

**WISCONSIN ECONOMIC DEVELOPMENT CORPORATION
COMPLIANCE PLAN**

Submitted to Joint Legislative Audit Committee

October 1, 2013

MEMO



To: Joint Legislative Audit Committee
From: Reed E. Hall, Secretary and CEO
Date: October 1, 2013

Re: Compliance Plan

Dear Senator Cowles and Representative Kerkman:

WEDC has worked diligently to improve the integrity of our systems and operations and I am pleased to report that, at this time, all recommendations from external reviewers—the Legislative Audit Bureau (LAB), recent statutory changes adopted by the Legislature in the State Budget, the Financial Institutions Products Corporation (FIPCO), and Schenck, SC.—have been addressed. In instances where new technology is required, WEDC is utilizing other methods to comply with the recommendations until the new systems are implemented. Where the recommendations refer to future reporting or compliance review requirements, WEDC is prepared for and will execute these reports and reviews as directed.

Provided in this memo is an inventory of the accountability measures WEDC has deployed over the last several months in response to our internal assessment and the recommendations made by the external reviewers. Below each of the recommendations provided by the external reviewers is a summary of WEDC's accountability measures deployed to date. Many of these summaries reference materials or policies accompanying this memo.

The entire staff at WEDC takes the matters raised relating to its accountability and operations very seriously. I am pleased with the work done to improve systems and operations and rectify deficiencies. The recruitment of a new CFO, Vice President of Credit & Risk, and the realignment of Compliance into the Legal Team, represent critical organizational changes that are benefiting WEDC greatly. With the implementation of new systems policies, committees of the Board, and forthcoming new technological systems, WEDC has fully deployed the accountability measures outlined herein and ensured compliance with statutory changes. WEDC will continue to work with our Board of Directors and Legislature to make any other necessary changes to the organization.

I want to thank WEDC's staff, many of whom have spent hundreds of hours to develop policies, processes and systems to address the shortcomings that occurred in the past. Without their talent and dedication, the achievements detailed in this memo would not have been possible.





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Note: Recommendations are presented in regular typeface with WEDC actions to date presented in italics, concurrent with the recommendations. In an effort to be exhaustive, duplicative recommendations from WEDC's various external reviewers are included in the following, resulting in some duplicative responses.

LEGISLATIVE AUDIT BUREAU WEDC REPORT– May 2013

1. Improving Program Administration – Grants and Loans (LAB Audit Report, May 2013, p. 33)

We recommend WEDC:

- a. Establish sufficient policies to administer its grant and loan programs effectively.

WEDC has implemented a comprehensive process for developing, reviewing, and approving the program guidelines that guide operation of WEDC's programs, including the loan and grant programs. [See Systems Policies: GOV ADM 126] At the July 23, 2013 Board meeting, the Board approved each of the program guidelines in conjunction with its approval of WEDC's annual operations plan. In addition, WEDC has adopted an Awards Administration Policy that covers the organization's underwriting guidelines, approval processes, and requirements for administering WEDC's award programs. [See Systems Policies: GOV ADM 121] The Board's Policy Committee and the full Board will review this policy.

- b. Award grants and loans only to eligible recipients, for eligible projects, and for amounts allowed by program policies.

WEDC has implemented a comprehensive process for developing, reviewing, and approving the program guidelines that guide operation of WEDC's programs. [See Systems Policies: GOV ADM 126] Each program guideline is reviewed by the Office of Public Policy, the Vice President of Credit & Risk, the CFO or Controller, and the Legal & Compliance Team, and approved by the division Vice President and the CEO. At the July 23, 2013 Board meeting, the Board approved the FY2014 program guidelines in conjunction with its approval of WEDC's annual operations plan. Along with the program guidelines, WEDC has created checklists of the statutory and policy requirements for each program. These checklists are used in underwriting each award. [See Checklists] In addition, WEDC has adopted an Awards Administration Policy that covers the organization's underwriting guidelines, approval processes, and requirements for administering WEDC's award programs. [See Systems Policies: GOV ADM 121] Finally, the legal and compliance teams have been combined as a Legal & Compliance Team, with Staff Counsel, compliance staff focused on program development, and a Risk Manager. The Risk Manager manages deployment of the Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109]



- c. Manage and oversee grant and loan contracts appropriately, including by complying with statutes by contractually requiring all recipients of grants and loans of at least \$100,000 to submit verified financial statements, by ensuring its contracts contain all provisions required by program policies, and by requiring award recipients to submit documentation indicating that they incurred contractually authorized costs.

