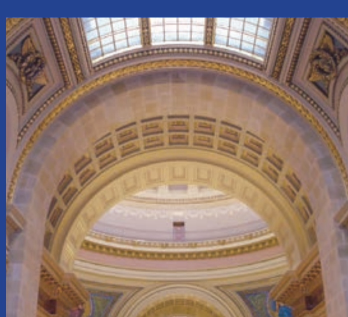
Report 17-9
May 2017

Wisconsin Economic Development Corporation

State of Wisconsin



Legislative Audit Bureau

Report 17-9
May 2017

Wisconsin Economic Development Corporation

Joint Legislative Audit Committee Members

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Joe Chrisman
State Auditor

May 17, 2017

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) 2015-16, WEDC administered 34 economic development programs through which it provided an estimated $133.0 million in tax credits to businesses and individuals; awarded $21.5 million in grants and $17.3 million in loans to businesses, local governments, and other organizations; and authorized local governments to issue $17.4 million in bonds.

In our last biennial audit (report 15-3), we identified concerns with WEDC's administration of its economic development programs. During our current audit, we found improvements in WEDC's administration of its programs during the first six months of FY 2016-17. We also found that WEDC did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained. In addition, WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. As a result, WEDC cannot be certain about the numbers of jobs created or retained as a result of its awards.

Statutes require WEDC's governing board to monitor the performance of its economic development programs and report publicly on program results. We found that the governing board improved some aspects of its program oversight. We recommend additional actions be taken to improve the accuracy of the numbers that WEDC reports in its online data regarding jobs that were created or retained as a result of the awards it made.

WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million (111.2 percent). It increased, in part, because WEDC received state funding quarterly, and WEDC did not have an immediate need for most of these funds.

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

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DS/ss

Report Highlights ▪

WEDC has improved the administration of its grant, loan, and tax credit programs.

WEDC cannot be certain about the numbers of jobs created or retained as a result of its awards.

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

WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016.

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 to 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 primarily with state funds.

In fiscal year (FY) 2015-16, WEDC administered 34 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, individuals, 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:

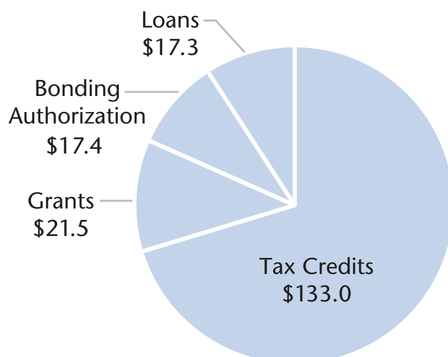
- WEDC's administration and oversight of its programs;
- the results achieved by WEDC's programs; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

As shown in Figure 1, WEDC authorized local governments to issue bonds to finance economic development projects and awarded grants and loans to businesses, local governments, and other organizations in FY 2015-16. It also provided tax credits to businesses and individuals.

Figure 1

Economic Development Awards
FY 2015-16
(in millions)



Effective July 1, 2016, WEDC significantly changed how it made awards. Therefore, we examined WEDC's administration of its grant and loan programs in the first six months of FY 2016-17. We found that WEDC improved its administration of grant and loan programs since our last audit (report 15-3). For example, 36 of the 37 grant and loan contracts we reviewed included statutorily required provisions requiring recipients to repay the funds in certain situations. However, WEDC did not contractually require recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained. WEDC should determine the extent to which recipients created or retained contractually required jobs, such as by comparing the jobs-related information submitted by a recipient with the Department of Workforce Development's (DWD's) unemployment insurance information for the recipient's employees.

For the loans it administers, WEDC collects loan repayments and pursues collection of delinquent loans. The potentially uncollectable balance of loans with repayments 90 days or more past due increased from $1.3 million on December 31, 2014, to $11.0 million on December 31, 2016. The increase occurred largely because new loans became 90 days or more past due during this two-year period.

We examined WEDC's administration of its tax credit programs in the first six months of FY 2016-17. We found that WEDC improved its administration of tax credit programs since our last audit, including by establishing all statutorily required policies for its programs. However, WEDC did not collect sufficiently detailed information from applicants about their existing employees. Collecting such information will help WEDC determine in future years the extent to which tax credit recipients actually created or retained contractually required jobs. WEDC should also comply with statutes by annually verifying jobs-related information submitted by recipients, such as by comparing the jobs-related information submitted by a recipient with DWD's unemployment insurance information for the recipient's employees.

If a tax credit recipient does not comply with the terms of its contract with WEDC, it may be required to repay the State for tax credits it had previously claimed. If a recipient instead repays WEDC, then WEDC must repay these funds to the State. WEDC retained $5.3 million in repaid tax credits before depositing this amount with the Department of Administration (DOA) in March 2017, shortly after we asked about these funds.

Program Results and Accountability

Statutes require WEDC's governing board to monitor the performance of its economic development programs, including by annually and independently verifying the performance measure information submitted by a sample of grant and loan recipients. In 2016, WEDC paid a consultant $24,900 to conduct the verification effort. We found concerns with the verification effort, which excluded grant recipients that are statutorily required to be included.

Assessing the effectiveness of WEDC's awards involves determining the extent to which recipients met their contractual obligations. WEDC indicated that 192 awards it had made since July 2011 ended through September 2016, including 24 awards (12.5 percent of the total) for which WEDC indicated that job creation or retention was an expected result. We found that recipients of 3 of the 24 awards were not actually contractually required to create or retain any jobs. Thirteen of the 24 awards ended before the contractually specified completion dates and, as a result, the recipients were no longer contractually required to create 183 jobs and retain 1,082 jobs.

Eight of the 24 awards reached their contractually specified completion dates.

Statutes require WEDC's governing board to report annually to the Legislature on each program administered in the prior fiscal year. We reviewed the October 2016 report and WEDC's online data that accompany the report to show the results of each award. WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate. WEDC did not collect sufficiently detailed information during the underwriting process from applicants about their existing employees. It did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the actual numbers of jobs created or retained. In addition, WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved.

We also found that WEDC's online data contained inaccuracies for certain awards, including 1,265 jobs associated with recipients that sold their operations in Wisconsin, ceased their operations in Wisconsin, or had withdrawn from their contracts before the contractually specified completion dates. In addition, at least 699 jobs were double-counted in the online data.

Statutes require WEDC's governing board to annually report each job created or retained as a result of its programs. Statutes and WEDC's policies stipulate that recipients typically receive awards for creating and retaining full-time jobs that pay at least 150.0 percent of the federal minimum wage. We found that WEDC's online data include not only the jobs created or retained according to the terms of WEDC's contracts, which typically reflected statutory and policy requirements, but also include an unknown number of additional jobs that did not necessarily meet the contractual terms.

Financial Management

The amount of total resources available to WEDC exceeded the total payments made for each quarter from July 2011 through June 2016. The largest difference between total resources available and total payments made was $85.2 million for the quarter ended June 30, 2015. The smallest difference was $19.0 million for the quarter ended September 30, 2012. Overall, WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million (111.2 percent). WEDC's cash and investments balance increased, in part, because WEDC received state funding quarterly. However, most of these funds were not immediately needed because of the timing of payments to grant and loan recipients, which are approximately three-quarters of amounts paid by WEDC.

Although WEDC improved its management of its fund balance and its credit cards since our last audit, we make recommendations for further improvements in each area.

Recommendations

We include recommendations for WEDC or its governing board to report to the Joint Legislative Audit Committee by February 1, 2018, on efforts to improve the:

☑ administration of grant and loan programs (*pp. 23, 24, 26, 27, 28,* and *32*);

☑ administration of tax credit programs (*pp. 43, 44, 45,* and *48*);

☑ oversight of economic development programs (*pp. 51, 53, 60, 61, 62,* and *65*); and

☑ financial management (*pp. 74* and *80*).

Issues for Legislative Consideration

The Legislature could consider modifying statutes to:

- require WEDC to deposit all tax credits repaid to it with DOA within one week (*p. 48*); and
- clarify that the governing board should report on only created or retained jobs that meet statutory and policy requirements (*p. 66*).

▪ ▪ ▪ ▪

Introduction ▪

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

Economic development assistance includes a variety of programs that provide financial and other support to businesses, individuals, 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 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 14-member board.

Section 238.02 (1), Wis. Stats., provides that WEDC is governed by a 14-member board, including:

- 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. In July 2016, the governing board amended WEDC's bylaws to provide that board members appointed by the Governor serve staggered four-year terms. Statutes require the board to elect a chairperson from among its voting members who are not legislators. Appendix 1 lists the board members as of April 2017.

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 WEDC's 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 secretary of DOA.

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, 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. Before creating such a corporation, statutes require WEDC to obtain the approval of the Joint Committee on Finance.

In FY 2016-17, a chief operating officer served as the chief executive officer's deputy, and a chief financial officer managed WEDC's budget, finances, and underwriting efforts. Five vice presidents managed:

- the business and community development division, which worked to provide financial and technical assistance to businesses and communities;
- the entrepreneurship and innovation division, which worked to support the development of new and emerging entrepreneurial and high-growth businesses in the state;
- the international business development division, which worked to strengthen Wisconsin's export partnerships and attract foreign direct investment in Wisconsin businesses;
- the sector strategy development division, which worked to increase the growth and competitiveness of selected industry sectors; and
- the marketing and brand strategy division, which worked to promote Wisconsin's economic assets and business climate.

Economic Development Programs

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

- grants and loans, which WEDC provides to businesses and other organizations to finance economic development projects;
- tax credits, which 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 that finance economic development projects; and

- technical assistance that WEDC provides to businesses, individuals, and other organizations.

In FY 2015-16, WEDC administered 34 economic development programs.

In FY 2015-16, WEDC administered 34 economic development programs, including 15 programs it was statutorily required to administer and 19 programs it administered based on its statutory authority to develop and implement programs. Appendix 2 describes each of these 34 programs.

WEDC's economic development programs can be categorized based on the primary type of assistance provided, as shown in Table 1. In FY 2015-16, WEDC administered 22 financial assistance programs: 20 grant and loan programs and 2 bonding authorization programs. It provided tax credits through nine programs. Three programs provided only technical assistance, such as project-related training, marketing, and consultation.

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	FY 2014-15	FY 2015-16
Financial Assistance					
Grants and Loans	16	16	17	18	20
Bonding Authorization	3	2	1	1	2
Subtotal	19	18	18	19	22
Tax Credits	8	8	9	8	9
Technical Assistance	3	2	2	3	3
Total	**30**	**28**	**29**	**30**	**34**

Table 2 shows the amount of assistance awarded through WEDC's economic development programs from FY 2011-12 through FY 2015-16. 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	FY 2014-15	FY 2015-16
Tax Credits	$110.8	$122.3	$88.7	$166.9	$133.0[1]
Grants	41.3	7.7	17.2	22.0	21.5
Loans[2]	20.5	13.8	19.4	18.4	17.3
Bonding Authorization	346.4	179.7	28.4	40.5	17.4

[1] Estimated.

[2] Includes loan guarantees.

Audits and Other Reviews of WEDC

In report 13-7, we noted 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 and partially fulfilled the requirement for a financial audit. We noted concerns with WEDC's administration and oversight of its programs and with its financial management. Because 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, 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 by 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 required WEDC's governing board to include additional information in its annual economic development program report. Act 20 also 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 in report 13-7.

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.

In report 15-3, we noted improvements in WEDC's financial management practices and ongoing concerns with WEDC's administration and oversight of its programs.

In May 2015, we issued report 15-3, which fulfilled our statutory requirement to conduct biennially a financial audit and a program evaluation audit. We noted that WEDC had improved its financial management practices in FY 2013-14, but that its policy for managing its fund balance allowed it to maintain an unassigned fund balance that was larger than necessary. We also reported ongoing concerns with WEDC's administration and oversight of its programs. We found that WEDC allocated tax credits in ways that did not consistently comply with statutes and its policies, and that WEDC did not require grant and loan recipients to submit information showing that contractually required jobs were actually created or retained. In addition, 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 created or retained.

We also note that the Center for Regional Economic Competitiveness (CREC) reported in February 2016 on its review of WEDC's operations and processes, which it had examined at the request of the governing board. The report, for which WEDC paid $175,300, included 34 recommendations for WEDC to strengthen statewide economic development, align its efforts with new economic development priorities, improve its governance and management, and achieve operational excellence through continuous improvement. WEDC indicated that it made a number of changes to its operations and processes as a result of this report.

We analyzed WEDC's administration of its programs in the first six months of FY 2016-17.

To complete this third biennial audit of WEDC, we analyzed WEDC's administration of its programs in the first six months of FY 2016-17. We chose this time period because WEDC significantly changed how it made awards beginning in FY 2016-17. We also analyzed WEDC's compliance with statutorily required program oversight duties and the results of economic development awards that ended through September 2016. We completed our analyses, in part, by reviewing available information for 133 awards that WEDC made. We also analyzed WEDC's revenues and administrative expenditures in FY 2014-15 and FY 2015-16 and certain financial management issues, and we determined the extent to which WEDC implemented the recommendations we made in report 15-3.

■ ■ ■ ■

Financial Assistance Programs ■

In FY 2015-16, WEDC administered 22 financial assistance programs.

In FY 2015-16, WEDC administered 22 financial assistance programs: 20 programs that awarded grants and loans to businesses, local governments, and economic development organizations throughout Wisconsin; and 2 programs that authorized local governments to issue tax-exempt bonds to finance economic development projects. In report 15-3, we found that WEDC 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. During our current audit, we found that WEDC improved its administration of grant and loan programs, but WEDC did not contractually require recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained. We recommend WEDC further improve its administration of grant and loan programs.

Bonding Authorization Programs

Federal law authorizes state and local governments to issue tax-exempt bonds to finance economic development projects. Such bonds are an attractive source of capital for businesses because they typically have interest rates lower than for conventional corporate bonds. In addition, the bonds may be attractive to private investors because earned income is typically exempt from federal taxes.

Through the Industrial Revenue Bonding program, WEDC could authorize local governments 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. Earned income from this program's bonds is not federally taxable. Through the program, WEDC authorized:

- six municipalities (Cedarburg, New Berlin, Pewaukee, Plymouth, Sheboygan, and Waukesha) to issue a total of $40.5 million in bonds in FY 2014-15; and

- three municipalities (Milwaukee, Shawano, and Sussex) to issue a total of $14.5 million in bonds in FY 2015-16.

Through the Qualified Energy Conservation Bonding program, WEDC could authorize state, local, and tribal governments to issue bonds to fund energy conservation projects, including those involving capital expenditures to reduce energy consumption in public buildings, conduct energy research, and fund public education campaigns to promote energy efficiency. Earned income from this program's bonds is federally taxable. Interest rates on the bonds are lower than on conventional bonds because the federal government provides bondholders with direct payments or tax credits. In September 2015, WEDC authorized Milwaukee County to issue $2.8 million in bonds through this program. This was the only authorization WEDC made through this program from FY 2014-15 through FY 2015-16.

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. The grants and loans support a variety of economic development projects, such as expanding factories, purchasing business equipment, and performing environmental remediation. WEDC contractually agrees to provide recipients with funds after specified project activities are completed. If recipients do not achieve contractual obligations or meet loan repayment requirements, the contracts contain provisions that allow WEDC to attempt to recoup the funds, such as by initiating collection proceedings.

In FY 2015-16, WEDC awarded 168 economic development grants totaling $21.5 million.

As shown in Table 3, WEDC awarded 168 economic development grants totaling $21.5 million in FY 2015-16. Appendix 3 shows the 10 recipients awarded the largest amounts of grants and loans in FY 2015-16.

Table 3

Economic Development Grants Awarded by WEDC
(in millions)

	FY 2014-15		FY 2015-16	
Program	Grants	Amount	Grants	Amount
Brownfields Grant	13	$ 4.6	15	$ 5.9
Community Development Investment Grant	23	5.5	18	4.5
Targeted Industry Projects	11	1.5	8	2.9
Capital Catalyst	2	0.7	4	1.6
Small Business Innovation Research/Small Business Technology Transfer Matching Grant	1	1.4	1	1.3
Site Assessment Grant	14	1.4	13	1.1
Global Business Development Grant	62	1.3	58	0.9
Seed Accelerator	9	1.1	8	0.9
Fabrication Laboratories Grant	–	–	24	0.6
Capacity Building Grant	5	0.3	11	0.5
Minority Business Development	2	0.2	4	0.4
St. Croix Valley Business Incubator[1]	–	–	1	0.3
Entrepreneurial Micro-Grant	1	0.2	1	0.2
ExporTech	1	0.2	1	0.2
Workforce Training Grant	2	0.2	1	0.2
Idle Sites Redevelopment	4	3.4	–	–
Total	**150**	**$22.0**	**168**	**$21.5**

[1] 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, required WEDC to award a $250,000 grant to the River Falls Economic Development Corporation to construct the St. Croix Valley Business Incubator, if federal funds were secured for this project.

