

WISCONSIN ECONOMIC  
DEVELOPMENT CORPORATION

AUDITOR'S COMMUNICATION TO THE  
MEMBERS OF THE BOARD OF DIRECTORS

For the Year Ended  
June 30, 2013



WISCONSIN ECONOMIC DEVELOPMENT CORPORATION  
AUDITOR'S COMMUNICATION TO THE  
MEMBERS OF THE BOARD OF TRUSTEES  
TABLE OF CONTENTS

---

	<u>Page(s)</u>
COVER LETTER .....	1
REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE .....	2-3
MANAGEMENT LETTER .....	4-9
FIRM PROFILE	



1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

[www.sikich.com](http://www.sikich.com)

Certified Public Accountants & Advisors  
*Members of American Institute of Certified Public Accountants*

September 13, 2013

Members of the Board of Directors  
Wisconsin Economic Development Corporation

Ladies and Gentlemen:

As part of our audit process we are required to have certain communications with those charged with governance at the beginning of our audit process and at the conclusion of the audit. Those communications include information related to the planned scope and timing of our audit, as well as other information required by audit standards. Our communication at the beginning of our audit process along with our questionnaire regarding consideration of fraud in a financial statement audit was sent to you on July 24, 2013.

In addition, auditing standards require the communication of internal control related matters to those charged with governance. Our management letter, as well as a listing of future pronouncements that may affect WEDC, are enclosed within this document.

This information is intended solely for the use of the Board Chair, Board of Directors, and management of Wisconsin Economic Development Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sikich LLP'.

Sikich LLP

By: Dan Berg CPA  
Partner

1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

September 13, 2013

To the Board of Directors  
Wisconsin Economic Development Corporation

We have audited the financial statements of the governmental activities and each major fund of Wisconsin Economic Development Corporation (WEDC) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Wisconsin Economic Development Center are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013, except for the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 65, *Items Previously Reported as Asset and Liabilities* and No. 70., *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no sensitive estimates affecting WEDC's financial statements, except for the allowance for doubtful accounts.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 13, 2013.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of Wisconsin Economic Development Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Sikich LLP

Daniel A. Berg, CPA

Partner

WISCONSIN ECONOMIC  
DEVELOPMENT CORPORATION  
Madison, Wisconsin

MANAGEMENT LETTER

June 30, 2013







1415 W. Diehl Road, Suite 400  
Naperville, Illinois 60563

Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

Members of the Board of Directors  
Wisconsin Economic Development Corporation

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Wisconsin Economic Development Corporation (WEDC) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of WEDC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read 'Sikich LLP'.

Naperville, Illinois  
September 13, 2013

## **DEFICIENCIES**

### **1. Cash and Investments**

During our review of cash and investments, we noted that the investment in commercial paper of \$65,000,000 at year end was held by a counter party, not in WEDC's name. This results in WEDC being exposed to custodial credit risk.

WEDC's investment policy which was approved with an interim effective date of July 8, 2013 provides guidance on ways that WEDC limits exposure to credit risk, concentration of credit risk, custodial credit risk and interest rate risk.

We recommend that WEDC minimize its exposure to custodial credit risk by ensuring cash and investment balances are either insured, collateralized, held in WEDC's name or held in safekeeping by an independent third party and implementing the policy that was approved.

#### **Management Response**

We agree with this recommendation. We believe the implementation of our new cash and investment policy will satisfactorily address this point. To implement this policy we are researching which financial institutions can provide us with the best investment choices to minimize risks and costs. We have begun the process of identifying these institutions and commit to completing the implementation of this policy by December 31, 2013.

### **2. Forgivable Loans**

During our review and confirmation of loans receivable, one confirmation was returned which indicates that the company believed the requirements for forgiveness were satisfied and that the loan should have been forgiven in 2010. This was verified in our review of the loan file. WEDC still had the loan included in the general ledger with the entire balance also being included in the allowance for loan losses. Although the inclusion of the loan balance and allowance for doubtful accounts did not result in a net financial statement misstatement, the gross loan balance and allowance for doubtful accounts are overstated.