The legal and compliance teams have been combined as a Legal & Compliance Team, with Staff Counsel, compliance staff focused on program development, and a Risk Manager. The Risk Manager manages an Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109] In addition, WEDC has devoted staff to oversee the collection and management of verified statements and schedules of expenditures. WEDC has also implemented a policy for taking action when a recipient is noncompliant with reporting requirements. [See Systems Policies: C&R 103]

2. Improving Program Administration – Tax Credits (LAB Audit Report, May 2013, p. 47)

We recommend WEDC:

- a. Establish all statutorily-required policies for its tax credit programs, as well as sufficient additional policies to administer its tax credit programs effectively.

The FY2014 Operations Plan, approved by WEDC's Board on July 23, 2013, contains the statutorily required policies for each program. WEDC has implemented a comprehensive process for developing, reviewing, and approving all of the program guidelines that guide the operation of WEDC's programs, including the tax credit programs. [See Systems Policies: GOV ADM 126] In addition, WEDC has adopted an Awards Administration Policy that covers the organization's underwriting guidelines, approval processes, and requirements for administering WEDC's award programs. [See Systems Policies: GOV ADM 121]

- b. Allocate tax credits only to eligible recipients, for eligible projects, and for amounts allowed by program policies.

WEDC has implemented a comprehensive process for developing, reviewing, and approving the program guidelines that guide operation of WEDC's programs. [See Systems Policies: GOV ADM 126] At the July 23, 2013 Board meeting, the Board approved the program guidelines in conjunction with its review of WEDC's FY2014 operations plan. Along with the program guidelines, WEDC has created checklists of the statutory and policy requirements for each program. These checklists are used in underwriting each award. [See Checklists] In addition, WEDC has adopted an Awards Administration Policy that covers the organization's underwriting guidelines, approval processes, and requirements for administering WEDC's award programs. [See Systems Policies: GOV ADM 121] Finally, the legal and compliance teams have been combined as a Legal & Compliance Team, with Staff Counsel, compliance staff focused on



program development, and a Risk Manager. The Risk Manager manages deployment of the Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109]

- c. Manage and oversee tax credit contracts appropriately, including by ensuring that its contracts contain all provisions required by program policies and allocating tax credits only for projects that have not yet occurred.

WEDC has implemented a comprehensive process for developing, reviewing, and approving all of the program guidelines that guide operation of all WEDC's programs. [See Systems Policies: GOV ADM 126] At the July 23, 2013 Board meeting, the Board approved the program guidelines in conjunction with its review of WEDC's annual operations plan. Along with the program guidelines, WEDC has created checklists of the statutory and policy requirements for each program. These checklists are used in underwriting each award. [See Checklists] In addition, WEDC has adopted an Awards Administration Policy that covers the organization's underwriting guidelines, approval processes, and requirements for administering WEDC's award programs. [See Systems Policies: GOV ADM 121] Finally, the legal and compliance teams have been combined as a Legal & Compliance Team, with Staff Counsel, compliance staff focused on program development, and a Risk Manager. The Risk Manager manages deployment of the Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109]

3. Improving Accountability – Statutory Compliance (LAB Audit Report, May 2013, p. 58)

We recommend that WEDC's governing board comply with statutes by:

- a. Developing at least one expected result related to each of the goals of all economic development programs that it administers.

All FY2014 economic development programs included in WEDC's annual operations plan approved by the Board on July 23, 2013 include at least one expected result related to each program goal. WEDC has implemented a comprehensive process for developing, reviewing, and approving all of the program guidelines that guide operation of WEDC's programs to ensure statutory compliance and fiscal responsibility. [See Systems Policies: GOV ADM 126]

- b. Ensuring that award recipients submit contractually required progress reports.

WEDC has adopted a comprehensive internal systems policy for tracking whether award recipients have submitted required performance reports and detailing the required follow-up actions when reports are not submitted on time. [See Systems Policies: C&R 103] WEDC has also created and filled the Business Analyst position to oversee the implementation of this new policy to ensure timely and accurate performance reporting.



- c. Annually verifying the performance information reported by the recipients of a sample of grants and loans.