We examined the amounts awarded, which may differ from expenditure amounts because expenditures can occur over multiple fiscal years and award recipients may not use the entire amounts awarded. In FY 2015-16, WEDC's grant expenditures totaled $20.5 million. Because its contracts typically allow recipients to complete projects over multiple years, these expenditures related to grants that WEDC awarded in FY 2015-16 and earlier.

WEDC indicated that its loans are not intended to be the primary funding source for an economic development project. Instead, WEDC's loans are intended to support businesses that need additional financial assistance in order to undertake a project or to complete a project that would not have occurred otherwise. In addition to collectible loans that recipients must repay, WEDC awards forgivable loans and loan guarantees. Depending on the contract for a forgivable loan, recipients are not required to repay some or all of the principal or interest if they achieve contractually required results, 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 2015-16, WEDC awarded 31 economic development loans totaling $17.3 million.

As shown in Table 4, WEDC awarded 31 economic development loans totaling $17.3 million in FY 2015-16.

Table 4

Economic Development Loans Awarded by WEDC
(in millions)

	FY 2014-15		FY 2015-16	
Program	Loans	Amount	Loans	Amount
Business Opportunity Loan Fund	17	$14.4	13	$10.8
Clean Energy Manufacturing Revolving Loan Fund	–	–	1	0.8
Special Project Loan Fund	3	0.8	1	0.2
Technology Development Loan	15	3.2	16	5.5
Total	**35**	**$18.4**	**31**	**$17.3**

We examined the amounts awarded, which may differ from disbursement amounts because disbursements can occur over multiple fiscal years and award recipients may not use the entire amounts awarded. In FY 2015-16, WEDC's loan disbursements totaled $18.9 million, including $6.0 million in forgivable loans. Because loan agreements typically allow recipients to complete projects over multiple years, these disbursements related to loans awarded in FY 2015-16 and earlier.

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, provided that WEDC may not originate more than $10.0 million in new loans in FY 2015-16, more than $5.0 million in new loans in FY 2016-17, and any new loans after FY 2016-17. Separate from these provisions, WEDC may continue to originate no more than $3.0 million each fiscal year in state-funded loans through the Technology Development Loan program. Statutes do not define when a loan is originated, but WEDC defines a loan's origination as the date it decided to make the loan, not the date it executed the loan contract. Using this definition, we found that WEDC complied with the FY 2015-16 limits and had not exceeded the FY 2016-17 limits through March 2017. We note that 2017 Senate Bill 30 and 2017 Assembly Bill 64, the Governor's 2017-19 biennial budget proposal, would modify statutes to allow WEDC to award loans after FY 2016-17, as long as the loans were funded by repayments of other loans, but would prohibit WEDC from awarding forgivable loans.

Administration of Grant and Loan Programs

We assessed 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 applicants for grants and loans;
- comply with statutory and policy requirements when executing contracts;
- appropriately manage and oversee its contracts with grant and loan recipients; and
- appropriately monitor the repayment of collectible loans.

We reviewed information for 37 grant and loan contracts that WEDC executed in the first six months of FY 2016-17.

Effective July 1, 2016, WEDC significantly changed how it made awards. Therefore, to assess WEDC's administration of its programs, we reviewed information for 37 grant and loan contracts totaling $13.6 million that WEDC executed in the first six months of FY 2016-17. We selected these contracts based on factors such as whether the contracts were for larger amounts. Appendix 4 contains summary information about these 37 contracts.

Establishing Program Policies

WEDC established policies for all of the grant and loan programs it administered in the first six months of FY 2016-17.

Statutes provide general criteria for making awards through grant and loan programs. In addition, WEDC establishes more-detailed policies to govern how it administers its programs and makes awards through its programs. We found that WEDC established policies for all of the grant and loan programs it administered in the first six months of FY 2016-17.

WEDC may want to consider modifying its policies to take into account additional information from entities that are critical to a project's success. For example:

- Policies for the Idle Sites Redevelopment program required WEDC to take into account a written financial commitment from a lending institution or government entity to enable an applicant, which was typically a municipality, to complete a project. However, policies did not require WEDC to take into account a financial commitment from a lending institution or government entity for the private developers involved in such projects.

- Policies required WEDC to perform background checks on grant and loan applicants but did not require background checks on other entities critical to a project's success, such as businesses that worked with municipalities to redevelop idle sites. Our file review found that WEDC performed background checks on such entities associated with 7 of 12 awards we reviewed.

Assessing Eligibility for Grants and Loans

WEDC's underwriters review applications submitted by businesses and other organizations seeking grants and loans and complete a document called a "staff review." In a staff review, underwriters determine if an applicant's proposed project is eligible for an award, based on a given program's statutory and policy requirements; recommend the amount, if any, to award; and specify the time period in which an applicant could receive awarded funds for achieving contractually specified results. Thorough and accurate staff reviews help ensure that funds are awarded to eligible recipients and for eligible projects. Depending on the award amount recommended in the staff review, a vice president, 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 finalizes a contract.

In report 15-3, we found that WEDC awarded three loans in FY 2013-14 based on staff reviews in which WEDC underwriters had evaluated the eligibility of the applicants to receive tax credits through different programs. Not completing a 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. Therefore, we recommended that WEDC execute a grant or loan contract only after completing a staff review for the program through which an award is made.

WEDC did not consistently comply with statutory and policy requirements related to funding match requirements.

During our current audit, our review of 37 grant and loan contracts that WEDC executed in the first six months of FY 2016-17 found that WEDC complied with our recommendation. However, we also found that WEDC's staff reviews did not consistently comply with statutory requirements related to funding match requirements that were in effect when the staff reviews were completed. Specifically, for the Brownfields Grant program, statutes required a recipient of a grant to provide a cash or in-kind match that is at least 50.0 percent of the awarded amount and that contributes to the cost of the Brownfields project. We found that the staff review for a $500,000 grant subsequently awarded in September 2016 indicated that the applicant planned to include $61,100 in matching funds to construct foundation infrastructure necessary for new facilities. Excluding this $61,100, which was separate from the Brownfields project, the applicant planned to match only 37.8 percent of the grant amount.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with statutory and policy requirements related to funding match requirements when completing staff reviews for grant and loan applications; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

WEDC's policies generally stipulated that in order for a recipient to receive a grant or loan for creating or retaining jobs, those jobs must annually pay at least 150.0 percent of the federal minimum wage multiplied by 2,080. WEDC indicated that since January 2016 it has required applicants for Business Opportunity Loan Fund program awards to submit information about their existing employees. WEDC indicated that it provided applicants with electronic spreadsheet templates that indicated the information that must be submitted, such as the wages paid to and hours worked by each employee during the prior year. Our file review found that WEDC collected such information when completing staff reviews. This information will help WEDC to determine in future years the extent to which contractually required jobs were actually created or retained.

WEDC indicated that it did not determine the extent to which the jobs-related information submitted by applicants was accurate and complete.

WEDC indicated that it did not determine the extent to which the jobs-related information submitted by applicants was accurate and complete. During the underwriting process, WEDC should consistently collect information from applicants about their existing employees and determine the extent to which that information is accurate and complete, such as by comparing an applicant's information with DWD's unemployment insurance information for an applicant's employees. DWD's information is compiled on a quarterly basis and may not precisely match an applicant's information because, for example, it includes information for employees working at locations other than the specific location that pertains to WEDC's award. Nevertheless, DWD's information may indicate whether an applicant's information appears to be significantly inaccurate. If so, WEDC could request clarifying information from an applicant. DWD indicated that it provides several state agencies with unemployment insurance information and could also provide it to WEDC.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently collect information during the underwriting process from applicants about their existing employees and determine the extent to which that information is accurate and complete, such as by comparing it with unemployment insurance information from the Department of Workforce Development; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

Executing Contracts

Since July 2005, statutes have prohibited 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. Each of the grant and loan contracts we reviewed in report 15-3 indicated that WEDC "may" require the recipient to repay the grant or loan if this situation occurs. Therefore, we recommended that WEDC execute only grant and loan contracts that contain all statutorily required provisions.

During our current audit, our file review found that WEDC generally complied with our recommendation. In total, 36 of the 37 grant and loan contracts we reviewed require the recipients to repay the grants or 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. However, WEDC executed a $100,000 contract through the Technology Development Loan program in July 2016 that did not include the statutorily required provision. It is important for WEDC to consistently comply with statutes and ensure that all grant and loan contracts contain the statutorily required provision.

In report 15-3, we found that several months often passed between WEDC's decision to make grant and loan awards and its execution of the contracts. Although WEDC's policies sometimes changed during this time, WEDC typically did not update its staff reviews. Because WEDC made awards based on the policies in effect when it decided to make the awards, rather than on the policies in effect when it executed contracts, we found that WEDC did not consistently comply with its policies when it executed grant and loan contracts. Therefore, we recommended that WEDC execute only grant and loan contracts that comply with its policies.

In August 2016, WEDC reported to the Joint Legislative Audit Committee that beginning in FY 2016-17 it significantly changed how it made awards. WEDC reported that it made an award based on the policies in effect at the time of contract execution, if it had completed a staff review after June 2016. At the time of our fieldwork, too little time had passed for us to fully assess WEDC's compliance with this new policy.

Our file review found that WEDC generally complied with its policies when executing grant and loan contracts in the first six months of FY 2016-17, but we noted one concern.

During our current audit, our file review found that WEDC generally complied with its policies when executing grant and loan contracts in the first six months of FY 2016-17, but we noted one concern. Policies for the Business Opportunity Loan Fund program required an award recipient to provide certain health insurance benefits to employees in the jobs it contractually agreed to create or retain. We reviewed four contracts totaling $4.9 million that WEDC executed through the program and found that none of them required the recipients to provide these health insurance benefits throughout the duration of the contracts.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with its policies when executing grant and loan contracts; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

We noted potential concerns with two WEDC contracts. First, in July 2016, WEDC executed a $200,000 contract through the Technology Development Loan program. The staff review for this award had indicated that the recipient would not have an "adequate cash flow" before needing to begin repaying the loan. Second, in August 2016, WEDC executed a $500,000 contract through the Business Opportunity Loan Fund program that required a business to repay all of the funds if it did not retain all 520 existing full-time positions. However, the contract also stipulated that $400,200 of the loan was eligible for forgiveness if the business retained at least 416 of its existing full-time positions. As a result, the contract contains conflicting provisions about the number of jobs the business must retain.

Timeliness of Contract Execution

It is important for WEDC to execute contracts in a timely manner because the circumstances of an applicant may change and, as a result, the applicant may decide not to undertake its project in Wisconsin. In report 15-3, we reviewed 29 grant and loan contracts that WEDC executed in FY 2013-14 and found that 2 contracts were executed 181 days or more after completion of the staff reviews. In January 2016, WEDC established a policy that indicates a staff review remains valid for a maximum of six months.

During our current audit, staff reviews for 33 of the 37 grant and loan contracts we reviewed were completed in January 2016 or later, and 32 of these 33 contracts were executed within six months. However, we found that WEDC executed a contract for a $200,000 loan through the Technology Development Loan Fund program in December 2016, which was more than seven months after completion of the staff review in April 2016.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with its policies by executing grant and loan contracts based on staff reviews that were completed within the prior six months; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

Managing and Overseeing Contracts

In report 15-3, we found that WEDC did not contractually require grant and loan recipients to submit information showing that jobs were actually created or retained in accordance with contractual provisions and, therefore, we recommended that WEDC do so.

WEDC did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained.

During our current audit, our file review found that four contracts WEDC executed through the Business Opportunity Loan Fund program do not require the recipients to submit information sufficiently detailed to allow WEDC to determine the extent to which the jobs were actually created or retained. The contracts require the recipients to annually submit the total numbers of jobs created or retained but do not require any information to be submitted about individual employees, such as their wages and number of hours worked. The contracts also require the submittal of summary information the recipients had reported for unemployment insurance purposes about their total numbers of employees and total wages paid to them on a quarterly basis. However, none of this information is sufficiently detailed to allow WEDC to determine the extent to which jobs were created or retained as required by contractual provisions. In addition, WEDC indicated that it did not determine the actual numbers of jobs created or retained, unless it was necessary to so do in order to determine if a recipient was eligible for loan forgiveness. As a result, the potential continues to exist that grant and loan recipients may not fulfill their contractual obligations.

WEDC should determine the extent to which grant and loan recipients created or retained contractually required jobs, such as by comparing the jobs-related information submitted by a recipient with DWD's unemployment insurance information for the recipient's employees. As noted, DWD's information is compiled on a quarterly basis and may not precisely match a recipient's information because, for example, it includes information for employees working at locations other than the specific location that pertains to WEDC's award. Nevertheless, DWD's information may indicate whether a recipient's information appears to be significantly inaccurate. If so, WEDC could request clarifying information from a recipient. DWD indicated that it provides several state agencies with unemployment insurance information and could also provide it to WEDC. In addition, we note that WEDC is exploring a data-sharing initiative that may allow it in the future to obtain information from DWD and DOR that could be used to help verify jobs-related information submitted by grant and loan recipients.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *contractually require grant and loan recipients to submit sufficiently detailed information showing that each contractually required job was actually created or retained;*

- *determine the extent to which grant and loan recipients created or retained contractually required jobs, such as by requesting unemployment insurance information from the Department of Workforce Development and comparing it with the jobs-related information submitted by grant and loan recipients; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement these recommendations.*

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. Policies indicated that WEDC sends notices to recipients of loans for which repayments are 30 days or more past due and considers other actions when loan repayments are 120 days or more past due.

WEDC also compiles information on past-due loans, including the total outstanding loan balance of these loans.

WEDC uses two methodologies to calculate loan delinquency rates. The payment delinquency rate measures loan repayments 90 days or more past due as a percentage of WEDC's total outstanding loan balance for the loan portfolio. It helps WEDC monitor the success of its efforts to bring delinquent loans into current repayment status but does not consider the entire loan balance that is potentially uncollectible. 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's loan delinquency rates increased considerably from December 31, 2014, to December 31, 2016.

As shown in Table 5, WEDC's two loan delinquency rates increased considerably from December 31, 2014, to December 31, 2016. The increases in the two rates occurred largely because new loans became 90 days or more past due during this two-year period. The total outstanding loan balance for WEDC's loan portfolio was $78.5 million on December 31, 2016. On that date, the payment delinquency rate was based on $1.4 million of loan repayments that were 90 days or more past due, and the principal delinquency rate was based on an $11.0 million total balance for loans with repayments 90 days or more past due.

Table 5

WEDC's Loan Delinquency Rates, by Year
As of December 31

	Payment Delinquency Rate	Principal Delinquency Rate
2013	2.7%	8.8%
2014	0.2	1.7
2015	0.4	5.0
2016	1.8	14.1

In report 14-11, we recommended that WEDC establish goals for each of the two loan delinquency rates. In January 2015, WEDC reported to the Joint Legislative Audit Committee that a governing board committee had decided not to establish such goals because WEDC's delinquency rate at that time was lower than any goal that would be established. During our current audit, WEDC indicated that it established a goal of limiting the principal delinquency rate to no more than 7.5 percent in FY 2016-17. WEDC expects its principal delinquency rate to decline in future years because this rate has typically been lower than it was on December 31, 2016. WEDC did not establish a goal for its payment delinquency rate because it believes the principal delinquency rate is a better measure of risk.

From December 31, 2014, to December 31, 2016, the potentially uncollectable loan balance increased from $1.3 million to $11.0 million.

As shown in Table 6, the potentially uncollectible balance of loans with repayments 90 days or more past due increased from $1.3 million on December 31, 2014, to $11.0 million on December 31, 2016. This increase occurred largely because new loans became 90 days or more past due during this two-year period.

Table 6

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

	Loan Amount		Loan Amount
Loans Past Due on December 31, 2014	$ 1.3	**Loans Past Due on December 31, 2015**	$ 4.1
Reasons for the Decrease[1]		***Reasons for the Decrease***[1]	
Loan Contracts Amended to Defer Repayments	(0.2)	Loan Contracts Amended to Defer Repayments	(1.3)
Loans Written Off	(0.6)	Loans Written Off	(1.2)
Loans Forgiven	(0.1)	Loans Forgiven	(0.0)
Loans No Longer Past Due	(0.3)	Loans No Longer Past Due	(<0.1)
New Loans Past Due	4.0	New Loans Past Due	9.4
Loans Past Due on December 31, 2015	**$ 4.1**	**Loans Past Due on December 31, 2016**	**$11.0**

[1] The amounts amended, written off, forgiven, and no longer past due reflect the potentially uncollectible balance of the loans on December 31, 2014, and December 31, 2015, excluding interest accrued after those dates.

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.

WEDC amended contracts to defer repayments on three loans that were 90 days or more past due on December 31, 2014, and five loans that were 90 days or more past due or December 31, 2015. We reviewed the repayment status of these eight amended loans. On December 31, 2016:

- six loan recipients were in compliance with their amended contracts;

- one loan recipient had fully repaid its loan; and

- one loan recipient was more than 90 days past due with loan repayments due under its amended contract.

