

December 22, 2015

Senator Rob Cowles  
118 South State Capitol  
Madison, WI 53707

Representative Samantha Kerkman  
315 North State Capitol  
Madison, WI 53708

Dear Senator Cowles and Representative Kerkman:

Enclosed please find a spreadsheet identifying each of the recommendations from the Legislative Audit Bureau's Report 15-3, along with WEDC's initial and updated responses. This report complies with the final recommendation from LAB that WEDC submit to the Joint Legislative Audit Committee by February 1, 2016 a report on WEDC's "efforts to implement each of [LAB's] recommendation." Our Board of Directors unanimously approved these responses at our December 17, 2015 meeting.

Two items I would like to highlight for you:

1. Use of Contract Date instead of Decision Date: WEDC will begin to implement the systematic changes required to begin using the contract execution date, instead of the initial approval date, as the effective date for administering our awards and applying policies and statutes. The change will be implemented at the start of the coming fiscal year, July 1, 2016.
2. Jobs Reporting Verification: WEDC verifies jobs by collecting performance data, the accuracy of which is attested by the award recipient; collecting payroll data from tax credit recipients; and verifying a sample of performance reports. To supplement these efforts, beginning in Calendar Year 16, WEDC will work with an external auditor to conduct a review of the jobs reporting verification process employed by WEDC.

We appreciate the opportunity to respond to LAB Report 15-3. These recommendations, along with the ones presented by the Center for Regional Economic Competitiveness, are valued resources as we develop our strategic approach of continuous process improvement for the organization. The loan delinquency report that is also due will be provided in January, once the second quarter numbers are finalized.

If you have any questions about our responses or would like additional information, please let me know.

Kind regards,



Mark R. Hogan  
Secretary and CEO



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## FY14 LAB Audit 15-3 Recommendations and WEDC Response Updates

