting.
- As noted in the FY14 LAB audit:
    - WEDC's loan delinquency rates declined from December 2013 to December 2014. The delinquency rate as measured by payments decreased from 2.7% to 0.2%. The principal delinquency rate declined from 8.8% to 1.7%.
    - The balance of uncollectable loans decreased from $5.5 million in December 2013 to $1.3 million in December 2014.
    - The delinquency rate for performance reports declined from 55% in December 2012 to 5.4% in December 2014.

The transformative impact that WEDC's programs have had on the state's economic prosperity and the well-being of its citizens go well beyond job creation and retention. WEDC works with key partners in the state's driver industries – such as energy, manufacturing, biotechnology, water technology, aerospace and food processing – to take a strategic approach to addressing issues and pursing opportunities in each of those industries. We also are leading the way in spurring public-private collaboration to improve the potential for growth and global competitiveness in those industries.

In keeping with the vision outlined in the *Be Bold* report, WEDC was created to more quickly meet the needs of the Wisconsin business community and because of the way the organization is structured, it has the flexibility to develop innovative programs – such as Capital Catalyst, Seed Accelerator, Capacity Building and Community Investment Development programs – to serve businesses and other stakeholders.

We appreciate that the team of almost 20 LAB auditors who worked with us over a six-month period recognized many of the areas in which WEDC has made improvements to our internal processes and protocols. We firmly believe that we are balancing our ability to be responsive to the needs of business while being careful, responsible stewards of taxpayers' dollars. As we should, we are continuously looking at ways in which we can improve our processes or increase productivity, and we welcome the recommendations in this audit as another tool in that ongoing evaluation.

Economic development is not a "one size fits all" endeavor, and it is important that WEDC, while complying with statutory provisions, maintains the flexibility to evaluate each project on its own merits and have the ability to respond appropriately to help ensure investments and jobs stay or grow in Wisconsin. That core philosophy is critical to our mission and our ability to be successful in improving and strengthening Wisconsin's economy.

Thank you again for the opportunity to respond to this audit. We appreciate and welcome input from LAB as we continue to help move the state's economy forward.

Reed E. Hall

Reed E. Hall
Secretary & CEO