We recommend WEDC review the forgiveness status of forgivable loans on a periodic basis and remove loans from the general ledger when all requirements are satisfied and the loan will not need to be repaid.

#### **Management Response**

We agree with this recommendation. WEDC has established an assessment of forgiveness of forgivable loans policy, Credit and Risk policy No. 100. As part of that implementation, the Vice President of Credit and Risk reviewed the status of all WEDC's forgivable loans and determined which loans had reached the forgiveness assessment timeframe. In September, the forgiveness assessment was completed for all of the loans that had reached the assessment timeframe. As we move forward, the Credit and Risk division will continue to monitor when loans reach the forgiveness date and will conduct an assessment in accordance with the policy.



## **DEFICIENCIES (Continued)**

### **3. Loan Compliance**

During our audit, we tested a sample of 60 loans receivable for compliance with loan agreement provisions. We noted the following instances of noncompliance:

- a. For 1 WEDC loan and 14 Department of Commerce loans receivable tested, we noted the contract required a Customer Borrowing Resolution but this document was not maintained in the customer loan file.
- b. For 7 loans made under the Department of Commerce, we noted the contract required WEDC to obtain a General Business Security Agreement, but this document was not maintained in the customer loan file.
- c. For 3 of 60 loans receivable tested, we noted that project reports were required by the contract, but not received by WEDC. The file did not contain evidence of communication with the customer to follow up on the required reports or to waive the requirement.
- d. For 1 of 60 loans receivable tested, the customer did not meet the job creation requirements of the contract but the forgivable loan was not changed to a payable loan.

We recommend WEDC closely review the loan contracts and develop policies and procedures to comply with all contract requirements.

#### **Management Response**

We agree with this recommendation. WEDC continues to require customer borrowing resolutions and general business security agreements for many of our awards. All of the exceptions related to these were for loans made prior to July 1, 2012 and we believe awards made now include this documentation prior to disbursement of funds.

Of the project reports exceptions noted, we agree that the monitoring of the late report or acceptance of information was not stored in our document management system. We believe they have been properly monitored, but acknowledge that the documentation supporting that work was not included in the electronic file when audited. Due to the volume of late notices, they were not uploaded to our document management software when sent out. The Credit and Risk division will ensure that this documentation gets stored into the document management system, by December 31, 2013.

As mentioned under the forgivable loan recommendation, the Vice President of Credit and Risk has reviewed all forgivable loans that have reached the forgiveness timeframe. This loan was partially forgiven and the remaining balance was moved to collectible status in September.

## **DEFICIENCIES (Continued)**

### **4. Site Visits**

The WEDC does not currently have a formal required process or policy for performing site visits as customer projects are in progress.

We recommend that the WEDC develop a system of required site visits for contracts and projects of a given size and add a monitoring system for projects in process.

#### **Management Response**

We agree with this recommendation. WEDC does conduct site visits for many of our capital investment projects and for all awards made under the State Energy Program; however, WEDC does not have a formal process to identify all of the projects that we believe should receive site visits. This recommendation will be discussed at the next executive team meeting. After this discussion WEDC will draft a policy that identifies the criteria to be used for determining the projects that should have a physical inspection of the project progress or final capital investment made by our customers. This policy and a plan for implementation will be completed by December 31, 2013.

### **5. Policy and Procedure Documentation**

During our review of the WEDC's internal controls documentation, we found that, for the year ended June 30, 2013, the processes, policies and procedures, were not in written form. In most instances, WEDC did have processes that were consistently followed for its accounting transactions, but they were not in written form.

Beginning in July 2013, the WEDC created and approved formal policies and procedures covering its financial management, credit risk, administration and virtually all its operations.