WEDC wrote off two loans that were 90 days or more past due on December 31, 2014, and two loans that were 90 days or more past due on December 31, 2015. These four loans had a total value of $1.8 million on the December 31 before the year in which they were written off. The four loans included three loans totaling $713,400 that the former Department of Commerce had awarded and one loan totaling $1.1 million that WEDC had awarded. Before writing off the $1.1 million loan, WEDC collected $100,000 from the loan recipient. 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.

WEDC forgave one loan that was 90 days or more past due on December 31, 2014, and had a total value of $50,500 on that date. As noted, recipients are not required to repay some or all of the principal or interest on forgivable loans if they achieve contractually required results, such as creating or retaining a specified number of jobs. WEDC indicated that it forgave this loan because the recipient met its contractually required results.

WEDC's loan delinquency rates increased considerably in recent years because new loans became 90 days or more past due. 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 total outstanding loan balance and the total amount of past-due repayments for each loan with repayments 90 days or more past due on July 1, 2017, and January 1, 2018;*
- *determine the total outstanding 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 was 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, 2017, and six months later and on January 1, 2018, and six months later; and*
- *report this information to the Joint Legislative Audit Committee by February 1, 2018, for the six-month period from July 2017 through December 2017 and by August 1, 2018, for the six-month period from January 2018 through June 2018.*

The extent to which WEDC amended loan contracts and wrote off loans during a calendar year, regardless of whether a loan was 90 days or more past due, was considerably higher than the extent to which it did so for loans with repayments 90 days or more past due on December 31 of a given year. As shown in Table 7, WEDC amended loan contracts and wrote off loans with a total value of $13.4 million in 2015 and $6.3 million in 2016. If WEDC had not taken these actions, its loan delinquency rates as of December 31 of those two years may have been higher.

Table 7

Amounts of Loan Contracts Amended to Defer Repayments and Loans Written Off
(in millions)

	2015	2016
Loan Contracts Amended to Defer Repayments	$11.5	$4.9
Loans Written Off	1.9	1.3
Total	**$13.4**	**$6.3**

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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 in which tax credits will be provided, and verify that tax credit recipients achieve contractually required results. In report 15-3, we found that WEDC had not established all statutorily required policies and did not consistently comply with statutory requirements or its policies for administering tax credit programs. During our current audit, we found that WEDC improved its administration of tax credit programs, but WEDC did not collect sufficiently detailed information from applicants about their existing employees and did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. We recommend WEDC further improve its administration of tax credit programs.

In FY 2015-16, WEDC administered nine economic development programs that provided tax credits.

In FY 2015-16, 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;

- three investment tax credit programs intended to increase funding for Wisconsin businesses; and
- four 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 a contract. The amount of awarded tax credits is based on a business or individual achieving contractually specified economic development results, 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 5 shows the 10 recipients allocated the largest amounts of tax credits in FY 2015-16.

Development Zone Programs

To participate in a development zone program in FY 2015-16, 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 submitting an application to WEDC, a business was required to explain the proposed project and the expected results, such as creating or retaining jobs. Statutes required WEDC to annually verify information submitted to it regarding the extent to which a business met the expected results specified in the contract before awarding tax credits based on the extent to which those results were met.

Through the Enterprise Zone program in FY 2015-16, statutes authorized WEDC to designate up to 30 zones, each of which 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 are refundable, meaning that if a business’s tax credits exceed its Wisconsin income tax liability, the business receives a payment from DOR for the difference. These payments are made with general purpose revenue (GPR) that the Legislature appropriates through a sum sufficient appropriation separate from WEDC’s appropriations. Statutes do not limit the amount of tax credits available through the Enterprise Zone program.

Through the Development Opportunity Zone program in FY 2015-16, 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, make capital investments, or perform environmental remediation in the three zones over the five-year statutorily defined period that each zone exists. Development Opportunity Zone tax credits are nonrefundable, meaning that they can be claimed only up to the amount of a business's Wisconsin income tax liability in a given year. Unclaimed credits can be carried forward to offset future tax liabilities for up to 15 years. 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 2015-16, WEDC allocated $25.4 million in tax credits through two development zone programs.

As shown in Table 8, WEDC allocated a total of $25.4 million in tax credits through the Enterprise Zone and Development Opportunity Zone programs in FY 2015-16. WEDC awarded $11.5 million in tax credits through these two programs in 2016, 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)

Program	FY 2014-15		FY 2015-16	
	Amount	Awards	Amount	Awards
Enterprise Zone	$30.0	3	$23.5	2
Development Opportunity Zone	0.7	1	1.9	2
Total	**$30.7**	**4**	**$25.4**	**4**

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

Investment Tax Credit Programs

In FY 2015-16, WEDC administered three investment tax credit programs intended to support new Wisconsin businesses: the Qualified New Business Venture, Angel Investment Tax Credit, and Early Stage Seed Investment Tax Credit programs.

Through the Qualified New Business Venture program in FY 2015-16, WEDC 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 in Wisconsin for no more than 10 consecutive years. WEDC certified 40 businesses in FY 2015-16.

Through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in FY 2015-16, 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. Beginning in January 2015, statutes permitted up to $30.0 million in tax credits to be claimed per calendar year as a combined limit for both programs.

In 2016, investors were awarded an estimated $17.4 million in tax credits through two investment tax credit programs.

As shown in Table 9, investors in 80 businesses were awarded an estimated $17.4 million in tax credits through the Angel Investment Tax Credit and Early Stage Seed Investment Tax Credit programs in 2016. As of April 2017, final information for 2016 was not yet available.

Table 9

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

Program	2015		2016[2]	
	Amount	Businesses[3]	Amount	Businesses[3]
Early Stage Seed Investment Tax Credit	$ 6.0	34	$ 8.9	38
Angel Investment Tax Credit	12.5	82	8.5	65
Total	**$18.5**	89	**$17.4**	80

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

[2] Estimated, as of April 2017.

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

Other Tax Credit Programs for Businesses

Through the Economic Development Tax Credit program, 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 an application, it contracted with the business and allocated a specified amount of tax credits. Statutes require WEDC to annually verify the extent to which a business met the contractual terms before awarding tax credits based on the extent to which those contractual terms were met. Unclaimed tax credits can be carried forward 15 years to offset future tax liabilities.

Through the Jobs Tax Credit program, statutes provided that businesses or individuals are eligible for refundable tax credits for up to 10 years, based on the wages paid to employees in existing and newly created full-time jobs. A business can also be awarded tax credits for training costs if it increases its net employment in Wisconsin in each year for which it claims a tax credit for training costs. A business can be awarded up to 10.0 percent of its payroll costs or up to 100.0 percent of its training costs.

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, eliminated the Economic Development Tax Credit and the Jobs Tax Credit programs. WEDC cannot award tax credits through these programs after December 2015 unless by the end of that month it had allocated tax credits in a contract or had issued a letter of intent indicating that it intended to execute such a contract.

In January 2016, the Business Development Tax Credit program was created by 2015 Wisconsin Act 55. A business is eligible for refundable tax credits for up to 10 years if it increases its net employment in Wisconsin above its net employment in the state in the year before it was allocated the tax credits. Statutes authorize WEDC to award a business tax credits based on wages paid to employees in existing and newly created full-time jobs, including additional credits if the full-time jobs are in economically distressed areas. A business can also be awarded tax credits for projects involving capital investments, employee training, or either retaining a corporate headquarters in or relocating a corporate headquarters to Wisconsin.

Through the Historic Preservation Tax Credit program in FY 2015-16, statutes authorized WEDC to allocate to businesses or individuals tax credits for preserving or rehabilitating properties certified as historic or, under limited circumstances, built before 1936. Statutes did not limit the amount of tax credits that WEDC could allocate through this program. DOR awards a recipient nonrefundable tax credits in an amount equal to 20.0 percent of a recipient's qualified expenditures, and recipients can transfer tax credits to a third party in exchange for cash or other valuable consideration. 2017 Senate Bill 30 and 2017 Assembly Bill 64, the Governor's 2017-19 biennial budget proposal, would require tax credits to be allocated competitively and based on the potential for recipients to create jobs and would limit to $10.0 million the amount of tax credits that WEDC could allocate annually.

In FY 2015-16, WEDC allocated $90.2 million in tax credits through four other tax credit programs.

As shown in Table 10, WEDC allocated a total of $90.2 million in tax credits through the Historic Preservation Tax Credit, Economic Development Tax Credit, Jobs Tax Credit, and Business Development Tax Credit programs in FY 2015-16. Appendix 6 lists each allocation made through the Historic Preservation Tax Credit program in FY 2015-16. WEDC awarded $11.0 million in tax credits through the Economic Development Tax Credit and Jobs Tax Credit programs in 2016, including to businesses that had been allocated tax credits in prior years. It did not award any tax credits through the Business Development Tax Credit program in 2016.

Table 10

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

	FY 2014-15		FY 2015-16	
Program	Amount	Awards	Amount	Awards
Historic Preservation Tax Credit	$ 78.9	48	$51.3	34
Economic Development Tax Credit	18.1	52	16.6	32
Jobs Tax Credit	20.6	25	15.4	17
Business Development Tax Credit	0.0	0	6.8	17
Total	**$117.7**	**125**	**$90.2**	**100**

[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 applicants to be allocated tax credits;
- comply with statutory and policy requirements when executing contracts; and
- appropriately manage and oversee its contracts with tax credit recipients.

We reviewed information for 25 tax credit contracts that WEDC executed in the first six months of FY 2016-17.

Effective July 1, 2016, WEDC significantly changed how it made awards. Therefore, to assess WEDC's administration of its tax credit programs, we reviewed information for all 25 tax credit contracts of $200,000 or more that WEDC executed through the Business Development Tax Credit and Enterprise Zone programs in the first six months of FY 2016-17. These 25 contracts totaled $34.2 million. Appendix 4 contains summary information about these 25 contracts. We did not review contracts executed through the Historic Preservation Tax Credit program because the Wisconsin Historical Society and the federal National Parks Service provide input that helps determine which contracts to execute through this program.

Establishing Program Policies

Statutes provide general criteria for making allocations through each of the tax credit programs that WEDC administered in the first six months of FY 2016-17 and require WEDC to establish additional rules for six of the programs. Because WEDC is not a state agency, it cannot promulgate administrative rules. Instead, it establishes program policies. In report 15-3, we found that WEDC had not established all statutorily required policies and recommended that it do so. In August 2016, WEDC reported to the Joint Legislative Audit Committee that it had comprehensively reviewed its FY 2016-17 program policies and had retained outside legal counsel to confirm these policies contained all statutory requirements. WEDC indicated to us that it had changed its policies as a result of the review completed by outside legal counsel, but it cited attorney-client privilege and declined to provide us with the specific results of this review. WEDC indicated that it paid $8,600 for this review.

WEDC established all statutorily required policies for the tax credit programs it administered in the first six months of FY 2016-17.

During our current audit, we reviewed WEDC's policies for its tax credit programs. We found that WEDC complied with our recommendation and established all statutorily required policies for the tax credit programs it administered in the first six months of FY 2016-17.

Assessing Eligibility for Tax Credits

WEDC's underwriters review applications submitted by businesses and individuals seeking tax credits and complete staff reviews. In a staff review, underwriters determine if an applicant's proposed project is eligible for a tax credit, based on a program's statutory and policy requirements; recommend the amounts of tax credits, if any, to allocate; and specify the time period in which an applicant could be awarded tax credits for achieving contractually required results. 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 policies. Depending on the amount of tax credits recommended in the staff review, a vice president, 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 finalizes a contract.

WEDC did not collect sufficiently detailed information during the underwriting process from applicants about their existing employees.

We examined the staff reviews associated with the 25 contracts in our file review and found that WEDC did not collect sufficiently detailed information during the underwriting process from applicants about their existing employees. Collecting such information will help WEDC determine in future years the extent to which tax credit recipients actually created or retained contractually required jobs. One method for doing so would be to request that an applicant submit specified information about each of its existing employees, including their wages and hours worked during the prior year, and compare this information with DWD's unemployment insurance information for the applicant's employees. As noted, DWD's information is compiled on a quarterly basis and may not precisely match an applicant's information because, for example, it includes information for employees working at locations other than the specific location that pertains to WEDC's award. Nevertheless, DWD's information may indicate whether an applicant's information appears to be significantly inaccurate. If so, WEDC could request clarifying information from an applicant. DWD indicated that it provides several state agencies with unemployment insurance information and could also provide it to WEDC.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently collect information during the underwriting process from applicants about their existing employees and determine the extent to which that information is accurate and complete, such as by comparing it with unemployment insurance information from the Department of Workforce Development; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

WEDC evaluated whether applicants met the eligibility requirements in its policies.

In report 15-3, we found that WEDC's staff reviews for tax credit contracts it executed in FY 2013-14 did not consistently evaluate whether applicants met all eligibility requirements in its policies. Therefore, we recommended that WEDC ensure its staff reviews do so. In our current audit, we reviewed WEDC's staff reviews associated with the 25 contracts. We found that WEDC evaluated whether the applicants met the eligibility requirements in its policies.

Executing Contracts

In report 15-3, we found that several months and sometimes more than two years passed between when WEDC decided to make tax credit allocations and when it executed the contracts. Although statutes and WEDC's program policies sometimes changed during this time, WEDC typically did not update its staff reviews. Because WEDC made tax credit allocations based on the statutes and policies in effect when it decided to make the allocations, and not based on the statutes and policies in effect when it executed contracts, we found that WEDC did not consistently comply with statutes and its policies when it executed tax credit contracts. Therefore, we recommended that WEDC allocate tax credits only in accordance with statutory requirements and its program policies.

In August 2016, WEDC reported to the Joint Legislative Audit Committee that beginning in FY 2016-17 it significantly changed how it allocated tax credits. WEDC reported that it made a tax credit allocation based on the policies in effect at the time of contract execution, if it had completed a staff review after June 2016. At the time of our fieldwork, too little time had passed for us to fully assess WEDC's compliance with its new policy.

WEDC executed one tax credit contract in a way that did not comply with statutes.

During our current audit, our file review found that WEDC executed one tax credit contract in a way that did not comply with statutes. Statutes require WEDC to recover tax credits awarded through the Enterprise Zone program if a recipient provides it with false or misleading information in order to obtain the tax credits. In August 2016, WEDC executed a $22.5 million contract, including $800,000 for job training. The contract with the business stipulates that WEDC will not attempt to recover any job training-related tax credits as long as the business retains all of its existing jobs. As a result, the potential exists that the business could be awarded $800,000 in job training-related tax credits even if it submits false or misleading information, as long as it retains all of its existing jobs.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with statutes when allocating tax credits; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

Timeliness of Contract Execution

It is important for WEDC to execute contracts in a timely manner because the circumstances of an applicant may change and, as a result, the applicant may decide not to undertake its project. In report 15-3, we reviewed 42 tax credit contracts WEDC executed in FY 2013-14 and found that 7 contracts were executed 181 days or more after completion of the staff reviews, including 2 contracts executed more than two years after completion of the staff reviews. Therefore, we recommended that WEDC establish policies specifying how long a completed staff review remains valid and requiring a new staff review to be completed if a contract has not been executed within that specified time period. In January 2016, WEDC established a policy that indicates a staff review and the corresponding background check of an applicant are each valid for a maximum of six months.

Our file review found that WEDC complied with its policy regarding the six-month length of time a staff review remains valid.

During our current audit, our file review found that WEDC complied with its policy regarding the length of time a staff review remains valid. Staff reviews for all 25 tax credit contracts we reviewed were completed in January 2016 or later. We found that 24 contracts were executed within six months after the staff reviews were completed, while 1 contract was executed six months and four days after the staff review was completed.

During our current audit, background checks for 23 of the 25 contracts we reviewed were completed in January 2016 or later, and 22 of these 23 contracts were executed within six months after the background checks were completed. In September 2016, WEDC executed a $300,000 contract through the Business Development Tax Credit program. This contract was executed 7.5 months after the background check was completed.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *consistently comply with its policies by executing tax credit contracts based on background checks that were completed within the prior six months; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

Managing and Overseeing Contracts

Statutes require WEDC to annually verify information submitted by tax credit recipients on the extent to which contractually required results were achieved. In report 15-3, we found that WEDC did not consistently comply with this statutory requirement. We found that recipients contractually required to create or retain jobs generally submitted to WEDC lists of their employees and the wages of those employees. WEDC accepted the submitted information as accurate and complete and used it to calculate the amounts of tax credits to award. We found no documentation that WEDC attempted to verify the submitted information before awarding tax credits, and WEDC did not have policies for verifying the information. Therefore, we recommended that WEDC establish policies for verifying information submitted by recipients on the extent to which contractually required results were achieved and award tax credits only in accordance with statutory requirements.

We conducted a separate file review of 17 contracts totaling $86.6 million that WEDC executed from FY 2011-12 through FY 2015-16.