WEDC's new Business Analyst and Vice President of Credit & Risk will be providing the previously absent support on a daily basis to ensure WEDC data is consistently maintained and annually verified on performance reports. WEDC has also adopted a comprehensive Internal Audit Policy requiring regular reviews and audits of performance reports to ensure accuracy and compliance with statutory requirements. [See Systems Policies: L&C 109] WEDC has created and filled the Risk Manager position charged with implementation of the policy to ensure accurate information is reported. In addition, the new Contracts Committee of the Board has been created, in part, to review and verify samples of information provided by awards recipients to ensure compliance with statutory requirements. [See Charters: Contracts Committee Charter]

- d. Ensuring that the annual economic development program report presents clear, accurate and complete information on each program's results, including separate numbers of actual jobs created and actual jobs retained in the prior fiscal year.

WEDC has created an internal Act 125 Steering Committee to ensure that the annual development report includes clear, accurate, and complete information on each program and separate numbers for actual jobs created and actual jobs retained. [See Act 125 Strategy Memo] WEDC's new Business Analyst and Vice President of Credit & Risk will also be providing the previously absent support on a daily basis to ensure WEDC data is consistently maintained.

4. Improving Financial Management (LAB Audit Report, May 2013, p. 64)

We recommend that WEDC:

- a. Monitor expenditures of its divisions and economic development programs.

WEDC's finance team now reviews expenditures monthly for proper monitoring. The team also closely works with all divisions now to reconcile account balance and keep divisions informed of those balances. [See Systems Policies: FIN 102 & FIN 105]

- b. Establish an annual budget that accurately specifies the amount of funds available to each of its divisions and economic development programs.

At the July 23, 2013 Board meeting, the Board approved a comprehensive FY2014 budget with funds allocated by both division and program. In addition, each quarter, the Board is now presented updated financials, including actual spending and forecasted spending compared to budgeted amounts for review. Budget amendments transferring funds from one division to another or from one program to another are now brought to the Board for approval.



- c. Finalize its financial accounts in a timely manner.

WEDC's CFO has instituted controls for data entry, and is performing a monthly reconciliation and review of activities to ensure transactions are posted properly and timely. [See Systems Policies: FIN 105 & FIN 107]

- d. Provide annual audited financial statements for inclusion in the State of Wisconsin's Comprehensive Annual Financial Report.

WEDC has hired a CFO and Controller, both with substantial experience in the preparation of governmental financial statements. This staffing combined with regular reconciliations of accounts will ensure timely completion of financial statements so they can be incorporated into the State of Wisconsin's CAFR.

5. Vendor Selection/Procurement Policy (LAB Audit Report, May 2013, p. 67)

We recommend that WEDC develop procurement policies that specify situations in which proposals should be solicited from multiple vendors, how those proposals are to be evaluated, and how vendors' potential conflicts of interest are to be assessed.

WEDC has adopted a robust Procurement Policy addressing these issues. [See Systems Policies: GOV ADM 101 & L&C 105]

6. Purchasing Cards (LAB Audit Report, May 2013, p. 73)

We recommend WEDC limit the number of staff who have purchasing cards, close the accounts of unused or seldom used purchasing cards, and develop purchasing card policies that:

- a. Specify how credit limits and single-purchase limits will be established for all purchasing cards.
- b. Specify the types of purchasing card transactions that are unallowable.
- c. Require staff to explicitly document the business-related purpose for each purchase made with a purchasing card.
- d. Prohibit staff from paying state and local sales tax on purchasing card transactions in Wisconsin.

WEDC has adopted a revised procedure for issuing purchase cards to staff, as covered by the Credit Card Policy. [See Systems Policies: FIN 100] In addition, WEDC has adopted a Travel and Expense Reimbursement Policy. [See Systems Policies: HR 400] WEDC has trained management and staff extensively on both policies to alleviate these concerns about purchasing cards. Finally, credit cards have been revoked from 17 staff deemed to have insufficient need for having one assigned.

7. Improving Accountability - Personnel (LAB Audit Report, May 2013, p. 83)

We recommend WEDC's governing board assess:



- a. The personnel administration and procedure manual and determine whether any modifications are needed.

Authorized by the Board on July 23, 2013, the WEDC Board's new Policy Committee will formally review all of WEDC's systems policies, including personnel policies. The Policy Committee will decide whether to direct changes be made or refer the policies to the full Board for review and approval. [See Charters: Policy Committee Charter and Compensation & Benefits Committee Charter]

- b. The October 2011 salary ranges, determine whether any modifications are needed, and determine how the salary ranges should be used to guide future salary increases.