#### **Management Response**

We agree with this recommendation. As stated, WEDC brought forward over 100 written policies to our Board of Directors at their July meeting. Many of these were simply the formalization of processes that were already in place, while others truly covered new ground. WEDC believes that good policy documentation can serve as an effective communication device and that the process of policy formulation can serve to improve our operations overall. WEDC also believes that policies will change over time as new electronic systems are put into place and as WEDC continues to grow. This organization is committed to monitoring these policies to ensure they are both internally followed and are effective in practice. WEDC has established a monthly internal policy team meeting and an internal audit function to ensure that this continual monitoring and policy maintenance occurs.

## OTHER COMMENTS

### Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued a number of pronouncements that will impact the District in the future.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. Statement No. 67 is applicable for the fiscal year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). Statement No. 68 is applicable for the fiscal year ending June 30, 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Statement No. 69 is applicable for the fiscal year ending June 30, 2014.

# Sikich Snapshot

## Organization

Sikich is a dynamic accounting, advisory, investment banking, technology and managed services firm with more than 500 employees throughout the country. Founded in 1982, we are now one of the country's Top 40 largest CPA firms and among the top 1% of all enterprise resource planning solution partners in the world.

## Industries

Sikich provides services and solutions to a wide range of industries. We have devoted substantial resources to develop a significant base of expertise and experience in:

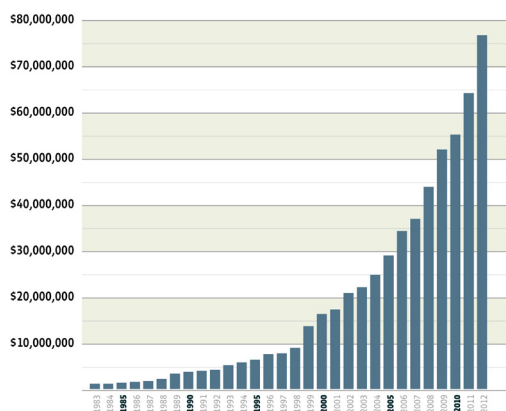
- › Agriculture
- › Construction
- › Government
- › Health Care
- › Higher Education
- › Manufacturing & Distribution
- › Not-for-Profit
- › Oilfield Services
- › Professional Services
- › Real Estate
- › Retail

## Statistics

2012 Revenues .....	\$76.4M
Total Partners .....	87
Total Employees .....	447
Total Personnel .....	534

Personnel count as of Aug. 1, 2013

## Sikich Total Revenues



## Awards

- › *Inc.* Magazine's Inc. 500|5000: ranked 4,627th fastest-growing private company nationally, 2013
- › *Accounting Today* Top 100 Firms: ranked 40th nationally, 2013
- › *Accounting Today* Regional Leaders – Top Firms: Great Lakes: ranked 6th, 2013
- › *Crain's Chicago Business* Fast Fifty: ranked 49th, 2013
- › *INSIDE Public Accounting* Top 50 Largest Accounting Firms: ranked 41st nationally, 2013
- › *Accounting Today* Top 100 Value Added Reseller: ranked 11th, 2013
- › Best Places to Work in Indiana, 2013
- › Best Places to Work in Illinois, 2013
- › Bob Scott's Top 100 Value Added Reseller: ranked 12th, 2013
- › *Daily Herald Business Ledger* Book of Lists: ranked 5th, "Accounting Firms;" Chicago Western Suburbs, 2013
- › Alfred P. Sloan Award for Excellence in Workplace Effectiveness & Flexibility, 2013
- › *Crain's Chicago Business* Top 25 Firms: ranked 12th in Chicagoland, 2012
- › Top 50 Chicago Generation Y Employers, ranked 35th, 2012
- › *Chicago Tribune's* Chicago's Top Workplaces, 2012
- › *Bob Scott's Insights* Value Added Reseller Stars, 2012
- › American Graphic Design Awards, 2012
- › Microsoft Dynamics Inner Circle and President's Club, 2012
- › *Springfield Business Journal* Book of Lists: ranked 1st, "Accounting Firms;" Springfield, Illinois, 2012

