



Mark R. Hogan  
Secretary and CEO

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May 7, 2019

Mr. Joe Chrisman  
State Auditor  
Legislative Audit Bureau  
22 E. Mifflin Street, Suite 500  
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) financial and program evaluation. We appreciate the professionalism and cooperation your staff has exhibited during its review. As was done in prior audits, management will formally discuss your report with our Audit Committee within the next 30-45 days. At that time, we will provide management's action plan for addressing 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.

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 Attraction, and Marketing divisions. These areas are capably supported by WEDC's Finance, Credit & Risk, Technology, Legal & Compliance, Human Resources, Public Policy and Program Performance groups. In addition, the support WEDC receives from the executive branch, the state legislature, and 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. Many of WEDC's 30 programs address quality of life opportunities and our Main Street and Connect Communities programs are prime examples of how WEDC's expertise is providing value-added services to communities throughout Wisconsin. In fact, LAB's current report highlights municipalities who were contacted by LAB and who indicated WEDC's program and consulting services allowed them to accomplish economic development goals they would not have otherwise been able to accomplish.

WEDC is committed to providing the highest levels of transparency, accountability, and operational excellence. Our focus on continuous process improvement efforts in achieving these goals has increasingly defined who we are as an organization. This may best be represented by the trend of a declining number of LAB recommendations from 24 in the May 2015 report, to 19 in the May 2017 report, and now to 10 in the current report.



### LAB's Comments Regarding Improvements from Report 17-9 (issued in May 2017)

Management appreciates LAB's acknowledgement of areas where WEDC followed and improved on LAB's recommendations from the May 2017 report. These changes included improvements where, during its review period, LAB indicated WEDC had:

- Established program policies for all of its tax credit, grant, and loan programs;
- Consistently complied with statutory requirements in its staff reviews relating to funding match requirements;
- Consistently complied with statutes when allocating tax credits;
- Complied with its policies when executing grant contracts;
- Executed all tax credit and grant contracts within six months after completing staff reviews;
- Consistently complied with its policies when completing background checks of tax credit applicants;
- Complied with statutes by contractually requiring certain grant recipients to submit schedules of expenditures;
- Established policies for verifying information submitted by tax credit recipients;
- Established policies for updating the online data when closing awards;
- Modified its fund balance policy effective for FY 2017-18;
- Modified its credit card policy.

### 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:

- The Compliance & Ethics Committee is charged with advising on best means for execution of WEDC's Compliance Plan. The committee has representation from all divisions who are charged with developing internal controls and processes that support the organization. The committee identifies areas of improvement to create cross-divisional consistency across the organization. Since February 2018, the committee has reviewed over 75 new and updated procedures.
- In May 2018, the Underwriting and Servicing functions were split into two divisions. The goal for the segregation of duties and oversight was to have the respective team members focus on their specific job responsibilities, thereby allowing for more consistent results at both the beginning and end of the award process.
- In FY 2018, WEDC added IMPLAN, an industry-standard economic impact analysis model, to its research toolbox. IMPLAN estimates the short-term impacts of construction and other capital investments on jobs, labor income, and state tax revenue. The results are then considered when determining the taxpayer's return-on-investment on the project.
- WEDC and the Wisconsin Department of Workforce Development (DWD) signed an agreement in FY 2018 allowing WEDC to receive unemployment insurance information that award recipients had submitted to DWD. Effective July 1, 2018, WEDC bolstered its verification process by using this information to help validate the information received by both new applicants and existing award recipients.



WEDC's financial reporting continues to be strong. An independent audit of WEDC's FY 2018 financial statements conducted by Sikich LLP resulted in a clean audit opinion and found no internal control deficiencies in our financial reporting. For the fifth 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

WEDC acknowledges the recommendations found in LAB's current audit and thanks LAB for its constructive approach. As mentioned earlier, management will formally discuss your report with our Audit Committee within the next 30-45 days. At that time, we will provide management's action plan for addressing each of your recommendations. The following comments provide management's current observations regarding some of LAB's primary recommendations:

#### Enterprise Zone Program Procedures

The Electronics & Information Technology Zone ("EITMZ", enacted in 2017) and Enterprise Zone ("EZ", enacted in 2006) are separate programs with different statutory requirements. WEDC and its predecessor, the Department of Commerce, have followed similar procedures when assessing tax credit eligibility for EZ recipients. Management believes LAB's current recommendation to align the administration of the EZ and EITMZ programs is not supported by current law.