Financial Assistance Programs					
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1.	23	We recommend the Wisconsin Economic Development Corporation execute a grant or loan contract only after a full staff review has been completed for the program through which the award is made.	<p><i>WEDC executes awards only after all necessary reviews are completed and approvals obtained according to its Awards Administration Policy. The awards underlying this recommendation were approved in 2011 or 2012. In 2013, WEDC implemented processes and policies that enhanced the requirements and, importantly, the controls to which awards and their staff reviews are subject.</i></p> <p><i>The primary means of documenting the details on an award is the staff review. However, as noted in the report, WEDC also relies on formal memoranda reviewed and approved through the Management Review Committee (MRC) process when necessary for handling any ancillary matters related to an award. These may include matters that were not covered in or arose after the staff review was completed. We will continue to evaluate this and other processes and policies for areas of improvement, including how to most effectively handle matters related to awards that arise after a staff review has been completed.</i></p>	<i>In July 2013, WEDC implemented a process requiring staff reviews to be performed for all awards.</i>	<i>Vice President of Credit &amp; Risk</i>
2.	24	We recommend the Wisconsin Economic Development Corporation execute only grant and loan contracts that contain all statutorily required provisions.	<i>WEDC's loan and grant contracts include all statutorily required language, including specifically the statutorily required remedies provisions. As LAB acknowledges in its report, that the contracts' remedies provision uses the word "may" instead of "shall" does not in any way affect WEDC's legal ability to enforce a clawback. The language used by WEDC is consistent with the statutes.</i>	<i>As of December 1, 2015, WEDC's contract templates have been updated to include a section covering penalties it shall pursue and penalties it may pursue, as provided by statutes.</i>	<i>Chief Legal Counsel &amp; Compliance Officer</i>
3.	26	We recommend the Wisconsin Economic Development Corporation ensure staff reviews evaluate all grant and loan program policy requirements; and execute only grant and loan contracts that comply with its program policies.	<p><i>WEDC's awards comply with the program guidelines that were effective at the time the original decision is made to approve the award and a letter of intent or award letter sent to the recipient. All of the awards underlying this recommendation were decided prior to adoption of the FY13 and FY14 program guidelines.</i></p> <p><i>WEDC has continued the longstanding Department of Commerce practice of administering awards based on the decision date. The decision date is the date on which the award is originally approved by management. This occurs after it has been underwritten. At that time, a chain of events surrounding the award is triggered, including encumbering funds and sending a letter of intent to the recipient. The letter of intent outlines the basic terms of the agreement and is signed by the recipient. WEDC applies the guidelines and policies as they existed at the time of the original decision date and the letter of intent or award letter is sent. Awardees rely on this date to assure business certainty in planning projects.</i></p>	<i>By July 1, 2016, WEDC will implement modified processes and procedures to shift our administration of awards from being based on the original decision date to the contract execution date. This will align with LAB's recommendation and a recommendation forthcoming from the Center for Regional Economic Competitiveness. Implementing this shift in award administration will require changes to approval procedures, WEDC's technology systems that track awards, and WEDC's financial systems. It will also necessitate training with staff and communications with stakeholders who have always relied on the original decision date as the controlling date.</i>	<i>Vice President of Credit &amp; Risk; Chief Legal Counsel &amp; Compliance Officer</i>
4.	27	We recommend the Wisconsin Economic Development Corporation contractually require grant and loan recipients to submit information showing that jobs were actually created and retained.	<i>Grant and loan recipients submit to WEDC performance reports documenting the number of jobs created and retained. An official of the recipient must sign the report, attesting to its accuracy. In addition, WEDC conducts an annual award verification on a sample of performance reports to verify the accuracy of the reports.</i>	<i>In FY16, WEDC will be hiring an independent auditor to verify the accuracy of the jobs reported by WEDC, in addition to auditing WEDC's financial statements. The results will be included in the audit presented to WEDC's Audit Committee of the Board and the full Board of Directors in the fall of 2016.</i>	<i>Vice President of Credit &amp; Risk</i>
5.	31	We recommend the Wisconsin Economic Development Corporation: determine the loan balance for each of those loans that were amended to defer repayments, written off, or forgiven during each six-month period thereafter; determine each of those loans that were no longer 90 days or more past due during each six-month period thereafter because the recipient made loan repayments; determine the payment delinquency rate and the principle delinquency rate on July 1, 2015, and six months later and on January 1, 2016, and six months later; report this information to the Joint Legislative Audit Committee by February 1, 2016, for the six-month period from July 2015 through December 2015; and report this information to the Joint Legislative Audit Committee by August 1, 2016, for the six-month period from January 2016 through June 2016.	<i>WEDC will, by February 1, 2016 and again by August 1, 2016, provide the Joint Legislative Audit Committee a copy of the quarterly loan delinquency reports routinely submitted to WEDC's Board of Directors; and will comply with any additional requests by that Committee.</i>	<p><i>Starting January 1, 2016, WEDC will prepare monthly loan delinquency reports, which are prepared within 30 days of the previous month for internal review.</i></p> <p><i>WEDC will continue to prepare quarterly loan delinquency reports to be presented to the WEDC Board of Directors at each quarterly Board meeting.</i></p> <p><i>WEDC will, by February 1, 2016, provide to the Joint Legislative Audit Committee updated quarterly loan delinquency reports covering the period of July 1, 2015 to December 31, 2015. WEDC will also, by August 1, 2016, provide to the Joint Legislative Audit Committee updated quarterly loan delinquency reports covering the period of January 1, 2016 to June 30, 2016.</i></p>	<i>Vice President of Credit &amp; Risk; Chief Legal Counsel &amp; Compliance Officer (to ensure the report is filed)</i>

