OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Department of Trade and Economic Development

July 1, 1998, through June 30, 2001

OCTOBER 17, 2002 02-64

Financial Audit Division

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- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Rebecca Yanisch, Commissioner
Department of Trade and Economic Development

We have audited selected activities of the Department of Trade and Economic Development for the period July 1, 1998, through June 30, 2001. Our audit scope was limited to the department's management of grants. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of the Department of Trade and Economic Development's financial activities.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Trade and Economic Development complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Department of Trade and Economic Development is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Trade and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 17, 2002.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: April 5, 2002

Report Signed On: October 14, 2002

Table of Contents

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Irene Hass	Auditor
Dave Massaglia	Auditor
Doreen Bragstad	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Trade and Economic Development at an exit conference on October 2, 2002:

Elaine Bliss	Deputy Commissioner
Louie Jambois	Senior Executive Officer, Business and Community Development Division
John Edman	Director of Tourism
Colleen Tollefson	Tourism Industry Relations Manager
Judy Kislenger	Accounting Manager

Report Summary

Key Findings and Recommendations

The department's internal controls provided reasonable assurance that it properly awarded and monitored grants, accurately recorded grant financial activities in accounting systems, and complied with applicable finance-related legal provisions and management's authorization. Department accounts were effectively structured to handle diverse appropriation conditions for numerous special and ongoing grants. The account structure ensured that grants cancelled at the end of the fiscal year or biennium, or carried forward when legal authority existed. For the items tested, the department complied with finance-related legal provisions. However, we noted the following internal control weaknesses and instances of noncompliance during our audit.

- The department disbursed some grants several years after the period they were originally appropriated for. The slow disbursement stream, while for legitimate reasons, created questions regarding the period of availability for these grants and uncertainty when the moneys should cancel and revert back to the General Fund. We recommended they work with the Department of Finance to clarify the period of availability for its grants and cancel any unneeded encumbrances. (Finding 1, page 7)
- The Business and Community Development Division managed $11 million of Minnesota Investment Fund loans receivable that were not recorded in the state's accounting system nor included in the state's year-end financial statements. (Finding 2, page 15)
- The Office of Tourism did not prepare written agreements for certain Component Organizational Partnership grants; instead, purchase orders were used. We recommended the office formalize these grant agreements in writing. (Finding 3, page 23)

Department Background

The Department of Trade and Economic Development's (DTED) mission is to facilitate an economic environment that produces new jobs and increases tourism revenues. A large part of the department's financial activities involve awarding and managing loans and grants provided to private and public sector organizations and administering pass-through funding as directed by state Legislature. The department employed approximately 250 staff under the direction of Ms. Rebecca Yanisch.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our work at the Department of Trade and Economic Development included ongoing program and one-time special appropriation grants managed by each of its divisions and overall grant financial management for the period from July 1, 1998, through June 30, 2001.

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Chapter 1. Introduction

The Department of Trade and Economic Development's (DTED) primary goal is to promote the state's metropolitan and out-state economic climate. Its mission is to facilitate an economic environment that produces new jobs and increases tourism revenues. Major department goals include:

- ✓ *Facilitate creation of high quality jobs and effective workforce development programs,*
- ✓ *Promote Minnesota as an excellent business location and travel destination,*
- ✓ *Remove government impediments to doing business in Minnesota, and*
- ✓ *Deliver programs and services efficiently and cost-effectively.*

The department is organized into the following operating divisions:

Business and Community Development facilitates the growth of existing Minnesota businesses while providing financial, training, and technical services to communities, businesses, and economic development professionals.

Workforce Development provides financial, technical, and training services to Minnesota workers and employers.