We assessed WEDC's management and oversight in the first six months of FY 2016-17 of tax credit contracts it had previously awarded. To do so, we conducted a separate file review of 17 contracts totaling $86.6 million that WEDC executed from FY 2011-12 through FY 2015-16. We selected these contracts based on factors such as whether the contracts were for larger amounts and whether they required jobs to be created or retained. Appendix 4 contains summary information about these 17 contracts.

Our file review found that WEDC did not establish policies for verifying information submitted by recipients. However, WEDC did establish some policies for analyzing the jobs-related information submitted by recipients and determining the amounts of tax credits to award. WEDC established policies for analyzing jobs-related information submitted by recipients of tax credits allocated through the Economic Development Tax Credit, Jobs Tax Credit, and Development Opportunity Zone programs, but not for analyzing jobs-related information submitted by recipients of tax credits allocated through the Business Development Tax Credit and Enterprise Zone programs. WEDC also did not establish policies for analyzing information pertaining to other activities for which recipients may be awarded tax credits, such as by incurring expenditures for supply chain investments, making capital investments, and training employees.

WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients.

Our file review found that WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. WEDC provided recipients with electronic spreadsheet templates that indicated the information recipients must submit, such as the wages paid to and hours worked by each employee during the prior year. WEDC also required recipients to submit summary unemployment insurance information that did not specify the wages paid to or hours worked by each employee and that pertained to only one quarter of the preceding year. WEDC accepted the jobs-related information submitted by recipients as accurate and complete and used it to determine the amount of tax credits to award.

A careful review of information submitted by tax credit recipients is important to ensure that WEDC awards accurate amounts of tax credits. In April 2016, WEDC staff informed the governing board that internal compliance procedures implemented as a result of report 15-3 had discovered errors in how staff had previously calculated tax credits. WEDC indicated that it both awarded higher and lower amounts than required by its contracts. As a result of this discovery, staff reviewed the amounts of tax credits previously awarded to a number of recipients. In February 2017, WEDC reported to its governing board that its staff had spent hundreds of hours on the review and it had spent approximately $160,000 on temporary staff to help complete the review. We attempted to examine the results of this review but were informed by WEDC that it would not be finished until shortly before our audit was completed.

Our file review included a $28.0 million tax credit allocation that WEDC made in August 2011 through the Enterprise Zone program and that is included in WEDC's ongoing review, which found that the recipient had not met contractual requirements for creating jobs. As a result of this review, WEDC found that it had inaccurately awarded the recipient $1.4 million in tax credits for 2013. WEDC's governing board amended its contract with the recipient in December 2016 to allow the recipient to keep these tax credits if it met other contractual requirements, such as making capital investments, providing job training, and making supply chain investments. One day after the contract was amended, WEDC allowed the recipient to keep the $1.4 million in tax credits, based on the recipient having met other contractual requirements.

WEDC has attempted to improve how it awards tax credits to recipients that created or retained jobs. In October 2016, it began using an electronic tool it had developed to calculate the amounts of tax credits to award through the Economic Development Tax Credit, Jobs Tax Credit, and Development Opportunity Zone programs. Previously, WEDC had manually calculated these amounts. WEDC believes this electronic tool will reduce the amount of time it takes to calculate the amounts of tax credits to award and will minimize errors in doing so.

WEDC must further improve how it manages and oversees tax credit contracts.

To further improve how it manages and oversees tax credit contracts, WEDC should establish comprehensive policies for verifying information submitted by tax credit recipients. Such policies should stipulate how WEDC will verify jobs-related information for all tax credit programs that involve job creation and retention, as well as how it will verify other types of information for which recipients may be awarded tax credits, including expenditures for supply chain investments, capital investments, and employee training.

WEDC should also comply with statutes by annually verifying jobs-related information submitted by tax credit recipients, such as by obtaining from DWD detailed unemployment insurance information for the employees in all contractually required jobs and comparing it with the information in the electronic spreadsheets submitted by tax credit recipients. As noted, DWD's information is compiled on a quarterly basis and may not precisely match a recipient's information because, for example, it includes information for employees working at locations other than the specific location that pertains to WEDC's award. Nevertheless, DWD's information may indicate whether a recipient's information appears to be significantly inaccurate. If so, WEDC could request clarifying information from a recipient. DWD indicated that it provides several state agencies with unemployment insurance information and could also provide it to WEDC. In addition, we note that WEDC is exploring a data-sharing initiative that may allow it in the future to obtain information from DWD and DOR that could be used to help verify jobs-related information submitted by tax credit recipients.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *establish policies for verifying information submitted by tax credit recipients on the extent to which contractually required results were achieved;*

- *comply with statutes by annually verifying information submitted by tax credit recipients on the extent to which contractually required jobs were created or retained, such as by requesting unemployment insurance information from the Department of Workforce Development and comparing it with the jobs-related information submitted by tax credit recipients; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement these recommendations.*

Issue for Legislative Consideration

If a tax credit recipient does not comply with the terms of its contract with WEDC, it may be required to repay the State for tax credits it had previously claimed. If a recipient instead repays WEDC, then WEDC must repay these funds to the State. WEDC's information indicates that recipients repaid $5.3 million to WEDC from July 2016 through November 2016. In response to our questions, WEDC indicated on March 16, 2017, that it had not yet deposited the $5.3 million with the State and that DOA had verbally agreed to allow it to retain the $5.3 million until DOA requested these funds. On March 23, 2017, WEDC deposited $5.3 million with DOA.

The Legislature could consider modifying statutes to require WEDC to deposit all tax credits repaid to it with DOA within one week.

Unless otherwise provided by law, statutes typically require state agencies to deposit into the State Treasury within one week any funds received on behalf of the State, and these funds are generally credited as GPR to the General Fund. However, this provision does not apply to WEDC because WEDC is not a state agency, and statutes do not stipulate how frequently WEDC is required to deposit repaid tax credits with the State. Therefore, the Legislature could consider modifying statutes to require WEDC to deposit all tax credits repaid to it with DOA within one week.

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Program Results and Accountability ▪

Statutes require WEDC's governing board to monitor the performance of its economic development programs and report publicly on program results.

Statutes require WEDC's governing board to monitor the performance of its economic development programs and report publicly on program results. In report 15-3, 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 or retained as a result of the financial awards made through its programs. During our current audit, we found that the governing board improved some aspects of its program oversight, but we recommend additional actions be taken to improve the accuracy of the numbers of jobs that WEDC reports were created or retained as a result of the awards it made.

Monitoring Program Performance

WEDC's governing board monitors the performance of its programs, including by:

- contractually requiring certain award recipients to submit progress reports that demonstrate the extent to which the recipients have met contractually specified performance measures;
- annually verifying information in a sample of progress reports; and
- contractually requiring certain award recipients to submit schedules of expenditures that demonstrate how recipients spent awarded funds.

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 uses the information in the progress reports to help complete its statutorily required annual economic development program reports, which provide information on each of its programs, and to compile the accompanying online data that show the results of each award.

In report 15-3, WEDC's information indicated that award recipients had submitted 94.6 percent of contractually required progress reports due from July 2013 through November 2014. Under its policies, WEDC should have sent an award recipient a written notice when a progress report was past due by 30 days, 60 days, and 90 days. Because we found that WEDC did not send all required past-due notices in a timely manner, we recommended that the governing board ensure its staff comply with its policy. In December 2015, WEDC reported to the Joint Legislative Audit Committee that it had implemented a new process in September 2015 to ensure that past-due notices are sent each month.

Through December 2016, award recipients submitted 97.9 percent of progress reports that were due from July 2015 through November 2016.

During our current audit, WEDC's information indicated that through December 2016, award recipients had submitted 1,366 of 1,396 contractually required progress reports (97.9 percent) that were due from July 2015 through November 2016, including:

- 749 progress reports (53.7 percent) submitted on time;
- 238 progress reports (17.0 percent) submitted from 1 day to 29 days late;
- 146 progress reports (10.5 percent) submitted from 30 to 59 days late; and
- 233 progress reports (16.7 percent) submitted 60 days or more late.

As noted, policies required WEDC to send an award recipient a written notice when a progress report was past due by 30 days, 60 days, and 90 days. To evaluate WEDC's compliance with these policies, we examined the available information pertaining to all 16 progress reports that were due July 2015 or later, were 120 days or more past due, and were not submitted through December 2016. Because the recipients did not submit these 16 progress reports through December 2016, WEDC should have sent each recipient a 30-day, 60-day, and 90-day past-due notice.

WEDC sent 13 of the 16 required 30-day past-due notices (81.3 percent), 10 of the 16 required 60-day past-due notices (62.5 percent), and 14 of the 16 required 90-day past-due notices (87.5 percent) as of February 2017. When WEDC sent past-due notices, it typically did so in accordance with the timelines prescribed in its policies. Not sending the past-due notices 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 awards.

We determined whether WEDC took action against the 16 recipients that did not submit these 16 progress reports. As of March 2017, the available information indicated that WEDC had taken no action against 9 of the 16 recipients, was withholding tax credits from 5 recipients until the progress reports were submitted, and had initiated legal proceedings against 1 recipient for an unrelated matter. One recipient submitted its progress report early in 2017.

☑ Recommendation

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

- *ensure its staff consistently comply with its policies for sending past-due notices to award recipients that do not submit contractually required progress reports on time; and*

- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

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.

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 is intended to allow WEDC to determine, for example, the extent to which recipients actually created or retained jobs that met contractual requirements.

Shortly before we released report 15-3, WEDC provided information indicating that in January 2015 it had completed its first annual verification effort, which covered the period from April 2013 through April 2014. We did not fully analyze this information, but our limited analysis indicated that WEDC did not assess the wages paid to or hours worked by employees for whom recipients received awards. WEDC's contracts typically required recipients to create or retain full-time jobs that annually pay at least 150.0 percent of the federal minimum wage. Without an assessment of wages paid and hours worked, WEDC had a limited ability to determine the extent to which recipients complied with contractual provisions. Therefore, we recommended that WEDC's governing board comply with statutes by annually verifying the performance information reported by a sample of grant and loan recipients.

In 2015, WEDC completed a second annual verification effort involving 25 progress reports, including 10 progress reports submitted by grant recipients, 8 progress reports submitted by loan recipients, and 7 progress reports submitted by tax credit recipients. The progress reports indicated that these recipients had created a total of 993 jobs, retained a total of 2,742 jobs, and made a total of $234.0 million in capital investments. We did not analyze the verification effort in detail, in part, because WEDC's procedures for verifying information in progress reports changed considerably in 2016.

In 2016, WEDC paid a consultant $24,900 to conduct a third annual verification effort involving 34 progress reports, including 29 progress reports submitted by tax credit recipients and 5 progress reports submitted by loan recipients. The progress reports indicated that these recipients created a total of 1,651 jobs, retained a total of 9,812 jobs, and made a total of $425.7 million in capital investments. To complete the verification effort, the consultant relied on provisions in its contract with WEDC and additional instructions from WEDC, which had not at the time of our audit established any policies for conducting the annual verification effort.

WEDC excluded grant recipients from its 2016 verification effort.

We found concerns with the 2016 verification effort, based on information WEDC provided to us. First, at WEDC's direction, the consultant did not examine any progress reports submitted by grant recipients, although statutes require such progress reports to be included in each annual verification effort. WEDC indicated that progress reports from grant recipients were excluded because recipients of grants of at least $100,000 are statutorily required to submit schedules of expenditures showing how grant funds were expended. However, the schedules of expenditures do not contain information relevant to all of the results in the progress reports, such as the numbers of jobs created or retained by grant recipients.

Second, information provided by WEDC indicates that the consultant typically reviewed expenditures that award recipients had reported in progress reports by requesting invoices and attempting to verify up to 15 expenditures in order to determine the extent to which those expenditures complied with contractual provisions. For example, the consultant reviewed $52,900 of the $45.7 million in expenditures reported by one tax credit recipient, or 0.1 percent of the total. Reviewing more expenditures, including those with higher dollar amounts, would result in a more robust verification effort.

We note that WEDC instructed recipients to include in the progress reports all full-time jobs at the locations of projects supported by its awards, including those that paid less than 150.0 percent of the federal minimum wage and, therefore, did not meet contractual requirements. WEDC then instructed the consultant to assess the accuracy of these reported jobs without considering the contractual requirements. As a result, the consultant did not verify that the award recipients actually created or retained contractually required jobs that paid at least 150.0 percent of the federal minimum wage.

WEDC has improved its efforts to comply with the statutory requirement for annual verification efforts, but further improvements are needed.

WEDC has improved its efforts to comply with the statutory requirement for annual verification efforts, but further improvements are needed. The governing board should establish written policies for completing the annual verification effort and comply with statutes by ensuring that the effort includes the review of progress reports submitted by both grant and loan recipients. The governing board should ensure that a sufficient amount of expenditures reported by a given recipient are reviewed in order to provide adequate assurances that WEDC's funds were spent appropriately.

☑ Recommendation

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

- *establish written policies for completing the annual verification effort;*
- *comply with statutes by ensuring that the annual verification effort includes the review of progress reports submitted by both grant and loan recipients;*
- *ensure that the annual verification effort reviews a sufficient amount of expenditures reported by a given award recipient; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on efforts to implement these recommendations.*

Schedules of Expenditures

Statutes require WEDC's governing board to contractually require each recipient of a grant or loan of $100,000 or more to submit 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 report 15-3, 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 schedules of expenditures. WEDC indicated that despite the contractual language, it required the recipients to provide schedules of expenditures. We recommended that the governing board comply with statutes by contractually requiring all recipients of grants and loans of at least $100,000 to submit schedules of expenditures.

All 37 grant and loan contracts that we reviewed required recipients to submit schedules of expenditures.

During our current audit, we reviewed the contracts for 37 grant and loan contracts of at least $100,000 that WEDC executed in the first six months of FY 2016-17. We found that all 37 contracts required the recipients to submit the statutorily required schedules of expenditures.

In report 15-3, we noted that WEDC's policies required staff 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 a recipient did not submit a schedule of expenditures within 120 days after the due date, policies required WEDC to determine the appropriate next steps, such as assessing a penalty. We found that WEDC did not regularly send past-due notices in 2014. Therefore, we recommended that the governing board ensure that its staff comply with its policy by sending past-due notices in a timely manner to all recipients that do not submit schedules of expenditures on time.

During our current audit, we found that policies for sending past-due notices remained similar to those in place when we completed report 15-3. However, WEDC modified its policies to allow an award recipient to request one 90-day extension if the recipient was unable to submit a schedule of expenditures by the due date. If a recipient did not submit a schedule of expenditures by the end of the extension, policies required WEDC to determine the appropriate next steps.

To evaluate WEDC's compliance with its policy for tracking whether award recipients submitted required schedules of expenditures, we examined the available information pertaining to all seven schedules of expenditures that were due July 2015 or later, were 120 days or more past due, and were not submitted through December 2016. WEDC's information indicated that WEDC generally complied with its policy for sending past-due notices to the recipients. However, three of the seven contractually required schedules of expenditures had not been submitted as of April 2017. The available information indicates that WEDC took no action against two of the three recipients that did not submit schedules of expenditures, but that it was considering legal action against one of the recipients.

Assessing Award Effectiveness

Assessing the effectiveness of WEDC's awards involves determining the extent to which recipients met their contractual obligations, such as by creating and retaining jobs. During prior audits of WEDC, it was not possible to assess award effectiveness because almost all of the multi-year contracts associated with the awards were ongoing. During our current audit, more awards had ended. An award ends at the conclusion of the contractually specified time period for the recipient to meet its obligations or if various other circumstances occur, such as a recipient withdraws from its contract or goes out of business. When an award ends, WEDC closes it by preparing a written summary that indicates the extent to which the recipient fulfilled its contractual obligations.

WEDC indicated that 192 awards it had made since July 2011 ended through September 2016.

WEDC indicated that 192 awards it had made since July 2011 ended through September 2016, as shown in Table 11. The 32 tax credit awards included 24 awards made through the Qualified New Business Venture program, which certified businesses to participate in two other programs that awarded tax credits to individuals and entities investing in those businesses. Appendix 7 lists the programs through which WEDC made the 192 awards.

Table 11

Economic Development Awards that Ended, by Type[1]
July 2011 through September 2016

Type	Number	Percentage of Total
Grants	135	70.3%
Tax Credits[2]	32	16.7
Loans	25	13.0
Total	**192**	**100.0%**

[1] Based on WEDC's information. An award ends at the conclusion of the contractually specified time period for the recipient to meet its obligations or if various other circumstances occur.

[2] Includes 24 awards made through the Qualified New Business Venture program, which certified businesses to participate in two other tax credit programs.