LAB's report 18-18 (December 2018) reviewed WEDC's process for verifying information submitted under the EITMZ program which was authorized under 2017 Act 58 (aka the Foxconn legislation).

Due to the similarities of the two programs, WEDC initially attempted to align the administration of the EITMZ with the administration of the EZ. But as identified in the LAB Report 18-18, the EITMZ statute is different. Specifically, it prohibits WEDC from certifying a business for tax credits for services performed outside the state, a restriction that does not exist in the EZ statute. WEDC ultimately agreed with LAB's conclusion that the EITMZ would have to be administered differently than the EZ and has updated its EITMZ procedures as recommended.

In its current report, LAB indicates WEDC should change its longstanding administration of the EZ program to align with the EITMZ procedures. LAB has determined the "services performed in the enterprise zone" should now be considered the same as "services performed in the state." Management has identified and discussed with LAB two primary issues with its interpretation.

First, the legislature was aware of the EZ statutes and generally modeled the EITMZ after that program. But in Act 58, the legislature made deliberate changes to the EITMZ that imposed an additional restriction against providing credits for services performed outside the state.

Second, WEDC relied on the Wisconsin Department of Revenue's administrative guidance in developing the processes for the EZ and EITMZ programs.

#### Revocation of Tax Credits

LAB identified one award where WEDC had not yet revoked credits for a contract that ended in October 2017. Management agrees with this finding but notes that WEDC staff was aware that this award required revocation and was processing this award in accordance with WEDC procedures. Procedures are in place to continue to revoke any tax credits previously awarded if the recipient does not meet its contractual requirements. Management will, however, review its procedures for prioritizing award close outs to ensure they are completed on a timely basis.

### Annually Completing a Verification Effort

In addition to WEDC's processes whereby we validate every award that has the potential to earn tax credits on an annual basis, WEDC also hires an independent auditor to conduct an independent review of a sample of awards. LAB identified that WEDC completed the annual verification effort for FY 2017, but had not yet completed one for FY 2018 during the timeframe tested by LAB. Management agrees with LAB's statement but identifies that the FY 2018 audit was in process during LAB's review. Management was aware of the testing backlog relating to its annual verification process prior to this report finding and an action plan was in place to address this delay. WEDC recently completed testing for the first six-month period for FY 2018 and has begun testing for the second six-month period.

### Establish Written Procedures for Closing Out Awards According to Contractual Provisions

LAB feels WEDC could have revoked additional tax credits or could have required loan recipients to repay additional dollars. These findings do not identify any statutory issues and WEDC followed its procedures. However, we will continue to review and update our procedures for clarity and consistency.

### Program Evaluation and Reporting

WEDC tracks and assesses progress towards goals for all awards, and uses that data to improve existing programs and create new programs. Additionally, we are now annually contracting with an outside consultant, most recently with the UW-Whitewater's Fiscal and Economic Research Center, to conduct independent program evaluations of existing WEDC programs where a sufficient body of work exists to provide valuable analyses.

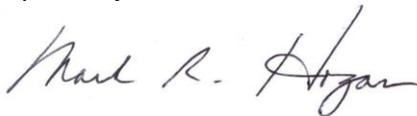
Details of all WEDC awards, totaling over 3400 awards, are publicly available on [wedc.org](http://wedc.org). Significant changes were made as a result of LAB's prior recommendation and we remain committed to providing the highest level of transparency regarding program outcomes.

### Summary

As part of our culture to continue to find ways to improve on our existing high levels of transparency and accountability, WEDC is committed to addressing and reconciling 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, most of which management believes can be substantially implemented prior to December 31, 2019.

Again, we appreciate and thank LAB for its constructive approach in working with WEDC's team.

Respectfully,



Mark R. Hogan  
Secretary and CEO