## FY14 LAB Audit 15-3 Recommendations and WEDC Response Updates

Tax Credit Programs					
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6.	40	We again recommend WEDC establish all statutorily required policies for its tax credit programs.	<i>WEDC will continue to closely monitor its program guidelines and ensure that all statutory requirements are clearly outlined in the program guidelines. On June 30, 2015, the Board's Awards Administration Committee reviewed revised Development Opportunity Zone Tax Credit and Economic Development Tax Credit Program Guidelines that addressed the audit report's two specific concerns.</i>	<i>As changes are deemed necessary to WEDC's program guidelines, WEDC is performing a comprehensive review of statutory requirements in each of those program guidelines. WEDC will perform this review for all its program guidelines for FY17.</i>	<i>Chief Legal Counsel &amp; Compliance Officer; Office of Public Policy Director</i>
7.	41	We recommend the Wisconsin Economic Development Corporation ensure staff reviews evaluate whether businesses meet all eligibility requirements.	<i>WEDC will continue to closely review its staff reviews and ensure that all program guideline requirements are included in them. The majority of the awards underlying this recommendation were approved in 2011 or 2012. In 2013, WEDC implemented new processes and policies that enhanced the requirements and, importantly, the controls to which awards and their staff reviews are subject. We will continue to evaluate those controls for means of improving them.</i>	<i>In July 2013, WEDC implemented new processes and policies that enhanced the requirements and, importantly, the controls to which awards and their staff reviews are subject.  WEDC continues to review its staff review checklists on at least an annual basis to ensure they capture the programmatic and statutory requirements.  WEDC has also implemented a requirement for revised program guidelines be reviewed and approved in conjunction with their corresponding staff review checklists.</i>	<i>Vice President of Credit &amp; Risk; Office of Public Policy Director</i>
8.	43	We recommend the Wisconsin Economic Development Corporation establish policies that specify how long a completed staff review remains valid and that requires a new staff review to be completed if a contract has not been executed within that period of time.	<i>The Board's Awards Administration Committee reviewed at its June 30, 2015 meeting a revised Awards Administration Policy that incorporates a requirement that staff reviews be completed again if more than a year passes before a decision date on the proposed award. The Board will review this policy at the July 20, 2015 Board meeting.</i>	<i>At the July 20, 2015 Board meeting, the WEDC Board of Directors referred the GOV ADM 121 Awards Administration Policy back to the Awards Administration Committee of the Board to consider a recommendation to require background checks prior to contract execution. On September 3, 2015, the Awards Administration Committee voted unanimously to recommend for Board approval a revised version of the policy that requires that new staff reviews be completed if more than 6 months pass before a decision has been made on a proposed award. WEDC staff have since implemented this change and now complete new staff reviews if more than 6 months pass before a decision has been made on a proposed award.  At the December 17, 2015 Board meeting, the Board will review WEDC's new Code of Ethics and Conduct ("Code"), which will incorporate the GOV ADM 121 Awards Administration Policy.</i>	<i>Vice President of Credit &amp; Risk</i>