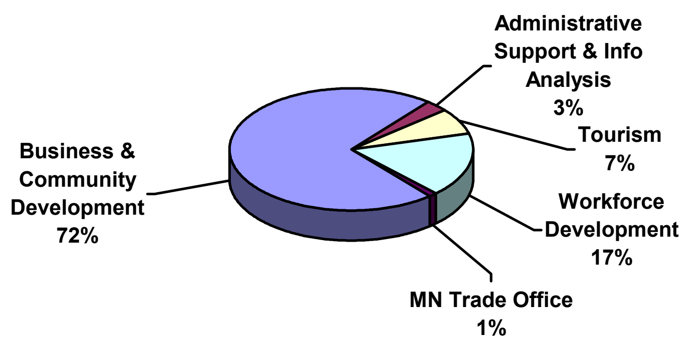
Minnesota Office of Tourism works closely with communities and businesses to attract more travelers to Minnesota and retain Minnesota resident travel.

Minnesota Trade Office promotes and assists in the expansion of exports and foreign direct investments that contribute to the growth of the Minnesota economy.

Administration and Information Analysis provides services such as accounting, human resources, marketing, computer support, research, and analysis to each of the other divisions.

Figure 1-1 shows each division's percentage of total department expenditures for the 2000-2001 biennium, which totaled $387.4 million.

Figure 1-1
Expenditures by Division
2000-2001 Biennium



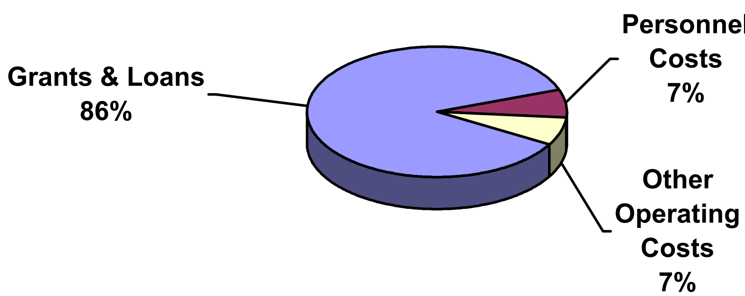
Source: State of Minnesota 2002-2003 Biennial Budget.

Department of Trade and Economic Development

The department employed approximately 250 staff under the leadership of Ms. Rebecca Yanisch. The Governor appointed Commissioner Yanisch in April 2001, replacing Mr. Gerald Carlson who had served as commissioner since January 1999.

A large part of the department's financial activities involve awarding and managing loans and grants provided to private and public sector organizations and administering pass-through funding as directed by the state Legislature. Figure 1-2 provides a breakdown of expenditures by category.

Figure 1-2
Expenditures by Category
2000-2001 Biennium



Source: State of Minnesota 2002-2003 Biennial Budget.

The Office of the Legislative Auditor released an audit of Minnesota grants administration (*Legislative Audit Report #02-06*) in February 2002. The audit raised questions about statewide grant financial management policies and practices across many executive branch departments of state government. As a result, we decided to perform additional grant work during this audit of the Department of Trade and Economic Development.

This selected scope, financial-related audit of the Department of Trade and Economic Development's grant expenditures did not include grants examined during other audits. The department's Public Facilities Authority (PFA) financial statements were examined annually by a CPA firm. Also, the federal Community Development Block Grant (CFDA #14.228), the federal Workforce Investment Act-Dislocated Worker Program (CFDA #17.255), and selected capital projects grants to local units of government were examined by the Office of the Legislative Auditor during reviews of the State of Minnesota's annual financial statements and federal grants.

Chapter 2. Financial Management

Chapter Conclusions

The Department of Trade and Economic Development effectively structured its accounting system accounts to handle numerous diverse appropriations for grant programs. The account structure ensured that unencumbered funds cancelled at the end of the fiscal year or biennium, or carried forward when legal authority existed. However, we found that the department disbursed some grants several years after the period for which they were originally appropriated. The slow disbursement stream created questions regarding the period of availability for these grants and uncertainty when the moneys should cancel and revert back to the General Fund. We recommended that the department work with the Department of Finance to clarify the period of availability for its grants and cancel any unneeded encumbrances.