The Compensation & Benefits Committee met with WEDC's human resources consultant, MRA, on October 2, 2011 to review salary ranges. In the spring of 2012, MRA completed an updated review of all staff positions at WEDC, compared position descriptions to the latest available market data and recommended pay ranges for all positions. The Compensation & Benefits Committee reviewed those recommended changes at its meeting on December 19, 2012 and utilized them when setting the CEO salary on February 8, 2013. These pay ranges are attached to the Compensation and Performance Award Strategy that were reviewed and approved by the full Board on July 23. [See Compensation and Performance Award Strategy]

- c. The merit strategy and determine whether additional criteria need to be considered before staff are provided with bonuses.

The Compensation & Benefits Committee met on June 27, 2013 and reviewed the Compensation and Performance Award Strategy which includes the Merit Awards Program. At the July 23, 2013 Board meeting, the Board approved the Strategy with changes following a recommendation for approval by the Compensation & Benefits Committee. [See Compensation and Performance Award Strategy]

- d. The policy for reimbursing staff for purchasing iPhones, determine whether any modifications are needed, and require WEDC to document the policy in the employee handbook and personnel administration and procedure manual.

The iPhone policy is included in WEDC's organizational systems policies, which will be reviewed by the Board's Policy Committee and the Board. [See Systems Policies: IT 300]

8. Conflicts of Interest/Gifts (LAB Report, May 2013, p. 88)

We recommend that WEDC develop policies for tracking and handling gifts received by its staff and include the policies in the personnel administration and procedure manual.



WEDC has implemented a policy on accepting and tracking items of value, which will be reviewed by the Board's Policy Committee and the Board. [See Systems Policies: L&C 100] All divisions have designated a particular staff member to track gifts. That staff member reports gifts to the Legal & Compliance team, which tracks gifts organization wide for internal monitoring and reporting, and external reporting requirements.

9. Reporting Requirements (LAB Report, May 2013, p. 90)

We recommend WEDC's governing board ensure that all statutorily-required reports to the Legislature and the State of Wisconsin Investment Board are submitted on time and contain the statutorily-required information.

WEDC has created a reporting calendar that alerts appropriate staff along with members of the Legal & Compliance Team in advance of the report's due date. WEDC has created a reporting steering committee comprised of representatives of the Credit & Risk, Legal & Compliance, Office of Public Policy, and Marketing teams. One of the Legal & Compliance team members on this steering committee has been identified as WEDC's reporting specialist to help ensure all reports contain statutorily and policy required information and are submitted timely. [See Act 125 Strategy Memo]

10. Creation of Non-profit Foundation (LAB Report, May 2013, p. 92)

We recommend WEDC's governing board report to the Joint Legislative Audit Committee by July 15, 2013, on its plans to create a non-profit foundation.

This report was submitted to the Committee on July 25, 2013 after receiving a requested extension of the deadline so that WEDC's Board could review the materials at its July 23, 2013 meeting. [See Extension Letter from Joint Audit Committee]

11. Report to Joint Legislative Audit Committee – Loans (LAB Report, May 2013, p. 93)

We recommend WEDC's governing board report to the Joint Legislative Audit Committee by October 1, 2013 on the status of all outstanding economic development loans for which it was responsible from January 2013 through September 2013, including the number and outstanding balance of loans it referred to the Department of Justice for collection proceedings, and the number and outstanding balance of loans it wrote off.

The requested report on the status of loans has been submitted simultaneously with this report to the Committee.

12. Report to Joint Legislative Audit Committee – Statutes (LAB Report, May 2013, p. 93)

We recommend WEDC's governing board report to the Joint Legislative Audit Committee by October 1, 2013, on the status of efforts to comply with statutes by:



- a. Creating all required economic development program rules.

A compilation of all WEDC program guidelines, which cover each program's statutory and policy requirements were reviewed and approved by the Board on July 23, 2013.

- b. Stipulating contractually that all recipients of grants and loans over \$100,000 or more must provide WEDC with a verified financial statement describing how the funds were spent and ensuring that recipients submit the verified financial statements.

Procedures have been implemented to ensure that all grants and loans over \$100,000 include the verified statement and schedule of expenditures requirement. In addition, the newly created and filled Risk Manager has developed an Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109]

- c. Developing at least one expected result for each of the goals of all economic development programs that it administers.