9.	46	We recommend the Wisconsin Economic Development Corporation allocate tax credits only in accordance with statutory requirements and its program policies.	<i>WEDC has implemented a thorough review and approval process, and will continue to evaluate means of improving those controls to ensure no details are missed either in staff reviews or contracts. Of the instances underlying this recommendation, there is one isolated incident of noncompliance – an award that used the wrong statutory salary threshold to calculate the tax credits for which the company was eligible. This resulted in an overpayment of \$400 to the company.  After the evaluation is completed by the Center for Regional Economic Competitiveness, WEDC will undertake in FY16 a comprehensive review of all its award contract templates to ensure the language is clear and consistent surrounding all statutory and program guidelines requirements. As part of this, WEDC staff will review whether all statutory and program guideline requirements – such as health insurance coverage and tax liability – should be in the contract.</i>	<i>WEDC has evaluated its contracts and has determined no additional requirements need to be added at this time.  For FY17, WEDC will perform a comprehensive review of its contracts to determine if any additional requirements need to be added.</i>	<i>Vice President of Credit &amp; Risk; Chief Legal Counsel &amp; Compliance Officer</i>
10.	48	We again recommend the Wisconsin Economic Development Corporation allocate tax credits for projects that have not yet begun when contracts are executed.	<i>Consistent with statutes, WEDC allows award recipients to begin incurring expenses for projects after the certification date established by WEDC.</i>	<i>Consistent with statutes, WEDC continues to allow award recipients to begin incurring expenses for projects after the certification date established by WEDC.</i>	
11.	49	We recommend WEDC establish policies for verifying information submitted by businesses on the extent to which contractually specified outcomes were achieved; and award tax credits only in accordance with statutory requirements.	<i>WEDC verifies the performance of tax credit award recipients by (1) receipt of a performance report signed by an official working for the recipient, attesting to the accuracy of the information included in the performance report; (2) receipt of payroll information from the recipient documenting the employees and wages; and (3) completing an annual verification of a sample of awards consistent with Wisconsin law, Wis. Stat. § 238.03(2)(e).  Commencing in FY16, additional information will be verified by an independent auditing firm. In addition, in FY16, WEDC will undertake a comprehensive review of all its award contract templates to ensure the language is clear and consistent surrounding all statutory and program guidelines requirements.</i>	<i>WEDC verifies the performance of tax credit award recipients by (1) receipt of a performance report signed by an official working for the recipient, attesting to the accuracy of the information included in the performance report; (2) receipt of payroll information from the recipient documenting the employees and wages; and (3) completing an annual verification of a sample of awards consistent with Wisconsin law, Wis. Stat. § 238.03(2)(e).  In FY16, WEDC will be hiring an independent auditor to verify the accuracy of the jobs reported by WEDC, in addition to auditing WEDC's financial statements. The results will be included in the audit presented to WEDC's Audit Committee of the Board and the full Board of Directors in the fall of 2016.</i>	<i>Vice President of Credit &amp; Risk; Chief Financial Officer</i>
12.	50	We recommend WEDC establish policies for recovering previously awarded tax credits from recipients that did not meet contractual obligations.	<i>In April 2014, WEDC had completed development of the necessary processes with the Department of Revenue to recoup tax credits when necessary. Because of the complexity, it took several months of discussion with multiple staff members of each agency to accomplish that task.</i>	<i>As of December 1, 2015, WEDC has referred six awards to the Department of Revenue (DOR) through the process implemented in April 2014 with DOR. WEDC maintains regular communication with DOR on this process.</i>	<i>Vice President of Credit &amp; Risk; Chief Legal Counsel &amp; Compliance Officer</i>

