

May 6, 2015

Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 50
Madison, WI 53703

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's financial and program evaluation audits for Fiscal Year 2013-14. We respectfully request that this letter be included with the report.

The Wisconsin Economic Development Corporation (WEDC) was formed in response to a rigorous, forward-looking, non-partisan review of Wisconsin's economic development competitiveness. The guiding document, *Be Bold Wisconsin: The Wisconsin Competitiveness Study*, clearly indicated Wisconsin needed to take a more forward-looking bold approach to attracting, growing and retaining businesses within the state. Since its creation in 2011, WEDC has done just that through a business-like organizational structure and philosophy that implements best practices to position Wisconsin to continue to be the state of choice for companies seeking to start, grow or locate here.

Guided by the leadership of WEDC's bipartisan Board of Directors, the successes of WEDC in the relatively short period of time since its inception are undeniably impressive. While we recognize there have been lessons learned in the first few years of our organization, one cannot overlook the lasting impact WEDC has had on all aspects of the state economy. We are proud of the businesses that have relocated to Wisconsin or expanded here, the communities we have helped to transform, the entrepreneurs we have assisted, the driver industries that have been strengthened, and the partnerships that have been forged. Companies, investors and corporate real estate executives now view Wisconsin as a top-tier competitor when making relocation and expansion decisions. That accomplishment has been achieved through the efforts and support of the Legislature, WEDC's more than 600 partners around the state, WEDC's Board of Directors and its committees, and our organization's incredibly talented staff.

A key element of WEDC's strategy to strengthen the state's economy is to work closely with companies of all sizes and all key industry sectors to help grow the state's economy and create new jobs. Fostering job creation and retention is at the core of WEDC's mission and it is a responsibility we take very seriously – both in deciding which companies should receive awards as well as verifying that the job requirements in WEDC contacts are being attained. Some of the measures WEDC takes in that thorough process include:

- All WEDC applications receive a thorough review from WEDC's underwriting staff, which analyzes each project and each company to ensure the project meets program guidelines, to determine the company's financial stability,



and to assess the economic impact of the project. In FY15, WEDC staff reviews were expanded to measure the direct and indirect economic impact of retention, attraction and expansion awards, including the potential impact on state income tax collections.

- Following the underwriting review, all projects are presented to our Management Review Committee that looks at many of those same factors before deciding whether to commit to a project. Depending on the amount of the award and the program, projects require approval from the WEDC Awards Administration Committee or WEDC's bipartisan Board of Directors.
- It is important to understand that the decision date – the date in which an award receives final WEDC approval – essentially gives company officials the “green light” to move forward with a project because they have a firm commitment from the state on the amount of award and the corresponding requirements (jobs, capital investment, etc.) of that award. It is at this time that the company feels confident enough to proceed with making decisions regarding project location, securing financing commitments, and hiring of contractors and/or a project team to facilitate the project. This audit relied on a different method of evaluating our program administration. We feel strongly that our current practice is necessary to accommodate the needs of the companies we work with. Any change in that procedure could have a significant impact on WEDC's ability to negotiate contracts with companies and could hinder job creation efforts in the state.
- All companies receiving awards from WEDC are contractually required to meet certain objectives, which typically include job creation, job retention and/or capital investment.
- After a contract is awarded, recipients are required to submit annual reports to document their performance in meeting job creation/retention and other contract requirements. That report includes a verification form signed by an official representing the recipient, attesting to the accuracy of the information included in the performance report. In the case of job creation and retention, companies receiving tax credits also are required to provide payroll information documenting the company's employees and wages.
- WEDC completes an annual verification of a sample of awards consistent with Wisconsin law.

WEDC, which has been nationally recognized for its achievements in transparency, has consistently demonstrated its commitment to being open and accountable to the public, and to being careful stewards of the taxpayers' dollars. Specific measures WEDC has taken to be as completely transparent include:

- Providing online tools that enable the public to see the amount of the awards, and the job creation and retention data, capital investment and other data on each WEDC award. The tools on InWisconsin.com include an interactive map, a searchable database and downloadable spreadsheets. That data is updated quarterly.
- Documenting awards and performance in its annual report and in the Annual Report on Economic Development (Act 125) report, which is presented to the state Legislature.