All FY2014 programs have at least one expected result as shown in the program guidelines included in the Operations Plans approved by WEDC's Board at its July 23, 2013 meeting.

- d. Ensuring that recipients of economic development grants and loans submit the contractually required progress reports.

WEDC has developed a new position, the Business Analyst, who works under the supervision of the Vice President of Credit & Risk. The Business Analyst is charged with monitoring and tracking WEDC's performance reporting and implementing the related policies to obtain statutorily required information in a timely manner. WEDC has also adopted a policy for taking action when a recipient is noncompliant with reporting requirements. [See Systems Policies: C&R 103]

- e. Annually verifying the performance information reported by the recipients of a sample of grants and loans

WEDC has created an Internal Audit Policy, which will be administered by the Risk Manager in collaboration as needed with the Vice President of Credit & Risk and CFO. [See Systems Policies: L&C 109] Part of this plan is a review by the Contracts Committee of the Board to verify reporting information from award recipients. [See Charters: Contracts Committee Charter]



- f. Ensuring the annual economic development program report presents clear, accurate, and complete information on each program's results.

The Reporting Steering Committee will ensure that the Act 125 Report is clear, accurate, and complete for each program. In addition, the Board reviewed and approved the Act 125 Report at its September 25, 2013 Board meeting. [See Act 125 Strategy Memo]

This Compliance Plan satisfies LAB's recommendation for submitting a report with the above information.

LAB SINGLE AUDIT – FY 2011-12

1. Monitoring of State Energy Program Recipients (LAB Single Audit, FY 2011-12, p. 39)

We recommend the Wisconsin Department of Administration work with WEDC to ensure that monitoring of loan and grant recipients is performed and documentation maintained.

WEDC provides a monthly loan portfolio to DOA and continues to take DOA's direction on proper monitoring and documentation of loan and grant recipients.

2013-15 STATE BUDGET

1. New Reporting Requirements (2013-15 State Budget)

WEDC's annual report submitted to the Joint Legislative Audit Committee must now include:

- a. An accounting of the location, by municipality, of each job created or retained in the state in the previous fiscal year as a result of the program;
- b. An accounting of the industry classification, by municipality, of each job created or retained as a result of the program;
- c. The amount of tax benefits allocated and verified under the program;
- d. The recipients of tax benefits allocated and verified under the program.

Requires the following additional information to be submitted to the Joint Legislative Audit Committee by October 2013:

- a. The status of WEDC's efforts to comply with creating all required economic development program rules or policies and procedures;
- b. Contractually requiring that all grants and loans over \$100,000 provide a verified financial statement;
- c. Creating at least one expected result for each of the goals of all economic development programs;



- d. Ensuring that fund recipients are submitting all required progress reports;
- e. Conducting annual sampling to verify grant and loan report accuracy;
- f. Ensuring that WEDC's economic development reports have clear and concise information;
- g. A detailed update on loans WEDC was responsible for from January 2013 through September 2013.
- h. No later than October 1, 2013, a report to the Joint Legislative Committee describing in detail the status of all programs WEDC was responsible for between January 1 and September 30, 2013. Reports are to specifically include the number and balance of loans WEDC amended, forgave, referred to department of justice for collection proceedings

WEDC has taken the following steps to ensure compliance with all new statutory requirements: WEDC is replacing Commerce's outdated technological system with sophisticated technology for managing awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. This new system will allow for better capturing of data and generation of reports. WEDC is also soliciting proposals for a new financial accounting system which is expected to provide better functionality and integration options than the system currently in place. Proposals for the financial accounting system are due on October 9, 2013. In addition, WEDC has created a reporting steering committee comprised of representatives of the Credit & Risk, Legal & Compliance, Office of Public Policy, and Marketing teams. One of the Legal & Compliance team members on this steering committee has been identified as WEDC's reporting specialist to help ensure all reports contain statutorily and policy required information and are submitted timely. [See Act 125 Strategy Memo] All of the required information and reports will be submitted when due.

2. Contracting (2013-15 State Budget)

Recipients of grants or loans over \$100,000 must submit a schedule of expenditures within 120 days following the end of the recipient's fiscal year.