The Department of Trade and Economic Development received General Fund appropriations to fund several ongoing grant programs managed by its divisions, as discussed in later chapters in this report. Appropriated funding is provided, in part, for administrative support to manage ongoing grant programs. In addition to ongoing programs, the department also received special appropriations that provided one-time funding for specific purposes. Special appropriations can be very general in nature or, at times, quite specific. Sometimes, the Legislature would identify the recipient of pass-through funds, while other times only the purpose of the appropriation was given, requiring competitive awarding of the grant monies. The department attempts to administer these special appropriations in the same manner as its ongoing grant programs. The special appropriations the department received did not include additional funding for administrative costs.

The department used separate accounts in the Minnesota Accounting and Procurement System (MAPS) to manage its various appropriations. Each division had its own range of accounts, and a separate account was used for each program or special appropriation. The Department of Finance entered appropriations into primary accounts from which the department expended the moneys or transferred the funds into other program accounts. The accounts were structured to ensure unencumbered funds canceled at the end of the fiscal or biennial period as required, or carried forward when legal authority existed.

For its ongoing grant programs, the department has established program guidelines, along with application and awarding procedures, to effectively manage and oversee the use of funds. For special appropriations, where no specific recipient has been named, the department goes through a competitive awarding process.

Department of Trade and Economic Development

The department's grants are managed and monitored in various divisions. All the operating divisions receive accounting and administrative support from the department's Administration Division. The Administration Division provides, among other things, fiscal services for the operating divisions. Accounting system reports provide division managers with financial information to monitor the status of grant encumbrances and spending.

The department monitors its grant programs using a database system developed in 1997. The Integrated Data Base (IDB) contains information such as project descriptions, award amounts, status, and budget and actual costs. MAPS disbursements are interfaced into IDB once a week. In addition to the financial monitoring and IDB information, divisional field inspectors perform site visits and report on the status of grant projects in progress.

Audit Objectives and Methodology

The primary objectives of our review of grant financial management were to answer the following questions:

- Did the department effectively structure its accounts to ensure that funds cancel when required or carry-forward when legal authority existed?
- Did the department properly transfer fund moneys between appropriation and program accounts?
- Did the department ensure that unliquidated encumbrances were monitored and cancelled as necessary?

To address these objectives, we gained a general understanding of the MAPS account structure used by the department to control its grant appropriations. Using the state's Information Warehouse, we identified the department's appropriation accounts and examined the account attributes prompting cancellation or carryover of unencumbered moneys. We reviewed accounting system transfers between accounts for legal authority. Finally, we reviewed the department's process to monitor unliquidated encumbrance obligations.

Conclusions

The Department of Trade and Economic Development effectively structured its accounting system accounts to handle numerous diverse appropriations for grant programs. The account structure ensured that unencumbered funds cancelled at the end of the fiscal year or biennium, or carried forward when legal authority existed. However, we found that the department disbursed some grants several years after the period for which they were originally appropriated. The slow disbursement stream created questions regarding the period of availability for these grants and uncertainty when the moneys should cancel and revert back to the General Fund. We recommended that the department work with the Department of Finance to clarify the period of availability for its grants and cancel any unneeded encumbrances.

Department of Trade and Economic Development

1. The department expended state grants several years after the fiscal year in which the funds were originally appropriated, and unspent encumbrances may not always be cancelled in a timely manner.

The department received many appropriated grants that did not have a clearly defined period during which the grant money could be spent. Generally, state agency appropriations are available for the biennium in which the appropriations were made. However, we noted that many of the department's grant appropriations spanned beyond that period and were expended up to four years later. The lack of clearly defined availability periods created uncertainty whether grant recipients expended funds within allowable time frames.

The Department of Trade and Economic Development received various types of appropriations to fund its grant activities. Some appropriations are allowed to carry-forward unused balances indefinitely *(until expended)*, while other appropriations have specified end-dates *(available until)*. During the audit period, grant guidelines provided by the Departments of Administration and Finance did not clearly define period of availability for appropriations

The department's practice was to keep grant funds available indefinitely as long as it had established a contractual grant obligation and an accounting system encumbrance by the end-date specified in the appropriation law. The department certified to the Department of Finance that a valid encumbrance obligation existed at close for each fiscal year. In many cases, the department had not disbursed any grant funds by the date the appropriation end date, nor had the grantee incurred any costs under the grant.

