



Mark R. Hogan  
Secretary and CEO

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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.

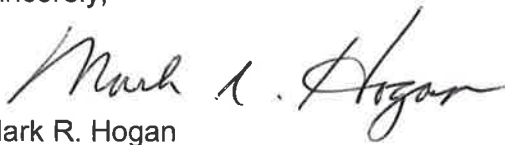


## Summary

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,

A handwritten signature in black ink that reads "Mark R. Hogan". The signature is written in a cursive style with a large, sweeping "M" and "H".

Mark R. Hogan  
Secretary & CEO