The legal and compliance teams have been combined as a Legal & Compliance Team, with Staff Counsel, compliance staff focused on program development, and a risk manager. The Risk Manager has developed an Internal Audit Policy, under which internal audits will be performed regularly to ensure requirements are being followed. [See Systems Policies: L&C 109] Finally, WEDC has devoted staff to oversee the collection and management of the schedules of expenditures. WEDC has also implemented a policy for taking action when a recipient is noncompliant with reporting requirements. [See Systems Policies: C&R 103]

3. Annual Audit Requirement (2013-15 State Budget)

Requires the WEDC Board to have an independent annual audit of WEDC's financial statements for each fiscal year to be provided to the Legislature and the Joint Legislative Audit Committee.



This is already established practice. Following a recommendation by the Board's Audit Committee, the Board approved hiring Sikich as the independent auditor for FY2013. [See Charters: Audit Committee Charter] WEDC will continue to have an independent audit completed each fiscal year and will provide the audit to the Legislature and Joint Legislative Audit Committee.

4. Creation of Non-profit Foundation or Other Entity (2013-15 State Budget)

Prior to the creation of any WEDC nonprofit foundation, the CEO of WEDC must submit a request to the Legislative Joint Finance Committee to undertake such action.

WEDC is currently preparing this request to the Joint Finance Committee prior to any further action on creating the nonprofit foundation.

5. State Ethics Law (2013-15 State Budget)

All WEDC employees will be subject to the state ethics laws and will be required to file an annual statement of economic interest.

WEDC's policies have been implemented in accordance with this new statutory requirement. [See Systems Policies: L&C 105] The Government Accountability Board provided mandatory training sessions for all employees on the state ethics code.

6. Procurement Policies (2013-15 State Budget)

The WEDC Board shall adopt procurement policies that specify when the corporation is required to publicly solicit proposals from multiple vendors, how multiple proposals will be evaluated, and how WEDC will assess any conflicts of vendors.

WEDC's new procurement policy complies fully with these new statutory requirements. [See Systems Policies: GOV ADM 101 & L&C 105]

FIPCO REVIEW – December 2012

1. Salesforce Management (FIPCO Review, December 2012, p. 3)

A staff member should be appointed as manager of the Salesforce system with direction to make the application uniform, consistent, and user friendly for each division. This responsibility should include identification of user needs, organization-wide training, and potential integration opportunities with other systems. The objective would be to enhance it to meet the CRM needs of all departments and enforce its use.



WEDC employs a Salesforce.com Systems Administrator who now provides technical assistance to the entire organization on Salesforce.com administration. The Chief Information Officer oversees the implementation and management of the Salesforce.com system. Salesforce.com user groups, comprised of staff from each division, have been created to maximize organizational effectiveness through integration of the Salesforce.com tool with business processes. [See Salesforce Super Users Group Team Charter] Over the last ten months, hundreds of hours have been expended by WEDC staff to align Salesforce with internal business processes.

2. Intacct Integration (FIPCO Review, December 2012, p. 4)

The Intacct software was selected based on its ability to integrate to Salesforce, but integration has not been implemented. Intacct is still early in the adoption phase. Further research and development should be completed to determine if ongoing use and integration with Salesforce is feasible or if the product should be replaced.

After much research and review, it was decided that the ultimate outcome of the RFP for a new IT system would weigh heavily on the future of the Intacct system at WEDC. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. WEDC is also soliciting proposals for a new financial accounting system which is expected to provide better functionality and integration options than the system currently in place. Proposals for the financial accounting system are due on October 9, 2013.

3. Loan Tracking and Management Software (FIPCO Review, December 2012, p. 4)

Until policy and process are defined, more extensive research and system comparisons should be done for system direction. FIPCO and WEDC staff have initiated research and development with other state EDCs and agencies. Multiple systems may be needed to replace Pearl for effective tracking of loans, tax credits, grants, documentation, and exception reporting.

After extensive research and systems comparisons, WEDC decided to replace Commerce's outdated technological system with sophisticated technology for managing awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. This new technology will ensure WEDC can capture, track, monitor, and report on all awards and the performance of award recipients. WEDC is also soliciting proposals for a new financial accounting system which is expected to provide better functionality and integration options than the system currently in place. Proposals for the financial accounting system are due on October 9, 2013.



4. **Loan Accounting** (FIPCO Review, December 2012, p. 5)

Commercial banks use software designed specifically for the purpose of accounting for individual loans and for loan portfolio performance reporting.