The department faces greater challenges in managing its grants as a result of a statutory change adopted by the 2002 State Legislature. Minn. Stat. Section 16A.28, Subd. 6 was amended to limit grant availability as follows, *"Encumbrances for grants issued by June 30 may be certified for a period of one year beyond the year in which funds were originally appropriated. Services rendered under grant contracts may occur during the certification period."*

Our audit encountered several unique grants with varying reasons for delayed expenditure of funds. Tables 3-1, 3-2, and 3-3 show some of the department's state appropriated grants that were expended from July 1, 1998, to December 31, 2001, for budgetary fiscal years prior to 1999. As shown in Appendix A, Appendix B, and Appendix C, many prior year appropriations had unexpended balances as of December 31, 2001.

The following sections identify some different examples of delayed or prolonged grant funding that we encountered during our audit.

- ***Certain local project grants had matching requirements and involved legislative extensions that caused funds to remain unliquidated for several years.***

In 1997, the department received a $200,000 appropriation for the Judy Garland Children's Museum. The appropriation was originally set up to end on June 30, 1998. The law specified the $200,000 must be matched by at least $1,275,000 from nonstate resources committed by June 30, 1998. The 1998 Legislature extended the project and match period until June 30, 1999, and the 1999 Legislature extended it to June 30, 2000. The department properly withheld payment of the grant as the required level of match funds was not achieved. The 2000 Legislature reduced the match level to $200,000 (Minn. Laws 2000, Ch. 488, Sec. 13) and on June 22, 2000, the contract was amended to require a $200,000 match from nonstate sources by June 30, 2000. However, in October 2001, without specific legislative authority, the department further extended the grant availability and matching period until June 30, 2002. It subsequently received documentation supporting the match, and on June 13, 2002, the department made the grant payment to the recipient from its original fiscal year 1998 appropriation account.

- ***Grants for certain local construction projects required lengthy proposal coordination and preparation time and took many years to spend down the encumbered moneys.***

A $3 million special appropriation for a direct reduction iron processing facility was "available until June 30, 1999." Rather than advancing the money to the grantee, the department prudently reimbursed the grantee for project costs incurred, creating a cash flow advantage for the state. While we agree with the department's decision to reimburse rather than advance funds, the reimbursement method caused the grants to span well beyond the specified date of availability. Less than one-third of the grant was expended by June 30, 1999, and two-thirds was expended after that date, as shown below:

Expenditure Period	Annual Expenditures	Cumulative Expenditures	Unexpended Appropriation
Initial Grant (available until June 30, 1999)	$ 0	$ 0	$3,000,000
July 1, 1997 thru June 30, 1998	$ 189,587	$ 189,587	$2,810,413
July 1, 1998 thru June 30, 1999	$ 644,906	$ 834,493	$2,165,507
July 1, 1999 thru June 30, 2000	$1,309,876	$2,144,369	$ 855,631
July 1, 2000 thru June 30, 2001	$ 538,664	$2,683,033	$ 316,967
July 1, 2001 thru December 31, 2001	$ 265,155	$2,948,188	$ 51,812

- ***Delays in liquidating encumbrances resulted from the department's use of multi-year grant contracts with local organizations.***

Fiscal years 1996 and 1997 Job Skills Partnership moneys were expended several years after June 30, 1997. We noted fiscal years 1996 and 1997 grants totaling $1,177,505 were expended from July 1, 1998, through December 31, 2001. Program grant contracts generally ran for three years or more, and the department encumbered the full grant contract amount in fiscal year 1997 causing it to extend well into the 1998-1999 biennium. However, the fiscal year 1996 and 1997 appropriations were only intended to fund activities for those years. The department certified the encumbrances as year-end obligations and subsequently liquidated them. Beginning in fiscal year 1998, the Job Skills Partnership appropriation funding contained the language, "This appropriation does not cancel." Starting in fiscal year 2001, funding for this program comes from the State Dislocated Worker Program, which has authority to carry-forward funds until expended.