Some awards required the recipients to meet multiple contractual obligations and, as a result, achieve multiple results. For example, an award may have required a recipient to purchase manufacturing equipment and retain a specified number of jobs. We used WEDC's online data to categorize the expected results of awards as follows:

- "increased export capacity" includes obtaining consulting or translation services, participating in trade missions, or attending conventions related to export activities;
- "capital investments" includes purchasing equipment or building, leasing, or renovating commercial space;
- "third-party investments" includes using awarded funds to obtain additional capital investments in start-up firms;
- "community development" includes improving public infrastructure, rehabilitating buildings, or performing environmental remediation activities; and
- "job creation or retention" includes creating new jobs, retaining existing jobs, or both.

WEDC's online data indicated that an expected result of 24 of the 192 awards that ended (12.5 percent) was job creation or retention.

As shown in Table 12, WEDC's online data indicated that an expected result of 96 awards (50.0 percent of the 192 awards that ended) was increased export capacity. An expected result of 24 awards (12.5 percent) was job creation or retention.

Table 12

Expected Results of Economic Development Awards that Ended[1]
July 2011 through September 2016

	Awards		
Expected Result	Number	Percentage of Total	Average Award Amount
Increased Export Capacity	96	50.0%	$ 9,500
Capital Investments	36	18.8	494,000
Third-Party Investments	35	18.2	364,400
Community Development	35	18.2	129,000
Job Creation or Retention	24	12.5	712,900
Other[2]	2	1.0	52,500

[1] Based on WEDC's online data. Some awards required multiple expected results.

[2] Includes requiring recipients to relocate to Wisconsin.

We reviewed information for 54 of the 192 awards that ended from July 2011 through September 2016.

To assess award results, we reviewed information for 54 of the 192 awards that ended from July 2011 through September 2016. Appendix 4 contains summary information about these 54 awards, which had corresponding contracts totaling $23.3 million. We focused our analysis on awards that had expected results of job creation or retention, capital investments, third-party investments, and community development. We did not analyze awards with expected results of increased export capacity because such awards averaged only $9,500 each.

Job Creation or Retention

We reviewed the contracts and other available information for the 24 awards that ended and, according to WEDC's online data, had an expected result of job creation or retention. These awards were made through nine programs. WEDC's online data indicated that 24 awards had an expected result of job creation or retention. However, we found that the recipients of 3 awards were not actually contractually required to create or retain any jobs. Analyzing awards that ended could potentially indicate whether certain programs were more effective than others at creating or retaining jobs. However, too few awards had ended to make such a determination.

Awards involving job creation or retention typically had contract durations of five years or more and required recipients to retain all jobs until the contractually specified completion dates. Because WEDC began operation in July 2011, such awards that ended through September 2016 are less likely to have reached their contractually specified completion dates. When awards end before their contractually specified completion dates, recipients are no longer obligated to comply with contractual provisions, including those requiring job creation and retention and those requiring the submittal of progress reports indicating whether jobs were actually retained.

We found that 13 of the 24 awards ended before the contractually specified completion dates and, as a result, the recipients were no longer contractually required to create 1,000 jobs and retain 1,147 jobs. One award required the recipient to retain all existing jobs, but the number of these jobs was not contractually specified. We found that:

- five awards involved recipients that withdrew from their contracts before the contractually specified completion dates;
- four awards involved recipients that defaulted on their loans or otherwise did not comply with contractual requirements;
- two awards involved recipients that sold their operations in Wisconsin;
- one award involved a recipient that ceased its operations in Wisconsin; and
- one award involved a recipient that repaid its loan. WEDC concluded that the recipient met its contractual obligations and ended the award in June 2016, even though the contract required the recipient to retain 19 jobs through September 2018.

WEDC cannot be certain about the numbers of jobs actually created or retained as a result of any awards that ended.

We found that 8 of the 24 awards reached their contractually specified completion dates. Recipients of six awards were required to create a total of 578 jobs and retain 2,645 jobs, while recipients of two awards were required to retain all existing jobs, but the numbers of these jobs were not contractually specified. As noted, WEDC did not consistently collect sufficiently detailed information during the underwriting process from applicants about their existing employees or verify information submitted by recipients about the numbers of jobs created or retained. As a result, WEDC cannot be certain about the numbers of jobs actually created or retained as a result of any awards that ended, including those that reached their contractually specified completion dates.

We found concerns with decisions WEDC made when closing two of the eight awards, both of which involved forgivable loans:

- In a June 2013 contract, WEDC indicated that it would forgive a $500,000 loan if the recipient created 45 jobs and retained 202 jobs. The contract stipulated that WEDC would forgive $2,025 for each job created or retained. The recipient subsequently submitted information indicating that at the time of contract execution, it had only 114 jobs to be retained. On June 9, 2016, WEDC determined that the recipient created 59 jobs and retained 114 jobs and forgave the entire loan, even though it should have forgiven only $350,300 of the $500,000 loan under the terms of the contract. On June 24, 2016, after forgiving the entire loan, WEDC amended the contract to stipulate that WEDC would forgive the loan if the recipient created 45 jobs and retained 114 jobs, and that WEDC would forgive $3,145 for each job created or retained.

- In a July 2011 contract, WEDC indicated that it would forgive the entire $500,000 loan if the recipient retained 163 jobs. When closing the award, WEDC used additional information submitted by the recipient to determine that at the time of contract execution, the recipient had only 110 jobs to be retained. In February 2016, WEDC forgave the entire loan because the recipient created 87 jobs and retained 110 jobs. Under the terms of the contract, the recipient was ineligible for loan forgiveness.

WEDC's governing board should ensure its staff consistently follow contractual provisions when closing awards. The two concerns we identified occurred, in part, because WEDC did not collect sufficiently detailed information during the underwriting process from these two loan applicants about their existing employees before contract execution. As noted, we recommend that WEDC consistently collect information during the underwriting process from applicants about their existing employees and determine the extent to which that information is accurate and complete, such as by comparing it with unemployment insurance information from DWD.

☑ Recommendation

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

- *ensure its staff consistently follow contractual provisions when closing awards; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

WEDC's online data did not accurately reflect the numbers of jobs created or retained as a result of awards that ended.

We examined WEDC's online data, which show the results of each award, for the awards involving job creation or retention that ended. We found that WEDC had no policies requiring it to update its online data when closing an award and that the online data did not accurately reflect the numbers of jobs created or retained as a result of awards that ended. We found that the online data in January 2017 included 183 jobs created and 1,082 jobs retained by recipients that had sold their operations in Wisconsin, ceased their operations in Wisconsin, or had withdrawn from their contracts before the contractually specified completion dates. In January 2017, the online data indicated that:

- one recipient retained 340 jobs, even though the recipient ceased its operations in Wisconsin and its award ended in November 2015;
- a second recipient created 68 jobs and retained 43 jobs, even though the recipient sold its operations in Wisconsin and its award ended in August 2016;
- a third recipient created 24 jobs, even though the recipient sold its operations in Wisconsin and its award ended in April 2016;
- a fourth recipient created 88 jobs and retained 485 jobs, even though the recipient withdrew from its contract in August 2016, which was before the contractually specified completion date in June 2019; and
- a fifth recipient created 3 jobs and retained 214 jobs, even though the recipient withdrew from its contract in March 2016, which was before the contractually specified completion date in April 2019.

We also examined WEDC's online data for the awards involving job creation or retention that ended and found that WEDC's online data in January 2017 double-counted 305 jobs created and 394 jobs retained. We found that:

- one recipient of two contracts executed in June 2012 and September 2012 reported for both awards the same 305 jobs created and 284 jobs retained; and

- a second recipient of two contracts executed in July 2011 reported for both awards the same 110 jobs retained.

Because WEDC's governing board is statutorily required to report annually on the results of its programs, including each job created or retained, it must ensure that the online data accurately reflect the results of individual awards. It should remove from the online data the numbers of jobs created or retained as a result of awards that ended before the contractually specified completion dates. In addition, it should not double-count jobs in the online data. Accurate data will help legislators and the public to know the numbers of jobs created or retained as a result of individual awards and programs.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board ensure the accuracy of its online data by:

- *establishing policies requiring the online data to be updated when closing awards;*

- *removing the numbers of jobs created or retained as a result of awards that ended before the contractually specified dates;*

- *ensuring the numbers of jobs created or retained are not double-counted; and*

- *reporting to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement these recommendations.*

Capital Investments

We reviewed the contracts and other available information for 29 of the 36 awards involving capital investments. According to WEDC's online data in January 2017, recipients of these 29 awards made $137.7 million of an expected $216.7 million in capital investments.

Award recipients submitted documentation showing how they spent the funds that WEDC awarded them for capital investments, but they typically did not submit documentation for the remaining capital investments that they reported to WEDC. Although WEDC did not receive documentation for the total amounts of capital investments, it included the total amounts in its online data in January 2017. For example, the online data indicated that one recipient made $23.4 million in capital investments as a result of a $3.4 million loan from WEDC. This recipient submitted documentation for $3.4 million in capital investments but submitted no documentation for $20.0 million. The online data indicated that a second recipient made $21.1 million in capital investments as a result of a $1.5 million loan from WEDC. This recipient submitted documentation for $2.5 million in capital investments but submitted no documentation for $18.6 million.

Because WEDC's governing board is statutorily required to report annually on the results of its programs, it must ensure that the online data accurately reflect the results of individual awards. It should include in the online data only the amounts of capital investments for which award recipients submitted documentation. Accurate data will help legislators and the public to know the results of individual awards and programs.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board ensure the accuracy of its online data by:

- *including only the amounts of capital investments for which award recipients submitted documentation; and*

- *reporting to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

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 and actual program 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 through the program;
- the recipient of each allocated tax benefit and each verified tax benefit through the program; and
- any recommended changes to the program.

In report 15-3, we identified concerns with the economic development program report WEDC submitted to the Legislature in October 2014. Therefore, 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.

During our current audit, we reviewed WEDC's October 2016 economic development program report, which includes information on the programs administered in FY 2015-16, and the accompanying online data that present information on awards WEDC made since FY 2011-12. Appendix 8 summarizes the results of individual programs in FY 2015-16.

WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate. As noted, WEDC did not collect sufficiently detailed information during the underwriting process from grant, loan, and tax credit applicants about their existing employees, it did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the actual numbers of jobs created or retained, and it did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. Not until January 2015 did WEDC for the first time annually and independently attempt to verify the performance information in the progress reports submitted by a sample of grant and loan recipients. As noted, we found concerns with WEDC's 2016 verification effort.

We also found that the online data included an unknown number of jobs for which award recipients were not contractually required to submit any supporting documentation to WEDC. For example, WEDC allocated $182,000 in tax credits through the Economic Development Tax Credit program in March 2012 to a recipient that contractually agreed to use the funds to make a $4.4 million capital investment to expand its production capabilities. The contract indicated that expanding production capabilities would allow the recipient to create 35 jobs and retain 175 jobs, but the recipient was not required to submit supporting documentation related to these jobs. Nevertheless, the online data indicated that the recipient had created 40 jobs and retained 175 jobs. Determining the extent to which the online data include jobs for which recipients were not contractually required to submit supporting documentation would require a significant amount of effort.

WEDC's online data contained inaccuracies for certain awards.

WEDC's online data contained inaccuracies for certain awards. As noted, our file review found that the online data included 183 jobs created and 1,082 jobs retained for recipients that withdrew from their contracts before the contractually specified completion dates, sold their operations in Wisconsin, or ceased their operations in Wisconsin. Our file review also found that the online data erroneously double-counted 305 jobs created and 394 jobs retained. The online data may have double-counted additional jobs associated with awards we did not review.

Table 13 summarizes the jobs-related information in WEDC's online data in October 2016. As noted, WEDC cannot be certain about the extent to which the information is accurate, and we found that the online data contained inaccuracies for certain awards. It should also be noted that because the contract periods for most awards had not ended, award recipients had additional time to create or retain the expected jobs. In addition, not all recipients of the awards WEDC made in FY 2015-16 were contractually required to have submitted an initial progress report by the end of the fiscal year.

Table 13

Reported Jobs Created or Retained through FY 2015-16[1]
As a Result of Awards WEDC Made from FY 2011-12 through FY 2015-16

	Jobs Created		Jobs Retained	
Fiscal Year	Expected by Contract End	Actual through FY 2015-16	Expected by Contract End	Actual through FY 2015-16
2011-12	8,694	6,825	18,057	17,265
2012-13	10,282	5,946	24,853	23,174
2013-14	9,537	8,504	17,614	16,015
2014-15	6,602	3,474	16,816	15,913
2015-16	7,307	1,280	16,939	7,886
Total	**42,422**	**26,029**	**94,279**	**80,253**

[1] As reported in WEDC's online data in October 2016. The online data contained inaccuracies.

The governing board should ensure its statutorily required annual economic development program report contains accurate information about the results of each program.

We continue to identify concerns with the governing board's compliance with statutory reporting requirements. It is difficult for the Legislature and the public to assess the effectiveness of WEDC's economic development programs unless accurate information is presented about each program's results in the annual economic development program report and the accompanying online data.

☑ Recommendation

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

- *comply with statutes by ensuring that its annual economic development program report presents accurate information on each program's results; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement this recommendation.*

Issue for Legislative Consideration

Section 238.07 (2), Wis. Stats., requires WEDC's governing board to annually report each job created or retained as a result of its programs. Statutes and WEDC's policies stipulate that recipients typically receive awards for creating and retaining full-time jobs that pay at least 150.0 percent of the federal minimum wage. We found that WEDC's online data include not only the jobs that were created or retained according to the terms of WEDC's contracts, which typically reflected statutory and policy requirements, but also include an unknown number of additional jobs that did not necessarily meet the contractual terms. These jobs are included in the online data because WEDC instructed recipients to include in their progress reports information on all full-time jobs at the locations of projects supported by its awards, including employees paid less than 150.0 percent of the federal minimum wage. As noted, WEDC uses information in the progress reports to compile the online data.

WEDC indicated it includes such jobs in the online data because it believes that these jobs were created or retained as a result of its awards, and that legislators and the public benefit from knowing the total impact of its awards, even if some of the jobs paid less than the contractually required amounts. Our file review of WEDC's ongoing management of tax credit contracts in the first six months of FY 2016-17 found such instances. For example:

- One recipient indicated in its progress report that it had created 226 jobs, but WEDC concluded that the recipient was eligible for tax credits for only 18 jobs, or 208 jobs fewer than in the progress report. The online data indicated in October 2016 that the recipient had created 226 jobs.

- A second recipient indicated in its progress report that it had created 657 jobs, but WEDC concluded that the recipient was eligible for tax credits for only 489 jobs, or 168 jobs fewer than in the progress report. The online data indicated in October 2016 that the recipient had created 657 jobs.

- A third recipient indicated in its progress report that it had created 742 jobs, but WEDC concluded that the recipient was eligible for tax credits for 678 jobs, or 64 jobs fewer than in the progress report. The online data in October 2016 indicated that the recipient had created 742 jobs.

The Legislature could consider modifying statutes to clarify that the governing board should report on only created or retained jobs that meet statutory and policy requirements.

It is important that WEDC's governing board reports on only those jobs that meet statutory and policy requirements, which typically require recipients to create or retain full-time jobs that pay at least 150.0 percent of the federal minimum wage. Including jobs that pay lower amounts makes it more challenging for legislators and the public to assess the effectiveness of individual awards and programs. Therefore, the Legislature could consider modifying statutes to clarify that the governing board should report on only created or retained jobs that meet statutory and policy requirements.

■ ■ ■ ■

Financial Management ■

WEDC is funded primarily by GPR and segregated revenue. The cash and investments held by WEDC represent its total resources available to pay for its operations and programs. WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million. Effective financial management requires WEDC to develop and consistently follow appropriate policies and procedures that include internal controls. In report 15-3, we made recommendations for WEDC to improve its management of its fund balance and its credit cards. Although WEDC made improvements, we make recommendations for further improvements in each area.

Revenues

State funding represented more than 90.0 percent of WEDC's total revenue in both FY 2014-15 and FY 2015-16.

During FY 2014-15 and FY 2015-16, WEDC received revenue from the State, federal grants, loan interest and fees, and other sources. As shown in Table 14, state funding accounted for the majority of WEDC's revenues, representing 94.1 percent of total revenue in FY 2014-15 and 92.8 percent of total revenue in FY 2015-16. State funding was provided from GPR and from segregated revenue, primarily from the Economic Development Fund funded by a surcharge on Wisconsin businesses.

Table 14

WEDC Revenues
(in millions)

	FY 2014-15	Percentage of Total	FY 2015-16	Percentage of Total
State Funding				
Segregated Revenue[1]	$22.8	36.2%	$22.8	71.0%
General Purpose Revenue	36.5	57.9	7.0	21.8
Subtotal	59.3	94.1	29.8	92.8
Federal Revenue	1.3	2.1	0.4	1.3
Loan Interest and Fees	1.4	2.2	1.2	3.7
Other[2]	1.0	1.6	0.7	2.2
Total	**$63.0**	**100.0%**	**$32.1**	**100.0%**

[1] Includes $21.8 million in both FY 2014-15 and FY 2015-16 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.