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Program Results and Accountability					
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13.	54	We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by establishing at least one quantifiable benchmark for each goal of its economic development programs.	Each of WEDC's programs include at least one goal and at least one quantifiable benchmark. Going forward, WEDC will ensure that in addition to establishing the goals and benchmarks, staff will clarify that each individual goal corresponds with an individual quantifiable benchmark. The revised program guidelines reviewed by the Board's Awards Administration Committee on June 30, 2015 included this clarification.	As changes are deemed necessary to WEDC's program guidelines, WEDC is performing a comprehensive review of statutory requirements in each of those program guidelines. WEDC will perform this review for all its program guidelines for FY17.	Office of Public Policy Director
14.	57	We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy to send, in a timely manner, past-due notices to all award recipients that do not submit contractually required progress reports on time.	WEDC's performance report delinquency rate has decreased from 55% to 5.4% as noted in the audit report. With the changes made in staff and improvements in processes, that rate continues to improve.	In September 2015, WEDC implemented a performance reporting calendar delineating a timeframe for when the various past due notices will be sent out on a monthly basis. This ensures delinquency notices are sent out on a consistent time frame each month.	Vice President of Credit & Risk
15.	58	We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by contractually requiring all recipients of grants and loans of at least \$100,000 to submit schedules of expenditures.	WEDC is collecting the required schedules of expenditures from award recipients even if the contract inadvertently referenced a verified statement.	Starting in May 2014, WEDC has required staff to retrieve template contracts from our awards management system in to ensure consistency in all our contract templates. This allows for greater control of the templates and their access.	Chief Legal Counsel & Compliance Officer
16.	58	We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy by sending notices in a timely manner to all grant and loan recipients that do not submit contractually required schedules of expenditures on time.	Since transferring the duties within WEDC related to managing the schedules of expenditures, all award recipients requiring a notice of a due schedule of expenditure have received one. The number of award recipients owing WEDC a schedule of expenditures has been cut in half, from 80 to 42. On February 24, 2015, WEDC notified the Board of Directors of the delay in sending out reminder and past due notices to award recipients owing WEDC a schedule of expenditure and has implemented stricter controls, including a quarterly report to the Board on recipients with an overdue schedule of expenditure.	As of September 30, 2015, WEDC has collected 314 Schedules of Expenditure and Verified Statements. Currently there are 15 that are 90+ days past due, meaning we have collected 95.4% of the reports expected to date.	Vice President of Credit & Risk
17.	59	We recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by annually verifying the performance information reported by a sample of grant and loan recipients.	WEDC complied with this requirement delineated in Wis. Stat. §238.03(2)(e), as LAB indicates in its report. This statute requires WEDC to verify a sample of the performance reports submitted to WEDC by award recipients, which staff did over the course of several months during calendar year 2014. The task is time consuming because it involves reviewing, among other things, invoices for multi-million dollar capital investment projects. The final memorandum summarizing the results of the verification was completed on January 12, 2015. Again, LAB points this out in its report.	In May 2015, WEDC staff commenced its annual verification process, and it will be completed prior to December 31, 2015.  For calendar year 2016, WEDC will engage an outside firm to conduct its independent verification.	Vice President of Credit & Risk
18.	60	We recommend the Wisconsin Economic Development Corporation's governing board ensure its staff comply with its policy for site visits and review information needed to determine whether award recipients spent awarded funds in accordance with contractual provisions and achieved contractually specified outcomes.	WEDC's staff complied with the Awards Verification Policy's site visit requirement. The policy requires that "Grants, loans and tax credits equal to or more than \$1,000,000 will receive a physical site visit by WEDC staff to view the capital investment and/or review the underlying financial records, e.g. invoices, payroll date, etc." It was not the intent of the policy to require inspection of financial records at every site visit but only when necessary. The language will be clarified to avoid any future confusion.	In January 2016, a new procedure covering the site visit process will become effective, after the WEDC Board of Directors approves the Code. The purpose of WEDC site visits is to visit the physical location of a project that has received a significant investment from WEDC. Site visits are generally conducted by account managers, and include a meeting with the appropriate contacts, a discussion of the project, a tour of the site, and a discussion of potential future opportunities.	Vice President of Credit & Risk
19.	63	We again recommend the Wisconsin Economic Development Corporation's governing board comply with statutes by ensuring that the annual economic development program report presents clear, accurate, and complete information on each program's results.	The Annual Report on Economic Development (ARED) showcases WEDC's and other state agencies' commitment to transparency. ARED's interactive map is a user friendly tool that allows for easy analysis of statewide, regional, and an individual award's economic impact. The databases contain all statutorily required information plus more. WEDC staff expend tremendous efforts year-round to administer the quality of the data in the report, how it is accessed, and the tools it provides for evaluating the State's economic development efforts. There are thousands of points of data in the report, and, as with any report, there will be isolated and unintentional mistakes. WEDC staff regularly monitor the data and fix any mistakes found. WEDC is committed to continuously improving the ARED and welcomes suggestions for improvement from stakeholders and, of course, its Board.	On September 24, 2015, the WEDC Board of Directors reviewed and voted to approve the Annual Report on Economic Development.	Office of Public Policy Director
20.	66	We recommend the Legislature consider modifying Wis. Stat. 238.07(2) to require WEDC's governing board to include in its annual economic development program report the total number of jobs created and the total number of jobs retained as a result of all economic development awards made since July 1, 2011.	WEDC will comply with any changes made to the law. Of note, WEDC's online database already includes jobs created and jobs retained for all economic development awards made since July 1, 2011. Any member of the public can use the database to compile those total numbers.	On September 24, 2015, the WEDC Board of Directors reviewed and voted to approve the Annual Report on Economic Development.	