- ***Other grant encumbrances remained unliquidated because a portion was withheld until the grantees provided the required final report.***

As shown on Table 5-1 the Tourism Office managed fiscal year 2000 special appropriation projects for grants to the cities of Lake Benton and Lanesboro and to the Chatfield Brass Band Music Library. The division paid 90 percent of the approved grant to these recipients named in the appropriation bill prior to close of the 2000-2001 biennium. However, the grantees had not provided the required final project reports, and the remaining 10 percent, totaling $22,500, had not been paid as of the June 30, 2002. Without the final reports, the office had no assurance whether the grantee properly used the initial 90 percent advance of funds and whether a sufficient level of match was generated. The office should work with grant recipients to obtain final reports and liquidate or cancel the remaining appropriation monies.

Recommendation

- *The Department of Trade and Economic Development should structure its grant award process to ensure compliance with statutory guidelines governing the period of availability for state appropriations. The department should review their current outstanding encumbrances and ensure that General Fund encumbrances are cancelled in a timely manner.*

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Chapter 3. Business and Community Development Division Grants

Chapter Conclusions

The Business and Community Development Division's internal controls provided reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. However, we noted that the division did not accurately record approximately $11 million in Minnesota Investment Fund loans in the state's accounting system nor include them in the state's annual financial statements. Instead, the department recorded the annual loan collections as revenues. For the items tested, the division complied with financial-related legal provisions and policies for those grant activities.

The department's Business and Community Development Division awards grants that promote economic development activities throughout Minnesota. The division manages two distinct types of grants: ongoing programs and special appropriations. Administrative support for ongoing programs is provided for in the department's biennial appropriation, however, no additional administrative funding is given to manage special appropriations.

Ongoing Grant Programs

The division received ongoing program funding for various economic development activities. Table 3-1 shows program grant expenditures between July 1, 1998, and December 31, 2001, and Appendix A shows accumulative expenditures as of December 31, 2001, for the programs.

Table 3-1
General Fund Program Grant Expenditures
From July 1, 1996, through December 31, 2001

	Budgetary Fiscal Year					
Program Appropriations	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Minnesota Investment Fund	$ 85,000	$1,620,000	$3,357,989	$5,893,193	$3,202,587	$2,900,242
Minnesota Inv Fd – Flood	0	0	2,186,195	210,391	27,100	0
Minnesota Inv Fd-Tornado	0	0	0	6,075,770	0	0
Contaminated Grants	268,209	1,036,894	3,933,934	3,482,768	3,688,833	1,611,171
Mortgage Credit Certificate	0	0	0	368,134	220,730	230,726
Total Disbursed	**$353,208**	**$2,656,894**	**$9,478,118**	**$16,030,265**	**$7,139,250**	**$4,742,139**

Note: Additional budgetary fiscal years 1996, 1997, and 1998 expenditures occurred prior to July 1, 1998, and are not shown above. See Appendix A for accumulative expenditures for these fiscal years, including expenditures prior to July 1, 1998.

Source: Minnesota Accounting and Procurement System from July 1, 1996, through December 31, 2001, for all fiscal years.

Department of Trade and Economic Development

Minnesota Investment Fund grants are funded through General Fund appropriations to the department. The Legislature appropriated \$6 million, \$5 million, and \$4 million for fiscal years 1999, 2000, and 2001, respectively. The grants are provided on a first-come, first-served basis to communities and cities. Applicants are screened to verify eligibility and are awarded grants when specified conditions are met. Business and Community Development Division staff received periodic grant status reports and perform on-site monitoring to verify that funds are spent according to program guidelines. During the audit period, the department also received appropriations for the Minnesota Investment Fund for flood and tornado grant programs. The grants were provided to local governments for locally administered operating loan programs for businesses directly and adversely affected by floods or tornados. Grant recipients were required to set goals for job creation and retention.