Based upon WEDC's requests, WEDC receives state funding from DOA on a quarterly basis. This funding is provided every quarter without consideration of WEDC's existing available resources, commitments made, or expenditures incurred. Funds received and not immediately needed for operations or programs are held by WEDC as cash and investments.

Cash and Investments

The cash and investments held by WEDC represent its total resources available. The total resources available at any point are the accumulated amount that WEDC has received but not yet paid out. During FY 2015-16, WEDC received state funding of approximately $7.4 million each quarter, or $29.6 million in total, from DOA. In addition, WEDC receives other amounts, primarily loan repayments, throughout the year. The other amounts WEDC received averaged $5.4 million per quarter during FY 2015-16 and totaled $21.6 million for that year.

Payments WEDC makes for its operations and programs include its administrative costs and payments to grant and loan recipients.

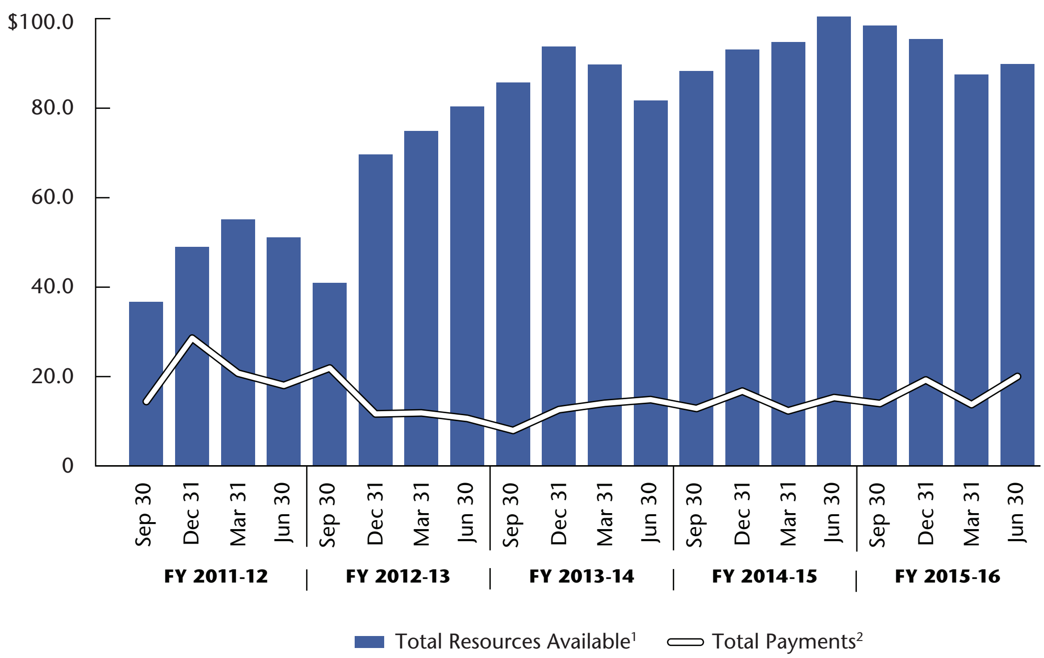
Payments averaged $16.8 million per quarter during FY 2015-16 and totaled $67.1 million for that year. Payments to grant and loan recipients ranged from $8.9 million to $15.6 million per quarter, while payments for administrative costs averaged $4.5 million per quarter.

WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by 111.2 percent.

As shown in Figure 2, total resources available to WEDC exceeded total payments made by WEDC for each quarter from July 1, 2011, when WEDC became fully operational, through June 30, 2016. The largest difference between total resources available and total payments made was $85.2 million for the quarter ended June 30, 2015. The smallest difference between total resources available and total payments made was $19.0 million for the quarter ended September 30, 2012. Overall, WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million (111.2 percent).

Figure 2

Total Resources Available Compared to Total Payments
Quarters Ended
(in millions)



[1] Includes the beginning cash and investments balance for that quarter plus amounts received during that quarter, primarily state funding and loan repayments. Excludes less-accessible assets, such as loans receivable.

[2] Includes all payments made for administrative costs and payments to grant and loan recipients. Excludes tax credit payments, which are not paid by WEDC.

WEDC's cash and investments balance increased, in part, due to the method used to provide state funding to WEDC quarterly.

WEDC's cash and investments balance increased, in part, due to the method used to provide state funding to WEDC quarterly. The current funding method by which WEDC receives state funding quarterly allows WEDC to control its financial activities and related resources. However, most of these funds were not immediately needed due to the timing of payments to grant and loan recipients, which are approximately three-quarters of amounts paid by WEDC. For the grants and loans it awarded, WEDC's actual payments to the recipients extend over multiple years. For example, of the $34.9 million paid to grant and loan recipients during FY 2015-16, $7.6 million related to grants and loans awarded in FY 2015-16 and $27.3 million related to grants and loans WEDC awarded prior to FY 2015-16.

WEDC reduced its cash and investments balance during FY 2015-16 due to a decrease in state funding.

WEDC's total resources available continued to exceed payments made during FY 2015-16. However, WEDC reduced its total resources available, including by using cash proceeds from its matured investments to pay for a portion of its operations and programs. WEDC used these cash proceeds because state funding decreased from $59.3 million in FY 2014-15 to $29.8 million in FY 2015-16. As a result, WEDC's cash and investments balance declined from $85.3 million as of June 30, 2015, to $69.9 million as of June 30, 2016, or by $15.4 million. The cash and investments balance as of June 30, 2016, consisted of $5.6 million in cash and $64.3 million in investments. We note that, during FY 2015-16, WEDC earned investment income of $390,400.

WEDC is the custodian of all of its cash and investments.

WEDC is the custodian of all of its cash and investments. Like WEDC, the Michigan Economic Development Corporation (MEDC) also holds its own cash and investments. Alternatively, the State of Indiana holds most cash and investments for the Indiana Economic Development Corporation (IEDC). Based on the financial statements for each entity, the cash and investments held by MEDC was approximately 105.0 percent of its operating expenses, whereas WEDC held cash and investments of approximately 146.5 percent of its operating expenses in FY 2015-16. IEDC held cash and investments of only 1.2 percent of its operating expenses since most funds are held by the State of Indiana.

2017 Senate Bill 30 and 2017 Assembly Bill 64, the Governor's 2017-19 biennial budget proposal, would change two appropriations that provide state funding for WEDC. Under the proposal, WEDC would be given access to all monies received into the Economic Development Fund, less amounts appropriated for costs to administer the surcharge, instead of being limited to the amount appropriated. In addition, the existing GPR continuing appropriation that provides state funds for WEDC would be converted to a sum-sufficient appropriation.

Overall, the Governor's proposal would provide funding for WEDC of $35.3 million in FY 2017-18, the same as was provided in FY 2016-17, and $41.6 million in FY 2018-19. Although the proposal would include the estimated amount of GPR needed at $1.5 million for FY 2017-18 and $16.4 million for FY 2018-19, the proposal also would include a provision to limit the amount available to WEDC through the GPR sum-sufficient appropriation to $12.7 million in FY 2017-18 and $18.8 million in FY 2018-19.

Fund Balance Policy

WEDC's governing board modified its fund balance policy as a result of new statutory requirements.

As discussed in report 15-3, Government Finance Officers Association best practices 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. In report 15-3, as a result of our review of WEDC's fund balance policy and its unassigned fund balance, we recommended that WEDC's governing board revise its fund balance policy so that the target for its unassigned fund balance is based on its annual administrative expenditures. 2015 Wisconsin Act 55 established a new requirement specified in s. 238.03 (4), Wis. Stats., that WEDC's target unassigned fund balance on June 30 of each fiscal year equal one-sixth of total administrative expenditures for that year. WEDC's governing board modified its fund balance policy, which became effective on August 3, 2015, to state that its "unassigned fund balance provides funding for daily cash flow and operational needs" and will be limited to "two-twelfths of its estimated annual administrative expenditures for that year."

To assess WEDC's compliance with the statutory requirements related to its unassigned fund balance, we reviewed WEDC's revised fund balance policy and its fund balance. We found that WEDC calculated an unassigned fund balance. However, WEDC also reported a new assigned fund balance. Because documentation provided by WEDC staff did not describe specific planned uses for the amount of the new assigned fund balance as of the end of the fiscal year, this amount was essentially unassigned.

WEDC's fund balance policy should be revised to establish a target for the unassigned fund balance.

WEDC's fund balance policy should be revised so that the unassigned fund balance represents the residual amount of the fund balance after removing planned uses of the fund balance known at the end of the year. The policy should establish a target for WEDC's unassigned fund balance, and not a limit, and should specify the steps WEDC will take if the unassigned fund balance is above or below that target.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation's governing board revise its fund balance policy to:

- *specify that the unassigned fund balance represents the residual amount of the fund balance;*
- *clarify that the target for the unassigned fund balance is two-twelfths of its estimated annual administrative expenditures for that year;*
- *discuss the steps it will take when its unassigned fund balance is above or below the target; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement these recommendations.*

Administrative Expenditures

WEDC's administrative expenditures for operations decreased 5.0 percent from FY 2014-15 to FY 2015-16.

As shown in Table 15, WEDC's administrative expenditures for operations were $17.1 million for FY 2015-16, a decrease of 5.0 percent from the FY 2014-15 expenditures of $18.0 million. This decrease is largely attributable to a $1.5 million decrease in marketing expenditures from FY 2014-15 to FY 2015-16. Additional funding of $3.75 million for marketing purposes was provided for FY 2014-15 in 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act. WEDC used the additional funding to continue building its marketing infrastructure, enhance its social media presence, and promote the state in other television markets, including the Chicago and Minneapolis-St. Paul metropolitan areas.

Table 15

Administrative Expenditures
(in millions)

	FY 2014-15	Percentage of Total	FY 2015-16	Percentage of Total
Staff Salaries and Fringe Benefits	$ 9.3	51.7%	$ 9.5	55.6%
Marketing	4.4	24.4	2.9	17.0
Building, Maintenance, and Utilities	0.5	2.8	0.5	2.9
Information Technology	1.1	6.1	1.0	5.8
Professional Services	0.8	4.4	1.1	6.4
Conferences and Professional Development	0.9	5.0	1.0	5.8
Travel[1]	0.6	3.3	0.7	4.1
Recruiting	0.1	0.6	<0.1	0.1
Other[2]	0.3	1.7	0.4	2.3
Total	**$18.0**	**100.0%**	**$17.1**	**100.0%**

[1] Includes some meals not related to travel; WEDC identified the misclassification and indicated non-travel expenditures would be appropriately classified going forward.

[2] 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 16, WEDC had 98 full-time and part-time permanent staff on June 30, 2016. Of this total, 23 staff had been employed by WEDC since its inception, and 17 staff had been employed by WEDC for less than one year.

Table 16

Number of WEDC Staff[1]
June 30, 2016

Functional Area	Number
Business and Community Development	23
Legal and Compliance	9
Financial Services	8
International Business Development	8
Sector Strategy Development	8
Technology and Information Systems	7
Entrepreneurship and Innovation	6
Marketing and Brand Strategy	6
Budget and Finance	5
Office of Public Policy	5
Executive Office	4
Human Resources	4
Operations and Program Performance	4
Public Affairs	1
Total	**98**

[1] Includes full-time and part-time permanent staff. Excludes interns, temporary staff, and one University of Wisconsin System Administration staff member who consulted part-time for WEDC.

Turnover of the chief executive officer, chief financial officer, and controller occurred between July 1, 2015, and June 30, 2016.

Although WEDC experienced staff turnover between July 1, 2015, and June 30, 2016, the turnover was less than the turnover that occurred between July 2013 and July 2014 that was discussed in report 15-3. We found that 17 of the full-time and part-time permanent staff WEDC employed on July 1, 2015, were no longer employed by WEDC on June 30, 2016, including the chief executive officer, chief financial officer, and controller. As of June 30, 2016, WEDC had filled nine vacant positions in response to this turnover, including these three key positions. In addition, seven full-time or part-time permanent positions were vacant as of June 30, 2016.

WEDC's expenditures for staff salaries and fringe benefits increased from $9.3 million in FY 2014-15 to $9.5 million in FY 2015-16, or by 2.2 percent, primarily because of salary increases. We examined WEDC's expenditures for salaries and fringe benefits, which represented 55.6 percent of its total administrative expenditures in

FY 2015-16. We reviewed documentation for selected individuals and found the salary and fringe benefits expenditures were supported by information WEDC maintained. We also determined the amounts paid to certain WEDC staff. As shown in Table 17, WEDC paid amounts of more than $100,000 to staff in nine positions in FY 2015-16.

Table 17

Amounts Paid to Certain WEDC Staff in FY 2015-16

	Amounts Paid
Chief Executive Officer[1]	$211,000
Chief Operating Officer	152,000
Chief Legal Counsel and Compliance Officer	136,000
Chief Financial Officer[1]	134,000
Vice President of International Development	110,000
Vice President of Business and Community Development	109,000
Vice President of Sector Strategy Development	108,000
Vice President of Human Resources[1]	107,000
Vice President of Marketing and Brand Strategy	105,000

[1] Includes the combined amounts paid to the two individuals who held the position at different times during FY 2015-16.

In addition to their salaries, WEDC provided staff with merit and recognition awards. Merit awards acknowledge staff who exceed performance expectations for a project, and recognition awards acknowledge a special effort or accomplishment. In FY 2015-16, WEDC provided 19 staff with merit and recognition awards totaling $29,000.

Other Administrative Expenditures

Non-payroll administrative expenditures decreased from $8.7 million in FY 2014-15 to $7.6 million in FY 2015-16, or by 12.6 percent. In FY 2015-16, non-payroll expenditures accounted for 44.4 percent of WEDC's administrative expenditures. 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 travel.

Credit Cards

Approximately 40 percent of WEDC staff had individual credit cards as of October 7, 2016.

WEDC provides corporate credit cards to approved staff. To improve its management of corporate credit cards, in report 15-3 we recommended WEDC periodically review credit card usage and close the accounts of unnecessary credit cards, ensure appropriate credit limits are maintained, and maintain documentation of the approval for the credit limit on each of its credit cards. As of October 7, 2016, WEDC had 47 corporate credit cards, a reduction from the 60 credit cards identified in December 2014 in report 15-3. Of the 47 credit cards, 43 were individual credit cards provided to specific WEDC staff, and approximately 40 percent of WEDC staff had a credit card as of October 7, 2016. The remaining four credit cards were shared corporate credit cards. Although WEDC reduced the number of credit cards, it could further improve management of its credit cards.

For each individual and shared corporate 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. WEDC's written credit card procedures indicate 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.

WEDC stated that a credit limit of $3,500 is the limit typically set for new cardholders. As of October 7, 2016, 31 of the 47 credit cards, or 66.0 percent, had a credit limit of $3,500. In addition, six credit cards, or 12.8 percent, had a credit limit below $3,500.

On average, the monthly amounts charged to the 10 credit cards with higher credit limits did not exceed 50.0 percent of the established credit limit.

Credit limits that are higher than necessary increase the risk of inappropriate expenditures. Thus, for the eight individual and two shared corporate credit cards with credit limits over $3,500, we reviewed the use of these credit cards during FY 2015-16. On average, the monthly amounts charged to these credit cards did not exceed 50.0 percent of the established credit limit for each credit card. Further, only 2 of these 10 credit cards were used to charge more than 50.0 percent of the established credit limit in the month with the highest amount of credit card charges. Therefore, lower credit limits may be appropriate for at least some of the credit cards with higher credit limits. WEDC staff stated that they had focused on closing unnecessary credit cards and did not re-assess credit limits for credit cards that were not closed. WEDC should re-assess credit limits for all individual and corporate shared credit cards and ensure appropriate credit limits are maintained on all credit cards.

We also reviewed documentation related to the credit limits for the eight individual credit cards with credit limits over $3,500. The documentation WEDC provided supported the credit limits for five of the eight credit cards. Of the other three:

- for one, the most-recent documentation indicated a lower credit limit;
- for one, the most-recent documentation did not indicate approval of the credit limit beyond the cardholder's signature; and
- for one, the most-recent documentation did not support the credit limit, and WEDC staff indicated the credit limit was verbally approved.

As noted, WEDC had four shared corporate credit cards as of October 7, 2016. Two of these credit cards were vehicle cards that each had credit limits of $3,500 and were for costs related to WEDC's vehicles, such as gas or maintenance work. Of the other two shared corporate credits cards, one was used for administrative expenditures and had a credit limit of $5,000, and the other was used for travel and had a credit limit of $50,000. These two shared corporate credit cards were new since report 15-3.

The credit card designated for travel was used by a travel agency to book travel on behalf of WEDC. However, staff were also permitted to use other means to book travel, such as using an individual credit card provided by WEDC. Having the travel agency book on behalf of WEDC and permitting other means to book travel can limit controls over travel expenditures and increase risks, such as booking inappropriate travel and overpaying on travel costs. We note that WEDC was charged a $40 transaction fee each time the travel agency was used. To further reduce risks related to inappropriate travel expenses and ensure greater consistency, WEDC could consider centralizing the booking of travel, and doing so in-house may reduce costs.