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Financial Management					
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21.	69	We recommend the Wisconsin Economic Development Corporation's governing board review its fund balance policy so that the target for the unassigned fund balance is based on its administrative expenditures.	<p>As stated in the audit, WEDC's current fund balance policy aligns with the best practices suggested by the Government Finance Officers Association (GFOA). It also complies with Statement No. 54 of the Governmental Accounting Standards Board (GASB). Although the statement in the audit report, "Given these specific circumstances, WEDC's unassigned fund balance need cover only its administrative expenditures." is misguided, we acknowledge that accounting standards provide some flexibility in how to characterize fund balance.</p> <p>In response to the audit and to comply with the current language in the State's budget bill WEDC will propose changing its Fund Balance Policy. The change will adopt a fund balance concept limiting WEDC's unassigned fund balance on June 30th of each year to two twelfths of the estimated annual administrative expenditures for that year.</p>	<p>On July 20, 2015, the WEDC Board of Directors adopted a revised FIN 104 Fund Balance Policy, which requires WEDC's unassigned fund balance be limited to two-twelfths (i.e. one-sixth) of its estimated annual administrative expenditures as of June 30 of each year. Further, on July 20, the Board voted to approve a resolution to this effect.</p> <p>Pursuant to Wis. Stat. 238.03(4), the WEDC Board is required to, "establish policies and procedures for maintaining and expending any unassigned balance that satisfy all of the following requirements: 1) The policies and procedures shall be consistent with best practices recommended by the Government Finance Officers Association; and 2) The policies and procedures shall establish as a target that the corporation's unassigned balance on June 30 of each fiscal year be an amount equal to or less than one-sixth of the corporation's total administrative expenditures for that fiscal year."</p> <p>Immediately upon the statute's effective date of July 1, 2015, WEDC Finance staff implemented measures to comply with the updated unassigned fund balance requirement. Additionally, the 2015 Comprehensive Annual Financial Report was prepared in accordance with this new statute.</p>	Chief Financial Officer
22.	76	We recommend the Wisconsin Economic Development Corporation periodically review credit card usage and close the accounts of unnecessary credit cards, including those that are seldom or never used; and ensure that appropriate credit limits are maintained on all of its credit cards; and maintain documentation of the approved credit limits on each of its credit cards, including changes to those limits.	The credit card policy that was implemented in FY 2013/2014 was designed to balance operational efficiency and risk. The policy resulted in a reduction in the number of active credit cards and improved the internal monitoring of transactions. WEDC staff recently completed an internal review of the policy and a sample of FY 2014/2015 transactions. Staff issued their findings and recommendations which are consistent with the report. WEDC's internal policy committee will continue to consider improvements that enhance efficiency while striving to mitigate the inherent risk associated with credit card transactions.	<p>As of December 1, 2015, WEDC has centralized its travel reservations, which will be handled by a third-party vendor. This will help eliminate the need for some staff to have corporate credit cards.</p> <p>WEDC finance staff are implementing a requirement for a purchase order for most purchases, which would help migrate some purchases from individual corporate credit cards to a department-shared corporate credit card. This will potentially reduce the number of corporate credit cards held by WEDC staff.</p> <p>In January 2016, WEDC will implement an annual review process of corporate credit cards whereby all supervisors will be required to re-certify which of their staff need corporate credit cards and what limits are required for each card.</p>	Chief Financial Officer
Future Considerations					
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23.	82	We recommend the Wisconsin Economic Development Corporation's governing board direct its staff to present for its review and approval policies that comply in all respects with statutory requirements; and ensure that its staff comply with all the policies it establishes.	WEDC staff will comply with any directive of the Board for presenting such information.	On July 20, 2015, the WEDC Board of Directors voted to approve a revised version of the GOV ADM 126 Program Guideline Approval and Revision Policy. The policy was revised to clarify that WEDC complies with updated statutes on the date they become effective.	Chief Legal Counsel & Compliance Officer
24.	84	We recommend the Legislature consider the Wisconsin Economic Development Corporation's unassigned fund balance when determining the amount to appropriate to either the Wisconsin Economic Development Authority or the Forward Wisconsin Development Authority for the 2015-17 biennium.	WEDC welcomes the opportunity to discuss with the Legislature its fund balance policy and budget.	On July 20, 2015, the WEDC Board of Directors adopted a revised FIN 104 Fund Balance Policy, which requires WEDC's unassigned fund balance be limited to two-twelfths (i.e. one-sixth) of its estimated annual administrative expenditures as of June 30 of each year. Further, on July 20, the Board voted to approve a resolution to this effect.	
25.	85	The governing board of either the Wisconsin Economic Development Corporation or the Forward Wisconsin Development Authority report to the Joint Legislative Audit Committee by February 1, 2016, on its efforts to implement each of our recommendations.	WEDC will provide a report on such efforts by February 1, 2016.	This report complies with the request for WEDC to provide to the Joint Legislative Audit Committee a report on its efforts to implement each of LAB's recommendations.	