Contaminated Grants funding is appropriated for contaminated site investigation and cleanup costs. Biennial appropriations for 1998-1999 totaled \$5.8 million, while \$7.6 million was appropriated for the 2000-2001 biennium. The grants were awarded in a different manner than the division's other grants. A statewide flyer was distributed notifying potential grantees of the funds available for contamination cleanup projects for two separate annual awarding cycles. Applications were received and scored by division employees using preset criteria established in state statute. Projects with the highest scores were awarded grants. The Business and Community Development Division conducted onsite visits and reviewed financial and program reports from grantees.

Mortgage Credit Certificate Aid funds were awarded from an open appropriation. This formula-driven grant was awarded to cities issuing mortgage credit certificates during the previous calendar year. Minn. Stat. Section 462C.15, Subd. 2 states that, *"By July 15 of each year, the commissioner of trade and economic development shall pay mortgage credit certificate aid to each city issuing certificates during the previous calendar year."* The division used a method whereby funds, although timely encumbered, were not disbursed until the grantee submitted a required disbursement request form. Because cities often did not submit the required form in a timely manner, most payments were made well after the July 15th payment deadline set in statute.

Special Grant Appropriations

The Minnesota Legislature awards many special appropriation grants through the Department of Trade and Economic Development. Because of the number of special appropriations, the department allocates the management workload of these grants among its divisions, including the commissioner's office.

The Business and Community Development Division manages the majority of the special appropriations, which generally take on two different forms:

- the grant recipient is identified and named in the appropriation law; or
- the recipient is not specified and competitive awarding may be necessary.

Department of Trade and Economic Development

Special Appropriations - Grant Recipients Specified in Law

Legislative appropriations include grant funding for named recipients and award amounts. The division played no role in the grant awarding, but it managed these appropriations similar to its other grant programs. Since the recipient is named in statute, the division takes on a stewardship role by distributing funds on a cash-needed basis. The division requires grant recipients to submit an application and spending budget outlining intended use of the grant funds. Typically, for a grant payment to be made, the division requires the submission of invoices for grantee-incurred expenses. It also requires the grantee to submit at least one report detailing the use of the funds and a narrative outlining the goals that were reached. Table 3-2 identifies the various special appropriation pass-through grants where the grant recipient was specified in the appropriation law and shows amounts expended between July 1, 1998, and December 31, 2001. Appendix B identifies the various grant purposes and appropriated amounts, whether a match was required, and cumulative financial activity as of December 31, 2001.

Table 3-2
General Fund Special Appropriations
Pass-Through Grants Paid to Named Recipients
From July 1, 1996, through December 31, 2001

	Budgetary Fiscal Year					
Special Appropriations	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Advantage Minnesota	$ 0	$ 0	$ 0	$ 450,000	$ 305,500	$ 37,000
Asian-Pacific Comm Dev Corp	0	0	37,557	99,950	0	0
Biomass Energy Project	0	0	0	500,000	0	0
Brooklyn Center	0	0	2,000,000	0	0	0
Camp Heartland Center	0	0	0	0	350,000	0
Duluth Technology Village	0	0	0	0	424,743	0
Defense Conversion	0	77,290	0	0	0	0
Ely Technical Building	0	0	0	0	150,000	0
Fridley Infrastructure-Moore Lake	0	0	0	0	209,298	0
Grey Eagle Water Treatment	0	0	100,000	0	0	0
Hennepin Grimm Farm	0	0	0	0	150,000	0
Highland Park Enhancements	0	0	0	0	2,743	0
Metropolitan Econ Dev Assoc	0	0	26,000	155,000	155,000	155,000
Metro Foreign Trade Zones	0	0	66,301	80,000	0	0
Mpls Employment Connect	100,000	45,190	0	0	0	0
Minnesota Film Board	0	0	0	194,651	500,000	500,000
Morrison Cty Rural Finance Auth	0	0	53,833	0	0	0
Neighborhood Development Ctr	0	0	0	80,000	0	0
New Brighton Coalition	0	0	0	100,000	0	0
Newport Study	0	0	125,000	0	0	0
Perham Business Tech Center	0	0	0	0	75,000	0
Richfield Redevelopment	0	0	0	0	0	4,851,618
Rural Policy and Dev Center	0	0	0	248,519	200,000	0
Software Technology Center	0	0	72,000	0	0	0
St. Paul Jobs and Econ Dev	270,000	0	0	0	0	0
Women Venture	0	0	20,000	265,000	264,996	265,000
TOTALS	**$370,000**	**$122,480**	**$2,500,691**	**$2,173,120**	**$2,787,280**	**$5,808,618**