WEDC does not have written procedures specific to the use of shared corporate credit cards.

Further, although WEDC does have general written credit card procedures, it does not have written procedures specific to the use of shared corporate credit cards, such as a written procedure related to safeguarding and appropriate use of such cards. Thus, WEDC should modify its written credit card procedures to separately address shared corporate credit cards.

☑ Recommendation

We recommend the Wisconsin Economic Development Corporation:

- *ensure appropriate credit limits are maintained on all credit cards;*
- *ensure authorization of credit limits is appropriately documented for all credit cards;*
- *modify its written credit card procedures to separately address shared corporate credit cards; and*
- *report to the Joint Legislative Audit Committee by February 1, 2018, on its efforts to implement these recommendations.*

Travel-Related Expenditures

As noted in report 15-3, WEDC's policy related to travel was revised in FY 2014-15. The revised travel policy states that travelers should generally use the lowest-cost service that reasonably meets business needs. However, the policy does not provide further guidance on what would be considered "reasonable," except that whenever possible, travelers are encouraged to stay at a conference hotel when attending a conference. We reviewed travel-related expenditures that occurred during FY 2014-15 and FY 2015-16, with a focus on lodging and transportation expenditures because they were more significant components of travel expenditures.

Guidance provided in WEDC's previous policy indicated the federal per diem rate was reasonable for lodging costs. Further, WEDC, as a quasi-government agency, is responsible for the appropriate use of the taxpayer funds it receives. Thus, we considered the reasonability of lodging costs by comparing them to the federal per diem rate and, when they were not comparable, we considered WEDC's assessment that the lodging costs were for the lowest-cost hotel that reasonably met business needs. We reviewed 20 lodging-related expenditures during FY 2014-15 or FY 2015-16 and found 12 were above the federal per diem rate, with the most significant expenditure exceeding the federal per diem rate by 153 percent. WEDC staff explained that hotel rates often exceed the federal per diem rate because of large conferences held in the area, an inability to book the lodging well in advance, or challenges with booking international travel. WEDC staff told us they do not require staff to submit proof of reasonableness. However, WEDC staff may request additional support and documentation during the review process if they determine it is necessary.

We also reviewed five transportation expenditures that occurred during FY 2014-15 or FY 2015-16 and found two were for chauffeured ground international transportation. These services, which cost $25,544 and $15,343, included airport transfer and travel for meetings and events for multiple days. WEDC staff that contracted for these services explained that a bidding process was used when selecting these chauffeur services. Although this may be a reasonable approach, WEDC's travel policy does not include this process and does not require staff to maintain documentation related to the reasonableness of the expenditure.

WEDC could modify its travel policy to provide additional guidance on assessing the reasonableness of travel expenditures and require documentation relevant to this assessment be maintained. WEDC may further consider maintaining this documentation in the system used for approvals, so it may be viewed at the time an approval is made.

Future Disclosure of Tax Abatement Information

New disclosures will be required for tax abatements that result in reduced tax revenues because a government promised to forgo the tax revenue in exchange for certain agreed-upon actions by an entity.

Governmental Accounting Standards Board Statement Number 77, *Tax Abatement Disclosures*, is effective for fiscal years beginning after December 15, 2015. This statement requires new disclosures in the notes to the financial statements that provide additional detail about tax abatements. Tax abatements requiring disclosure are those that result in reduced tax revenues because a government promised to forgo the tax revenue in exchange for certain agreed-upon actions taken by an entity. WEDC anticipates that all of the tax credit programs it administers result in tax abatements that will require disclosure. Although WEDC administers tax credit programs, it is the State that actually forgoes the tax revenue.

According to the statement, the tax abatement information required to be disclosed includes:

- a brief description of the tax abatements, such as the purposes of the tax abatement programs, specific taxes abated, and the authority under which the abatements have occurred;

- the amount by which the government's tax revenues were reduced during the reporting period as a result of tax abatements;

- information about amounts received or receivable from other governments related to forgone tax revenue; and

- in some circumstances, information about other commitments made by the government as part of a tax abatement agreement.

WEDC indicated it does not have all of the information required to be disclosed. Specifically, although WEDC has information on the amounts of tax credits it has awarded, it does not maintain information about the amounts of tax credits actually claimed. Because tax credits are claimed on an entity's tax return, the actual amount claimed is instead known by DOR.

It will be important for WEDC, DOA, and DOR to effectively communicate and collaborate in the preparation of the tax abatement information required to be disclosed.

We anticipate that tax abatement information will be disclosed in the State's Comprehensive Annual Financial Report (CAFR) beginning with FY 2016-17. DOA prepares the State's CAFR and currently incorporates other financial information from WEDC and DOR. However, to ensure that the new tax abatement disclosure requirements will be met, it will be important for WEDC, DOA, and DOR to effectively communicate and collaborate in the preparation of the tax abatement information required to be disclosed.

▪ ▪ ▪ ▪

Appendices

Appendix 1

WEDC's Governing Board Members

April 2017

Voting Members

Appointed by the Governor

Lisa Mauer, chairperson
Nancy Hernandez, vice-chairperson and secretary
David J. Drury, treasurer
Dan Ariens
Raymond Dreger
R.D. Nair

Appointed by the Senate Majority Leader

Senator Tim Carpenter
Senator Dan Feyen
C. Thomas Sylke

Appointed by the Speaker of the Assembly

Representative Peter Barca
Representative Rob Hutton
Jim Ladwig

Nonvoting Members

Secretary Richard Chandler
Department of Revenue

Secretary Scott Neitzel
Department of Administration

Appendix 2

Descriptions of WEDC's Economic Development Programs

FY 2015-16

This appendix provides a brief description of the 34 economic development programs WEDC administered at some point in FY 2015-16. 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 2015-16 economic development program report. Definitions of key terms follow.

Program Number provides a numerical reference created by the Legislative Audit Bureau for each program, and is also used in appendices 4, 7, and 8. The numerical references differ from those used in report 15-3, 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 2015-16.

Program Number	Program	Wis. Statutes	Description
1	Business Opportunity Loan Fund	General Authority (ch. 238)	Provided loans to new and existing businesses to help expand operations or relocate to Wisconsin, make capital investments, retain full-time jobs, and create new full-time jobs. WEDC was not to be considered a primary funding source. To be eligible for loan forgiveness, businesses generally had to meet certain criteria, such as making capital investments greater than $25.0 million.
2	Special Project Loan Fund	General Authority (ch. 238)	Provided shorter-term loans and loan guarantees to businesses for projects that were not able to be fully funded through traditional financing options. The loans were intended to provide long-term dividends by positioning the state or the business's region for greater economic growth. The public contribution to the cost of the project could not exceed the private contribution. Loan guarantees required a 20.0 percent match by the recipient.
3	Clean Energy Manufacturing Revolving Loan Fund	General Authority (ch. 238)	Provided loans to private sector manufacturing businesses for equipment that promoted cost-effective energy reduction or clean energy production. The funds were primarily intended to support manufacturing business expansions that contributed to the reduction of fossil fuel consumption.
4	Industrial Revenue Bonding	66.1103; 238.10; 238.11; 238.125	Approved counties and municipalities to issue bonds on behalf of specific businesses to finance capital investment projects or to purchase land, real estate, or equipment. The businesses were responsible for debt service on the bonds.
5	Qualified Energy Conservation Bonding	General Authority (ch. 238)	WEDC authorized state, local, and tribal governments to issue bonds to fund energy conservation projects, including those involving capital expenditures to reduce energy consumption in public buildings, conduct energy research, and fund public education campaigns to promote energy efficiency.
6	Workforce Training Grant	General Authority (ch. 238)	Provided grants to businesses locating a new facility in Wisconsin or expanding an existing facility that is developing a product, process, or service that requires training in new technology and industrial skills. Training was provided to Wisconsin residents whose full-time positions needed to be retained for two years after training. Grants funded 50.0 percent of eligible training costs.
7	Capacity Building Grant	General Authority (ch. 238)	Provided grants to assist local and regional economic development groups with conducting assessments of the economic competitiveness of the area, developing economic development strategies, and supporting strategies to improve operational efficiencies and increase collaboration with other development organizations.
8	Business Development Tax Credit	238.308; 71.07 (3y); 71.28 (3y); 71.47 (3y)	Offered refundable tax credits to businesses for creating jobs, purchasing significant capital assets, training employees, or establishing or retaining a corporate headquarters in Wisconsin. A business must annually increase net employment in the company's Wisconsin-based workforce to receive tax credits. Jobs must have been full-time and have paid at least 150.0 percent of the federal minimum wage.

Program Number	Program	Wis. Statutes	Description
9	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 businesses 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.
10	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 businesses 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 150.0 percent of the federal minimum wage. Recipients were required to retain project-related operations in Wisconsin for at least five years.
11	Enterprise Zone	238.399; 71.07 (3w); 71.28 (3w); 71.47 (3w)	Offered refundable tax credits to businesses within WEDC-designated zones. Businesses 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 30 zones could be designated. Statutes did not limit the amount of tax credits available.
12	Jobs Tax Credit	238.16; 71.07 (3q); 71.28 (3q); 71.47 (3q)	Offered refundable tax credits for businesses or individuals, based on the wages paid to employees in existing and newly created full-time jobs or the costs to train employees. Businesses could earn up to 10.0 percent of their payroll costs or up to 100.0 percent of their training costs within a tax year. The program was intended to encourage major expansion of businesses or relocation of major out-of-state businesses to Wisconsin. Statutes authorized WEDC to allocate up to $10.0 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.
13	Minority Business Development	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, consortia, and other minority organizations.
14	Historic Preservation Tax Credit	71.07 (9m); 71.28 (6); 71.47 (6); 238.17	Provided transferable tax credits equal to 20.0 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, under limited circumstances, built before 1936.
15	Brownfields Grant	238.13	Provided grants to businesses, 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 50.0 percent of grant funds from the recipient.

Program Number	Program	Wis. Statutes	Description
16	Site Assessment Grant	20.192 (1) (s); 238.133	Provided grants to local governments to complete environmental assessments and remediate contaminated industrial and commercial properties with economic or community development potential. Eligible projects included abandoned, idle, or underused facilities that were unlikely to be redeveloped because of actual or perceived contamination.
17	Community Development Investment Grant	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 potential for measurable benefits in job opportunities, property values, or leveraged investment by local or private partners and provide a 3:1 funding match.
18	Idle Sites Redevelopment	General Authority (ch. 238)	Offered grants up to $1.0 million to government entities to redevelop industrial sites larger than 5 acres or commercial sites larger than 10 acres that had been used for those purposes for at least 25 years. Grants could be used for demolition, environmental remediation, or site-specific improvements defined in a redevelopment plan. Grant funds could not exceed 30.0 percent of eligible project costs.
19	Main Street and Connect Communities	238.127	Provided technical assistance to local governments participating in historic preservation and economic development of traditional business districts. This assistance is provided through training, façade renderings, small business consultations, and the hiring of outside consultants.
20	Certified Sites	General Authority (ch. 238)	Provided certification of building sites to streamline the permitting process for businesses seeking to expand operations. WEDC worked with Deloitte to create consistent standards for industrial site certification. Eligible sites consisted of a minimum of 20 contiguous, developable acres.
21	Technology Development Loan	General Authority (ch. 238)	Provided loans to start-up and emerging-growth businesses 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 businesses were limited to a $250,000 grant, commercialization grants were limited to a $500,000 grant, and grants for businesses in expansion mode were limited to $750,000.
22	Capital Catalyst	General Authority (ch. 238)	Provided grants to seed funds managed by local communities to provide capital to high-growth startups and emerging growth companies. A grant recipient was to provide 1:1 matching funds.
23	Seed Accelerator	General Authority (ch. 238)	Provided grants to local, non-profit seed accelerator programs designed to help start-up businesses, usually in the technology field. The accelerator programs contracted directly with WEDC to pass funds through to companies participating in the accelerator programs with amounts ranging from $5,000 to a maximum of $50,000.
24	Entrepreneurial Micro-Grant	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 2015-16, the grants were administered by the Center for Technology Commercialization.

Program Number	Program	Wis. Statutes	Description
25	Qualified New Business Venture	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 businesses to develop new products and technologies and move products to market. To become 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 10 consecutive years.
26	Early Stage Seed Investment Tax Credit	238.15 (1); 238.15 (3); 71.07 (5d)	Offered tax credits to eligible accredited investors or investment networks that invested for at least three years in businesses certified as qualified new business ventures. Accredited investors were awarded credits equal to 25.0 percent of their investments. Annually, a total of $30.0 million in credits were available between this program and the Angel Investment Tax Credit program.
27	Angel 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 businesses certified as qualified new business ventures. Investment fund managers were awarded credits equal to 25.0 percent of their investments. Annually, a total of $30.0 million in credits were available between this program and the Early Stage Seed Investment Tax Credit program.
28	Small Business Innovation Research/ Small Business Technology Transfer Matching Grant	General Authority (ch. 238)	Provided grants to technology-based businesses in or relocating to Wisconsin in the form of matching portions of Phase I and II awards under the federal Small Business Innovation Research and Small Business Technology Transfer programs. The Center for Technology Commercialization administers the Small Business Innovation Research/Small Business Technology Transfer Matching Grant program.
29	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.
30	Global Business Development Grant	General Authority (ch. 238)	Provided grants to support the specific export development and deployment strategy of businesses. The program had two components. First, the International Market Access Grant component reimbursed specific expenses associated with newly exporting to, or expanding in, international markets, up to $25,000 per year. Funding could be used for trade show exhibitions, trade missions, website and literature translation services, and consulting services. The Collaborative Market Access Grant component provided intermediaries up to $150,000 to deliver services available under the International Market Assistance Grant.

Program Number	Program	Wis. Statutes	Description
31	Global Trade Venture Program	General Authority (ch. 238)	Provided Wisconsin businesses access to international markets and assisted in the development of market entry and expansion strategy plans. WEDC's market development directors led Wisconsin companies on single- or multiple-country trips, and WEDC provided participating businesses with country-specific business services. WEDC paid "a portion" of the costs of these services.
32	Targeted Industry Projects	General Authority (ch. 238)	Helped Wisconsin businesses by providing targeted industry sector investment grants and technical support by assisting non-profit and public entities with connections to target industries, including those 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.
33	Fabrication Laboratories Grant	238.145	Provided grants to Wisconsin school districts to purchase equipment used for instructional and educational purposes in fabrication laboratories. Awards were based on a school district's financial need. Recipients could receive up to $25,000 per year and up to $75,000 in total funding.
34	St. Croix Valley Business Incubator	238.14	Made a grant of $250,000 to the River Falls Economic Development Corporation for the purpose of constructing the St. Croix Valley Business Incubator, as required by 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act.

Appendix 3

Recipients Awarded the Largest Amounts of Grants and Loans

FY 2015-16
(in millions)

Recipient	Type	Amount
Trilliant Food and Nutrition, LLC	Loan	$ 4.0
The Water Council, Inc.	Grant	2.1
Russ Davis Wholesale	Loan	2.0
Monogram Food Solutions, LLC	Loan	1.5
Center for Technology Commercialization	Grant	1.5
Expera Specialty Solutions, LLC	Grant	1.0
Wisconsin Whey Protein, Inc.	Loan	0.8
StartingBlock, Inc.	Grant	0.8
EatStreet, Inc.	Loan	0.8
Milwaukee Institute, Inc.	Grant	0.8
Total		**$15.0**

Appendix 4

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

Grant and Loan Contracts Executed in the First Six Months of FY 2016-17

Program Number	Program	Number of Contracts	Amount
1	Business Opportunity Loan Fund	4	$ 4,921,000
2	Special Project Loan Fund	1	200,000
15	Brownfields Grant	7	2,255,300
16	Site Assessment Grant	6	900,000
17	Community Development Investment Grant	5	1,209,000
18	Idle Sites Redevelopment	5	2,300,000
21	Technology Development Loan	7	1,196,000
22	Capital Catalyst	2	625,000
	Total	**37**	**$13,606,300**

Tax Credit Contracts Executed in the First Six Months of FY 2016-17

Program Number	Program	Number of Contracts	Amount
8	Business Development Tax Credit	24	$11,741,000
11	Enterprise Zone	1	22,500,000
	Total	**25**	**$34,241,000**

Tax Credit Contracts Executed from FY 2011-12 through FY 2016-17

Program Number	Program	Number of Contracts	Amount
9	Economic Development Tax Credit	6	$ 8,583,300
11	Enterprise Zone	4	58,000,000
12	Jobs Tax Credit	7	19,972,000
	Total	**17**	**$86,555,300**

Economic Development Awards that Ended from July 2011 through September 2016

Program Number	Program	Number of Contracts	Amount
1	Business Opportunity Loan Fund	2	$ 310,000
9	Economic Development Tax Credit	5	1,955,000
10	Development Opportunity Zone	1	500,000
12	Jobs Tax Credit	2	1,900,000
15	Brownfields Grant	9	1,949,800
16	Site Assessment Grant	1	150,000
17	Community Development Investment Grant	7	1,264,200
21	Technology Development Loan	10	2,310,000
22	Capital Catalyst	1	100,000
–	Business Retention and Expansion Investment[1]	13	7,360,000
–	Emergency Loan Guarantee for Certified Propane Dealers[1]	1	80,000
–	State Energy Program[1]	2	5,400,000
	Total	**54**	**$23,279,000**

[1] WEDC did not administer this program in FY 2015-16.