## SERVICES

- › Accounting & Assurance
- › Business Valuation
- › Dispute Advisory
- › ERP & CRM Software
- › Human Resources Consulting
- › Investment Banking & Corporate Finance
- › IT Services
- › Marketing & Public Relations
- › Retirement Planning
- › Supply Chain
- › Talent Acquisition
- › Tax Planning
- › Wealth Management



877.279.1900 | [info@sikich.com](mailto:info@sikich.com)  
[www.sikich.com](http://www.sikich.com)

## Certifications

All professional accounting staff with more than one year of experience have earned or are working toward earning the Certified Public Accountant designation. Sikich is a member of the American Institute of Certified Public Accountants' Governmental Audit Quality Center and the Employee Benefit Plan Audit Quality Center. We adhere to the strict requirements of membership which assure we meet the highest standards of audit quality. In 2011, Sikich LLP received its 8th consecutive unmodified ("pass") peer review report, the highest level of recognition conferred upon a public accounting firm for its quality control systems.



**Microsoft** Partner

Gold Enterprise Resource Planning

## Microsoft Partner

Sikich has earned a Microsoft ERP Gold competency; ranked among the top 1% of all Microsoft Dynamics partners worldwide; and carries the following certifications:

- ▶ Microsoft Small Business Specialist
- ▶ MCP (Microsoft Certified Professional)
- ▶ MCSE (Microsoft Certified System Engineer)
- ▶ CCNA (Cisco Certified Network Associate)
- ▶ CCDA (Certified Cisco Design Associate)
- ▶ CCEA (Citrix Certified Enterprise Administrator)
- ▶ MRMS (Microsoft Retail Management Systems)
- ▶ CISA (Certified Information Systems Auditor)
- ▶ CNE (Certified Novell Engineer)
- ▶ MS CSM (Microsoft Customer Service Manager)
- ▶ MS CAE (Microsoft Certified Account Executive)
- ▶ MCDBA (Microsoft Certified Database Admin.)



**leading edge alliance**  
innovation • quality • excellence

## Sikich is proud to be part of the Leading Edge Alliance

The Leading Edge Alliance (LEA) is the second largest international association of independent accounting firms.\* The LEA is an international professional association of independently-owned accounting and consulting firms. Members are top quality firms who share an entrepreneurial spirit and a drive to be the premier provider of professional services in their chosen markets. The Alliance provides Sikich with an unbeatable combination: the comprehensive size and scope of a large multinational company while offering their clients the continuity, consistency, and quality service of a local firm.

*\*International Accounting Bulletin, 2011*



## Sikich is proud to be part of PrimeGlobal

PrimeGlobal is the third largest association of independent accounting firms in the world, providing a wide range of tools and resources to help member firms furnish superior accounting, auditing, and management services to clients around the globe.

*Securities are offered through Sikich Corporate Finance LLC, a registered broker dealer with the Securities Exchange Commission and a member of FINRA/SIPC. Advisory services offered through Sikich Financial, a Registered Investment Advisor. General securities offered through Triad Advisors, Member FINRA/SIPC.*

## LOCATIONS:

### Corporate Office

1415 W. Diehl Rd., Suite 400  
Naperville, IL 60563  
(630) 566-8400

### Chicago – Monroe Street

(312) 541-9300

### Chicago – Wacker Drive

(312) 648-6666

### Decatur, IL

(217) 423-6000

### Denver, CO

(720) 200-0142

### Houston, TX

(832) 831-3549

### Indianapolis, IN

(317) 842-4466

### Milwaukee, WI

(262) 754-9400

### Rockford, IL

(815) 282-6565

### Springfield, IL

(217) 793-3363

### St. Louis, MO

(314) 275-7277

## CONNECT WITH US:



[www.sikich.com/blog](http://www.sikich.com/blog)



877.279.1900 | [info@sikich.com](mailto:info@sikich.com)  
[www.sikich.com](http://www.sikich.com)