WEDC is replacing Commerce's outdated technological system with sophisticated technology for managing awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. This new technology will ensure WEDC can capture, track, monitor, and report on all awards and the performance of award recipients. WEDC is also soliciting proposals for a new financial accounting system which is expected to provide better functionality and integration options than the system currently in place. Proposals for the financial accounting system are due on October 9, 2013.

5. **Financial Statement Analysis** (FIPCO Review, December 2012, p. 6)

Community banks have enhanced the quality of loan underwriting by adopting financial statement analysis (FSA) software. FSA software calculates financial ratios, cash flows, financial comparisons, averages, and industry comparisons. It enhances the underwriter's ability to incorporate large amounts of financial data without needing additional time and improves credit risk evaluation.

WEDC is replacing Commerce's outdated technological system with sophisticated technology for managing awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected.

6. **Document Exception Tracking** (FIPCO Review, December 2012, p. 6)

Most banks deal with this issue by using special software which tracks required documents, reporting requirements, and exceptions caused by failure to receive necessary items when due. The reporting can be done based on multiple sorting criteria.

WEDC is replacing Commerce's outdated technological system with sophisticated technology for managing awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. This new technology will ensure WEDC can capture, track, monitor, and report on all awards and the performance of award recipients.



7. **Policy Committee** (FIPCO Review, December 2012, p. 6)

While the proposed Committee addresses the need for “establishing agreement on the content of...policies,” it only mentions this briefly. However, this should be well defined as a very specific process. Policy development should begin only after there is a clear understanding of policy focus, intent, and scope.

WEDC has implemented a new Policy Development and Approval Policy. The policy establishes an internal staff committee to develop and review needed policies and assess the necessity, scope, intent, focus, and ownership of each policy. Those policies are then submitted to the CEO for approval subject to review by the Board's Policy Committee and approval by the full Board. Upon review after the CEO's approval, the Policy Committee may direct changes be made to the policy or forward it to the full Board for review and approval. [See Systems Policies: GOV ADM 100; Charters: Policy Committee]

8. **Compliance Management** (FIPCO Review, December 2012, p. 7)

It is recommended Compliance Management be assigned Division status and no longer be a subsection of the CFO area. The Compliance Division would serve as an organizational focal point for ensuring adherence to internal policies.

WEDC has restructured the compliance team to establish it outside of the area supervised by the CFO by creating a Legal & Compliance Team headed by the Chief Legal Counsel & Compliance Officer who reports directly to the CEO. To meet the increasing reporting requirements, the team has added a Staff Counsel position, for a total of two, a Regulatory Compliance & Risk Manager, a Regulatory Compliance & Legal Specialist, and a Risk Manager.

9. **Credit Administration VP** (FIPCO Review, December 2012, p. 8)

As an interim step only, the CEO should consider appointment of a VP of Credit Administration. The primary function of this person would be to ensure that all approved proposals for loans, grants, and tax credits are processed, recorded, and booked in a consistent manner in all respects.

WEDC hired a Vice President of Credit & Risk Award Administration charged with overseeing those functions identified by FIPCO. This Vice President also works with the Awards Administration Committee of the Board and oversees WEDC's performance reporting systems.



10. Committees (FIPCO Review, December 2012, p. 8)

It is recommended the Management Review Committee be split into two separate committees. The Management Review Committee to deal with operational and policy issues and a new WEDC Credit Committee.

WEDC has complied with this recommendation by creating an Awards Administration Committee. MRC is used for procurements in addition to approvals of awards by management. [See Charters: Awards Administration Committee Charter; See Systems Policies: GOV ADM 101 & GOV ADM 121]

11. Duplicative Reporting (FIPCO Review, December 2012, p. 9)

Effort should be made to simplify/reduce the amount of essentially duplicative reporting. Efficiencies could be gained by implementation, integration and alterations in the systems utilized.

To optimize external reports, many steps have been taken. Perhaps most importantly, WEDC is replacing Commerce's outdated technological system with sophisticated technology for managing our awards and recipients' compliance with their contracts. The RFP for a new system, previously distributed to WEDC's Board on June 7, 2013, was issued in June and a vendor has been selected. In addition, WEDC has created a reporting steering committee comprised of representatives of the Credit & Risk, Legal & Compliance, Office of Public Policy, and Marketing teams. One of the Legal & Compliance team members on this steering committee has been identified as WEDC's reporting specialist to help ensure all reports contain statutorily and policy required information and are submitted timely. [See Act 125 Strategy Memo]

Staff also recommends a legislative initiative to align WEDC's statutorily required reporting schedules with the State's (and WEDC's) fiscal year. Currently, WEDC must submit its annual operations plan to the Legislature by January 1. However, WEDC cannot finalize the budget and plan development underlying the operations plan until the State approves WEDC's budget, which normally occurs by July 1.