Appendix 5

Recipients Allocated the Largest Amounts of Tax Credits

FY 2015-16
(in millions)

Recipient	Amount
Milwaukee Electric Tool Corporation	$18.0
Schusters Redevelopment, LLC	7.9
Dollar General Corporation	5.5
Milwaukee Pabst Senior Housing, LP	4.7
Greater Green Bay YMCA	4.1
Welford Sanders Lofts, LLC	3.6
Germania Real Estate Venture II, LLC	3.5
Mitchell Street Apartments, LLC	3.0
Texas City Venture, LP	3.0
Sub-Zero Group, Inc.	2.8
Total	**$56.1**

Appendix 6

Allocations Made through the Historic Preservation Tax Credit Program in FY 2015-16

Recipient	Project Location	Amount
Schusters Redevelopment, LLC	Milwaukee	$ 7,942,300
Milwaukee Pabst Senior Housing, LP	Milwaukee	4,670,000
Greater Green Bay YMCA	Green Bay	4,118,000
Welford Sanders Lofts, LLC	Milwaukee	3,601,900
Germania Real Estate Venture II, LLC	Milwaukee	3,512,300
Mitchell Street Apartments, LLC	Milwaukee	3,005,000
Texas City Venture, LP	Milwaukee	3,000,000
DDL Holdings, LLC	Green Bay	2,800,000
Haymarket Lofts, LP	Milwaukee	2,454,600
Varin/Library Park II, LLC	Kenosha	1,994,000
Shoe Factory Lofts—Milwaukee, LLC	Milwaukee	1,780,000
Global Water Center II, LLC	Milwaukee	1,700,000
Washington School Apartments, LLC	Sheboygan	1,515,200
Roosevelt School Apartments, LLC	La Crosse	1,200,000
Mitchell on Water, LLC	Milwaukee	1,167,500
611 W National Avenue Milwaukee, LLC	Milwaukee	1,120,000
2219 Lofts, LP	La Crosse	957,200
Greene Bros' Holdings, Inc.	Janesville	704,200
Lorenzen Holdings, LLC	Green Bay	600,000
S.C. Johnson & Son, Inc.	Racine	500,000
Watertown Main Street Holdings, LLC	Watertown	500,000
Blue Ribbon Management, LLC	Milwaukee	490,900
Impact Seven, Inc.	Rice Lake	421,200
144 Langdon Street Historic, LLC	Madison	409,800
531 N. Main, LLC	Oshkosh	339,300
Kuehn Blacksmith Project	Kaukauna	300,000
Batavian Building, LLC	La Crosse	160,000
Carriage Works Real Estate, LLC	Janesville	94,400
LMN Investment Properties, LLC	Platteville	87,800
Cream City Properties, LLC	Milwaukee	68,100
605 Erie Avenue, LLC	Sheboygan	54,700
RLR Properties of La Crosse, LLC	La Crosse	40,000
Four Way Bar, LLC	Green Bay	16,000
Twekenberg 237, LLC	Madison	15,800
Total		**$51,340,300**

Appendix 7

Economic Development Awards That Ended, by Program

July 2011 through September 2016

Program Number	Program	Awards
1	Business Opportunity Loan Fund	2
9	Economic Development Tax Credit	5
10	Development Opportunity Zone	1
12	Jobs Tax Credit	2
15	Brownfields Grant	9
16	Site Assessment Grant	1
17	Community Development Investment Grant	25
21	Technology Development Loan	10
22	Capital Catalyst	1
25	Qualified New Business Venture	24
30	Global Business Development Grant	96
–	Business Retention and Expansion Investment[1]	13
–	Emergency Loan Guarantee for Certified Propane Dealers[1]	1
–	State Energy Program[1]	2
	Total	**192**

[1] WEDC did not administer this program in FY 2015-16.

Appendix 8

Reported Results of WEDC's Economic Development Programs

FY 2015-16

This appendix provides information on the reported actual results of WEDC's 34 economic development programs in FY 2015-16. 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 2015-16 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 2, 4, and 7. The numerical references differ from those used in report 15-3, 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 in FY 2015-16
1	Business Opportunity Loan Fund	Provided 13 loans totaling $10.8 million; created 246 jobs; retained 999 jobs.
2	Special Project Loan Fund	Provided 1 loan of $178,700.
3	Clean Energy Manufacturing Revolving Loan Fund	Provided 1 loan of $777,700.
4	Industrial Revenue Bonding	Authorized $14.5 million in bonding for 3 businesses.
5	Qualified Energy Conservation Bonding	Authorized 1 bond of $2.8 million.
6	Workforce Training Grant	Provided 1 grant of $200,000.
7	Capacity Building Grant	Provided 11 grants totaling $483,000.
8	Business Development Tax Credit	Allocated $6.8 million in 17 tax credit awards.
9	Economic Development Tax Credit	Allocated $16.6 million in 32 tax credit awards; created 478 jobs; retained 5,230 jobs.
10	Development Opportunity Zone	Allocated $1.9 million in 2 tax credit awards.
11	Enterprise Zone	Allocated $23.5 million in 2 tax credit awards.
12	Jobs Tax Credit	Allocated $15.4 million in 17 tax credit awards; created 534 jobs; retained 1,611 jobs.
13	Minority Business Development	Provided 4 grants totaling $400,000 that assisted 20 businesses.
14	Historic Preservation Tax Credit	Allocated $51.3 million in 34 tax credit awards.
15	Brownfields Grant	Provided 15 grants totaling $5.9 million.
16	Site Assessment Grant	Provided 13 grants totaling $1.1 million.
17	Community Development Investment Grant	Provided 18 grants totaling $4.5 million.
18	Idle Sites Redevelopment	Provided no grants.
19	Main Street and Connect Communities	Provided assistance to 35 Main Street Communities and 54 Connect Communities; announced 1 new Main Street Community and 20 new Connect Communities; provided technical assistance to 113 businesses.
20	Certified Sites	No new sites were certified. Eight new projects were announced at existing Certified Sites.
21	Technology Development Loan	Provided 16 loans totaling $5.5 million.
22	Capital Catalyst	Provided 4 grants totaling $1.6 million.
23	Seed Accelerator	Provided 8 grants totaling $875,500.
24	Entrepreneurial Micro-Grant	Provided 1 grant of $175,000 to 1 recipient that assisted 98 businesses.

Program Number	Program	Actual Results in FY 2015-16
25	Qualified New Business Venture	Certified 40 new businesses.
26	Early Stage Seed Investment Tax Credit	Awarded tax credits to investors in 38 businesses totaling $8.9 million in calendar year 2016.
27	Angel Investment Tax Credit	Awarded tax credits to investors in 65 businesses totaling $8.5 million in calendar year 2016.
28	Small Business Innovation Research/ Small Business Technology Transfer Matching Grant	Provided 1 grant of $1.3 million to 1 recipient that assisted 17 businesses.
29	ExporTech	Provided 1 grant of $210,000 to 1 recipient that provided 26 businesses with technical assistance.
30	Global Business Development Grant	Provided 58 grants totaling $870,100.
31	Global Trade Venture Program	Led 5 global trade ventures and assisted 30 businesses.
32	Targeted Industry Projects	Provided 8 grants totaling $2.9 million.
33	Fabrication Laboratories Grant	Provided 24 grants totaling $574,100.
34	St. Croix Valley Business Incubator	Provided 1 grant of $250,000.

Response ■

Mark R. Hogan
Secretary and CEO

May 12, 2017

Mr. Joseph 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 (LAB) financial and program evaluation. We appreciate the professionalism and cooperation your staff has exhibited during its review. As was done with your prior audits, we look forward to discussing and implementing each of the recommendations contained in this audit.

The Wisconsin Economic Development Corporation's (WEDC) Mission is: "To advance and maximize opportunities in Wisconsin for businesses, communities, and people to thrive in a globally competitive environment." WEDC's talented and committed staff lives out our Mission through our Core Values which include Integrity, Respect, Accountability, Transparency, and Collaboration.

Striving to achieve operational excellence through continuous process improvement efforts has increasingly defined who we are as an organization. Whether through the implementation of LAB's recommendations from your prior audits, or embracing the Center for Regional Economic Competitiveness' (CREC) challenge to seek ways to function as Wisconsin's lead economic development organization, WEDC is committed to providing the highest levels of transparency and accountability.

WEDC administers a diverse set of programs including those focused on strategies for the development of our Business & Community, International, Sector Strategy, Entrepreneurship & Innovation, Business & Investment, and Marketing divisions. These areas are capably supported by WEDC's Finance, Credit & Risk, Technology, Legal, Compliance, Human Resources, Public Policy, and Public Affairs groups. In addition, the support WEDC receives from Governor Scott Walker, Lieutenant Governor Rebecca Kleefisch, the state legislature, our Board of Directors, as well as other state agencies, is greatly appreciated and is important to Wisconsin's ongoing economic development efforts.

Economic development is most effective when it is led at the local or regional level. As the lead economic development agency in Wisconsin, WEDC works closely with our more than 600 partners who represent academia, business, industry, and local and regional economic development groups. The breadth and depth of our state's economic development ecosystem is impressive and it is one of the major reasons Wisconsin's economic climate, led by our business-friendly policies, are achieving excellent results.

WEDC's Quality Improvement Initiatives

As mentioned earlier, WEDC fosters an environment where finding ways to continually improve our processes and procedures is both encouraged and expected. In addition to addressing the recommendations from LAB's previous audits, WEDC has developed and implemented several internal improvements that were initiated due to recommendations made by WEDC staff, including:

- FY17 was the inaugural year during which we changed the effective date of our awards to the contract execution date from the original decision date. In addition to implementing that LAB recommendation, WEDC's legal team is now responsible for all contracting services. These changes have proved successful in terms of work product and improved efficiencies resulting in a significant decrease in the time that elapses from when we receive a completed application and when a final contract is executed.

- To help ensure our customers understand their ongoing responsibilities of our programs and their obligations when executing an award contract, a series of award packets and informational videos on WEDC's website have been developed and made available to our awardees when contracts are signed.

- A significant amount of cross-training, particularly among WEDC's legal, underwriting, operations, public policy and account management teams, has been conducted. This has been an opportunity not only to educate each other about our programs, but also to enhance our cross-divisional collaboration.

- A substantial amount of staff and temporary time has been dedicated to our tax credit re-verification project this past year. As a result of this review, we implemented enhanced written processes and procedures for verifying tax credits, including having multiple levels of review of the data submitted by our awardees. In addition, permanent staff resources were added and the development and implementation of a tax credit calculator has effectively improved the efficiency and accuracy of our verification process.

- An Operations & Program Performance team was formalized, creating a more effective control framework for the data obtained and tracked during the award process. One of the features implemented is that all new awards are now run through a post-closing review to ensure WEDC's contract requirements are consistent with those that were approved.

WEDC's financial reporting continues to be strong. An independent audit of WEDC's fiscal year 2016 financial statements conducted by Sikich LLP resulted in a clean audit opinion and found no material weaknesses in our financial reporting. For the fourth consecutive year, WEDC received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada. This certificate is the highest form of recognition in governmental accounting and financial reporting.

LAB's Current Recommendations - Job Verifications

WEDC acknowledges the recommendations found in LAB's current audit and thanks LAB for its constructive approach. We appreciate LAB using the first six months of fiscal 2017 as the basis for its testing in many of the program areas, because the recommendations and observations (a) provide real-time feedback on many of our recently implemented process improvements and (b) acknowledges the effort WEDC has expended to implement the recommendations made in LAB's previous audits.

A primary observation made by LAB, and one that is incorporated in several of its recommendations, entails establishing processes and procedures to ensure the employee information received from awardees is accurate and complete. Whether it is during the underwriting process or the ongoing verification process as required by statute, WEDC agrees with LAB's comments about the importance of having accurate and complete information.

WEDC currently receives detailed employee information at the underwriting stage, and also at the annual verification stage for tax credits. WEDC has processes in place to review this information on an employee-by-employee basis. A primary purpose of this review is to determine if the individual employee meets the programmatic or statutory guidelines for a full-time employee.

WEDC took an additional step in 2016 by engaging an independent firm to perform a verification review of its performance reports. The objective of the verification review was to determine if the annual reporting information WEDC receives from awardees is accurate through source document verification on a sample basis. This was a good first step and the results of this review were reported to WEDC's Audit Committee earlier this year.

We appreciate LAB's recommendation to consider using the Department of Workforce Development's (DWD) Quarterly Wage Report (required for unemployment insurance purposes) to supplement WEDC's verification processes. DWD's report could be used to determine if there are significant differences between DWD's information and the employee information submitted to WEDC.

LAB acknowledges in its audit this information from the Quarterly Wage Report may not precisely match an awardee's information submitted to WEDC. For example, DWD's report is based on statewide employment numbers whereas WEDC's may be project-specific. In addition, DWD's report includes "all full-time and part-time workers in covered employment" whereas WEDC's tax awards are based solely on full-time employees who are paid at least 150% of the federal minimum wage. An initial comparison of a sample of the information received by WEDC compared to DWD's information has identified some discrepancies, but we will continue to seek more information to determine if DWD's report can provide consistent and clear comparisons thereby creating greater certainty around the accuracy of WEDC's data.

However, we believe the more complete answer will be determined by a CREC-led project in which WEDC, along with the Wisconsin Department of Revenue (DOR) and DWD, is currently participating. LAB mentions this project in its report. CREC is a nationally recognized organization that was retained by WEDC's Board of Directors in May 2015 to review WEDC's policies and procedures and benchmark our standards against other states' economic development organizations. The results of that report were published in January 2016 and endorsed by WEDC's Board of Directors.

As part of that initial review, CREC had identified that other states faced challenges in sharing data among agencies with the goal of improving the impact of public investments. Subsequently, WEDC applied and was accepted to participate in CREC's data sharing project along with four other states. This two-year project commenced in mid-2016 and will be completed by the end of 2017. The goal is to create greater transparency about legal and regulatory barriers to data sharing and to identify best-practice strategies for overcoming those barriers in ways that can help states, including Wisconsin and WEDC, improve their workforce, economic development, and educational programs.

The initial work that has been done by WEDC, DOR and DWD is encouraging. Our goal is to find effective solutions for data sharing among Wisconsin's state agencies, which will include improving our ability to verify a recipient's performance under an award contract.

To provide context, in 2016, WEDC reviewed information covering approximately 35,000 employees representing almost 200 employers. Although independently verifying 35,000 employees is extremely challenging, WEDC is committed to finding a reasonable solution that will ensure the information received is accurate and complete.

As was mentioned earlier, we agree fully with LAB's comment regarding the importance of obtaining accurate and complete information. We are confident the results of the CREC study, once implemented, will provide both the legislature and taxpayers the additional certainty they expect and deserve.

Other Comments

Some context may be helpful regarding LAB's observation that loans over 90 days past due increased from December 31, 2014 to December 31, 2016. Of the $11 million identified as being past due as of December 31, 2016:

- $2.3 million consisted of "performance-based" loans where contractually-based forgiveness was being considered. Note: This entire amount was either forgiven or paid off prior to March 31, 2017.

- $4.5 million of the total past due amount was to two borrowers.

- All the loans listed as past due as of December 31, 2016 had been originated prior to LAB's last audit from May 2015.

The past due loan report is actively managed by the CEO, CFO, and staff. In addition, the Board of Directors reviews a quarterly credit and risk report, including a summary memo from the Secretary & CEO. This report includes information on past due loans. We will continue to closely monitor our loan portfolio and report this information to our Board. We will also submit the reports identified by LAB to the legislature as recommended in the audit.

Regarding the reporting of on-line information, WEDC currently has over 1,700 awards listed on its website. We remain committed to providing the highest level of transparency and we look forward to reviewing LAB's recommendations and incorporating them into our policies and procedures.

Summary

As part of our culture to continue to find ways to improve on our already high levels of transparency and accountability, WEDC is committed to addressing all of LAB's current recommendations. We will work with the Audit Committee of our Board of Directors to establish responses and timelines for achieving the recommended changes. Except for the CREC data sharing project which may extend into early 2018, we believe LAB's recommendations can be substantially implemented prior to December 31, 2017.

Again, we appreciate and thank LAB for its constructive approach in working with WEDC's team and we look forward to implementing the audit's recommendations.

Sincerely,

Mark R. Hogan

Mark R. Hogan
Secretary & CEO