



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Department of Economic Development, Division of Business and Community Services

Due Diligence Procedures and Debt Limit

The Department of Economic Development (DED), Division of Business and Community Services (BCS) failed to perform adequate due diligence for various projects, including the Mamtek USA project. In May 2010, the BCS prepared and the company accepted a proposal under which the company could potentially be eligible for various state incentives totaling over \$17.6 million. In July 2010, the BCS allocated \$28 million in Recovery Zone tax exempt bond authority to the city of Moberly and the Industrial Development Authority of Moberly issued \$39 million in revenue bonds to finance the building of a sucralose manufacturing plant in Moberly for the start-up company Mamtek. The BCS, and the city of Moberly and other entities involved in issuing the industrial development bonds for the Mamtek project, did not ensure due diligence procedures were adequately designed, performed, and documented to protect the interests of all parties, and the company was forced into bankruptcy in January 2012. Moreover, while general obligation bonds are subject to debt limitations under the Missouri Constitution, Missouri has no constitutional or statutory limit on the type of debt issued for the Mamtek project.

Audit staff discovered due diligence procedures performed for some other projects were not always adequate, properly documented, or performed in a timely manner. For example, the BCS issued a proposal to a start-up company without performing an adequate credit check; the company failed to make its first payment on the Community Development Block Grant Action Fund loan, and the Missouri Attorney General's office filed suit against the company in March 2012. Although the BCS adopted uniform due diligence processes in February 2011, it should consider more stringent due diligence steps, especially for start-up company projects.

Economic Incentives Claimed Under Multiple Programs

State law does not prohibit the same project costs from being claimed under more than one tax credit program. Developers can "stack" tax credits without generating additional economic activity or state benefit. For example, depending upon the applicable programs, for every \$1 of certain project costs, a developer could be issued up to \$3.27 in federal and state tax credits (\$1.11 in federal and \$2.16 in state tax credits). We calculated the state issued tax credits totaling over \$134 million related to project costs included in the basis of more than one tax credit program during the 11 years ended June 30, 2011.

In addition, the state does not reduce the amount of Low Income Housing tax credits available to recipients of Historic Preservation funding, which is done under similar federal programs. Because of this, between fiscal years 2000 and 2011 the state issued \$68 million more in tax credits than it would have if federal cost containment features were in place. State law also allows companies to claim new jobs and investments under the Business Use Incentives for Large-Scale Development (BUILD) Program while also claiming them under other economic development programs. The majority of companies participating in the BUILD program also participate in other

economic development tax credit programs, meaning that the state issues additional tax credits without any additional economic activity or state benefit being generated.

Payment of Operating Costs of the Governor's Office

For the two years ended June 30, 2011, the DED paid over \$149,000 for approximately 160 flights of the Governor's office, thereby circumventing the appropriations process. The BCS was allocated \$79,815 of the total flight costs, while the remainder was allocated to other DED divisions. Of 121 flights reviewed, 99 were for the Governor to publicize economic development incentives and the creation of jobs, but BCS employees were only included on 54 of these flights. The other 22 flights, totaling over \$6,000, had no clear benefit to the DED or the BCS. These flights included seven separate flights related to the A+ Schools Program and a \$910 flight to St. Joseph for the Governor to announce the Missouri National Guard was sending relief support to Haiti.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)

During the audit period, the Department of Economic Development, Division of Business and Community Services (BCS) was awarded the following Federal Stimulus monies:

A \$6,433,629 Community Development Block Grant, \$2,525,082 of which was received and expended, to assist communities with economic revitalization.

A \$1,191,646 AmeriCorps grant, \$823,449 of which was received and expended, to support AmeriCorps programs in the state.

The BCS also helped administer two U.S. Department of Labor grants awarded to the Department of Economic Development, Division of Workforce Development, expending a total of \$426,797:

- \$273,621 to develop products to improve the level of green career information available to job seekers.
- \$153,176 to review, collect feedback, and revise a series of Employment and Training Administration webinars.

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.