WEDC's practice of full transparency was highlighted in an April 2014 report by the WISPIRG Foundation that examined how states rate in providing online access to government spending data. In the annual ranking, Wisconsin tied for sixth in providing online access and saw the biggest improvement in the country over last year. The report said: “Wisconsin is the only state that

provides complete information on the public benefits delivered by recipients of economic development subsidies.”

Our ongoing commitment to remain a national leader in transparency aligns with the strides WEDC has made over the last two years to strengthen our policies and procedures to enhance our accountability to taxpayers and other stakeholders. In addition to the steps outlined above to ensure that companies are complying with the requirements of their contracts, WEDC has implemented numerous other measures to increase the level of accountability, including:

- Reorganizing WEDC’s compliance functions and expanding staff to concentrate on compliance with state statutes and organization policies.
- Adopting process improvements to strengthen the financial award process, reporting and collections.
- Replacing an outdated financial management software system, inherited from the former Department of Commerce, with sophisticated technology to meet WEDC’s, tracking, reporting and collections objectives.
- Creating new Board committees with public members that are more involved in awards, policies, contracts and audits, and working with those committees to continuously review our policies and procedures to ensure they are efficient, effective and consistent with our accountability and transparency objectives.
- Implementing a more robust and targeted training system for our systems policies.

WEDC has experienced a significant amount of success as a result of these and other improvements to its processes and procedures over the last two years:

- An independent audit of the WEDC’s FY14 financial statements conducted by the accounting firm Sikich LLP found no material weaknesses or significant deficiencies in WEDC’s financial reporting.
- In April 2014, WEDC received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The certificate is the highest form of recognition in the area of governmental accounting and financial reporting.
- As noted in the FY14 LAB audit:
 - WEDC’s loan delinquency rates declined from December 2013 to December 2014. The delinquency rate as measured by payments decreased from 2.7% to 0.2%. The principal delinquency rate declined from 8.8% to 1.7%.
 - The balance of uncollectable loans decreased from \$5.5 million in December 2013 to \$1.3 million in December 2014.
 - The delinquency rate for performance reports declined from 55% in December 2012 to 5.4% in December 2014.

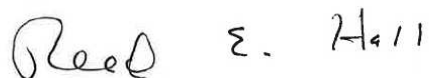
The transformative impact that WEDC’s programs have had on the state’s economic prosperity and the well-being of its citizens go well beyond job creation and retention. WEDC works with key partners in the state’s driver industries – such as energy, manufacturing, biotechnology, water technology, aerospace and food processing – to take a strategic approach to addressing issues and pursuing opportunities in each of those industries. We also are leading the way in spurring public-private collaboration to improve the potential for growth and global competitiveness in those industries.

In keeping with the vision outlined in the *Be Bold* report, WEDC was created to more quickly meet the needs of the Wisconsin business community and because of the way the organization is structured, it has the flexibility to develop innovative programs – such as Capital Catalyst, Seed Accelerator, Capacity Building and Community Investment Development programs – to serve businesses and other stakeholders.

We appreciate that the team of almost 20 LAB auditors who worked with us over a six-month period recognized many of the areas in which WEDC has made improvements to our internal processes and protocols. We firmly believe that we are balancing our ability to be responsive to the needs of business while being careful, responsible stewards of taxpayers' dollars. As we should, we are continuously looking at ways in which we can improve our processes or increase productivity, and we welcome the recommendations in this audit as another tool in that ongoing evaluation.

Economic development is not a “one size fits all” endeavor, and it is important that WEDC, while complying with statutory provisions, maintains the flexibility to evaluate each project on its own merits and have the ability to respond appropriately to help ensure investments and jobs stay or grow in Wisconsin. That core philosophy is critical to our mission and our ability to be successful in improving and strengthening Wisconsin's economy.

Thank you again for the opportunity to respond to this audit. We appreciate and welcome input from LAB as we continue to help move the state's economy forward.

A handwritten signature in dark ink, appearing to read "Reed E. Hall". The signature is written in a cursive, flowing style.

Reed E. Hall
Secretary & CEO