12. Loan Risk Rating System (FIPCO Review, December 2012, p. 9)

WEDC should consider the development and adoption of a loan risk rating system in order to identify the risk profile of the organization.

WEDC staff had concerns that this recommendation was not appropriate, due to the nature of WEDC's business. After discussing with FIPCO and the consultant with which FIPCO was working, they had a much better understanding of the awards that WEDC provides. Their initial idea of a loan risk rating system was solely based on numerical data such as loan-to-value ratios, credit scores, global cash flow ratios, etc. While WEDC does take these factors into consideration, WEDC also considers non-numerical information when underwriting awards such as job creation, capital



investment, business need, economic distress of area, etc. Based on this, the decision was made to not incorporate a rating system, but to instead include “factors considered to determine award” into program policies.

13. Loan Review Service (FIPCO Review, December 2012, p. 9)

WEDC should consider the engagement of an independent third party loan review service.

After consideration of this recommendation, WEDC decided to instead create an Awards Administration Committee, comprised of WEDC Board members, WEDC management officials, and individuals from outside WEDC who have extensive banking experience. [See Charters: Awards Administration Committee Charter]

SCHENCK AUDIT – June 2012

1. Control System (Schenck Audit, June 2012, p. 3)

Establish an effective and efficient control system for receipting and depositing of collections and other revenues, disbursement of program loan and grant payments, development and distribution of financial reports.

WEDC reviews expenditures monthly, reconciles the accounts, has developed financial reports for regular distribution to management and Board members, and has improved communication with other divisions and management. In addition, numerous financial policies provided to the Board on July 23, 2013 addressed all of the financial issues identified by our outside reviewers. [See Systems Policies: FIN 100-115]

2. Control Accounts (Schenck Audit, June 2012, p. 4)

Establish procedures to record loans transactions monthly to the control accounts and the individual loans in the separate software systems. In addition, procedures should be established to provide for timely completion of applicable reviews and to reconcile balances in the control accounts on a monthly basis to the balances in the separate loan tracking system.

The finance team now performs monthly reconciliations from the financial software to the separate loan tracking system for all disbursements, receipts, and balances. In addition, numerous financial policies provided to the Board on July 23, 2013 addressed all of the financial issues identified by our outside reviewers. [See Systems Policies: FIN 100-115]



3. **Processing Accounting Journal Entries** (Schenck Audit, June 2012, p. 5)

Develop written procedures for the processing of accounting journal entries. The procedures should include maintaining adequate supporting documentation and providing for the review and approval by someone other than the preparer.

WEDC has adopted a more comprehensive policy on journal entries. [See Systems Policies: FIN 107] All journal entries are prepared by staff and reviewed and approved by the Controller or CFO in the Controller's absence.

4. **Credit Cards** (Schenck Audit, June 2012, p. 5)

Develop procedures to enforce the approval requirement of credit card transactions. In addition, we suggest the corporation review the entire policy regarding the issuance and use of credit cards to employees for possible revisions or clarifications.

WEDC has adopted a revised procedure for issuing purchase cards to staff, as covered by the Credit Card Policy. [See Systems Policies: FIN 100] In addition, WEDC has adopted a Travel and Expense Reimbursement Policy and trained management and staff extensively on it to alleviate these concerns. [See Systems Policies: HR 400] Finally, credit cards have been revoked from 17 staff deemed to have insufficient need for having one assigned.

5. **Cash Management and Investments** (Schenck Audit, June 2012, p. 6)

Develop and approve specific policies for cash management and investments.

WEDC has adopted a Cash and Investments Policy. [See Systems Policies: FIN 112]

6. **Fraud Risks** (Schenck Audit, June 2012, p. 6)

Complete an evaluation of known fraud risks. Design procedures to minimize known fraud risks. Known fraud risks should be communicated to the appropriate committee or Board of Directors.

WEDC has created an Internal Audit Policy, which, among other things, evaluates fraud risks, and designs a procedure to minimize, and notifies appropriate management about those risks. [See Systems Policies: L&C 109]