

Testimony on LAB Report 15-3
Joint Committee on Audit
Wednesday, September 9, 2015
411 South

Co-chairs Kerkman and Cowles and committee members, thank you for holding this hearing on LAB Report 15-3, the Legislative Audit Bureau's second program audit of the Wisconsin Economic Development Corporation. You have had and will continue to have much discussion of the details of the audit's findings. I would like to take this opportunity, as a member of the WEDC Board of Directors since its inception in July 2011, to put this report in the context of my observations of WEDC during the period covered by the audit, and in the months that have followed its release.

In the wake of LAB's first program audit of WEDC in 2013, the organization engaged in what appeared to me to be a good-faith effort to address the many concerns raised in that audit. It revised the committee structure of its Board to enable board members to play a more active role in overseeing its activities and helping to set its policies. I and other board members spent hundreds of hours reviewing policies that addressed how the agency evaluated and made decisions regarding awards, how it managed its finances, how it prevented and addressed conflicts of interests, and the protocols to use when companies failed to fulfill the terms of their award contracts. We reviewed the details of and voted on Enterprise Zone designations, and on several other larger awards. Problems, such as the reliability of WEDC's progress reporting methods, did persist. The agency continued to struggle to meet its operational and budgetary goals. But by the end of 2014, it was my impression that WEDC had turned a corner, and that it had made real strides toward cleaning up many of the issues that occurred during the chaotic transition to WEDC from the Department of Commerce.

So no one was more shocked than I was by the findings of Report 15-3, and by the many revelations that have appeared in the media since the release of the audit. Not only was WEDC continuing to resist following all state laws and its own Board-approved policies, but senior executives were attempting to obtain government funds and bonding for companies that they knew were in financial or legal disarray, and in at least one instance, that of Building Committee Incorporated, when they knew those resources would be used to pay the owner's debts and would not result in job creation in Wisconsin.

Lest anyone think that these issues are only of historical interest, I'd like to remind you of a few facts. First of all, Ryan Murray, who was active in trying to secure funding for Building Committee Inc. even after they were in arrears with repaying their WEDC loan, was Chief Operating Officer until 10 months ago. WEDC only launched a serious effort to bring these companies to court this spring. And current WEDC staff withheld information about these loans from its own Board of Directors until they were about to be reported in the news media – a pattern that has been a consistent aspect of WEDC's corporate culture from its beginning to today.

As a WEDC Board member, I was recently asked to complete a survey as part of the agency's annual internal audit. The survey asked me if I was aware of any fraud involving the agency. My

answer was that I simply don't know. I do know that, in the case of BCI and Green Box, it certainly appears that fraud may have been committed, which is why Representative Barca and I have called for a federal investigation of WEDC. But what the past few months have reminded us all is that no amount of briefing papers and policy documents can allow Board members to fulfill their duty to taxpayers if WEDC management and staff does not take seriously its responsibility to fully inform its Board and to operate in accordance its policies and the law.

What also causes me great concern is the way WEDC has reacted in the wake of the latest audit. You heard today the way in which management has attempted to imply that the LAB is either vague or simply incorrect in its findings about the agency. That process of attempting to discredit the Legislative Audit Bureau has been even more intense at WEDC Board meetings, where the LAB itself is presented as WEDC's major obstacle and where its motivations are openly called into question. When Representative Barca and I have criticized the agency publicly, WEDC has responded by implying that Board members were fully aware of issues that they in fact were never informed about by staff, a clear attempt to try to discredit its own Board. And as Representative Barca and I have attempted to gather more information about questionable awards, WEDC has forced us to rely on open records requests, rather than facilitating our ability to get the information we need.

In short, WEDC management, and even its Board, are displaying a very different attitude toward Report 15-3 than they did to the audit in 2013. This has convinced me that WEDC is irretrievably broken. Its brand is damaged beyond repair, and its credibility has been compromised to the point where internal reform efforts are no longer sufficient. The only way to regain the confidence of the business community, Wisconsin taxpayers, and this Legislature is to make major structural changes that will ensure greater openness and accountability for the state's economic development programs. Based on our experience and the findings of this audit, Representative Barca and I are completing the final details of such a proposal, which we intend to introduce within the coming days.

Thank you for this opportunity to testify, and I would be happy to answer any questions you have.