Note: Additional fiscal years 1996, 1997, and 1998 expenditures occurred prior to July 1, 1998, and are not shown above. See Appendix B for cumulative expenditures for these fiscal years, including expenditures prior to July 1, 1998.

Source: Minnesota Accounting and Procurement System from July 1, 1996, through December 31, 2001, for all fiscal years.

Special Appropriations – Unspecified Grant Recipients

The Business and Community Development Division manages many special appropriations for ongoing grant programs and one-time grants are given to recipients that are not specified in the appropriation law. When the program or grant recipient is unnamed, the division creates awareness of the availability of these funds through various channels. The division accepts applications and awards the funds on either a first-come, first-served, or a competitive basis. The division generally disburses these funds on a reimbursement basis and requires final or interim reports from the grant recipient. Table 3-3 identifies the various special appropriation grants expended by the department from July 1, 1998, through December 31, 2001, where the grant recipient is not identified in the authorizing legislation. Appendix C identifies the various grant purposes and appropriated amounts, whether a match was required, and cumulative financial activity as of December 31, 2001.

Table 3-3
General Fund Special Appropriations
Grants Paid to Unspecified Recipients
From July 1, 1997, through December 31, 2001

	Budgetary Fiscal Year				
Special Appropriation Grants	**1997**	**1998**	**1999**	**2000**	**2001**
Border City Enterprise	$ 0	$ 988,674	$ 0	$ 0	$ 0
Catalyst Grants	0	0	0	0	370,453
Community Development Corps	2,500	36,842	50,000	0	0
Community Resources	0	118,539	1,000,000	500,000	0
County & District Agricultural Soc	0	0	95,000	50,000	0
Iron Processing Facility	0	1,573,583	1,185,018	0	0
Labor Force Assessments	0	0	0	0	356,688
Microenterprise Assistance	0	311,817	102,436	201,524	204,026
Public Infrastructure – Tornado	0	0	2,429,282	0	0
Redevelopment Grants	0	0	0	2,032,127	0
Regional and Marketing Initiatives	0	0	50,000	5,000	52,612
Rural Job Creation	0	190,000	0	216,000	0
Taconite Mining	0	0	650,000	0	0
Technical Assist - Tornado	0	120,000	30,000	0	0
Tornado Contingency	0	0	1,889,000	0	0
Youth Entrepreneurship	0	25,000	70,000	0	0
TOTALS	**$2,500**	**$3,364,455**	**$7,550,736**	**$3,004,651**	**$983,779**

Note: Additional fiscal years 1996, 1997, and 1998 expenditures occurred prior to July 1, 1998, and are not shown above. See Appendix C for cumulative expenditures for these fiscal years, including expenditures prior to July 1, 1998.

Source: Minnesota Accounting and Procurement System from July 1, 1997, through December 31, 2001, for all fiscal years.

Department of Trade and Economic Development

Audit Objectives and Methodology

Our audit focused on the following questions:

- Did the division's internal controls provide reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization?

- Did the division comply with material finance-related legal provisions and policies concerning grant activities?

To answer these questions, we met with employees to get an overview of the process to award, monitor, and closeout the grants administered by the division. We focused on whether grant controls were suitably designed to ensure that competitive awarding occurred when necessary, expenditures were properly recorded in the state's accounting system, and that written agreements were prepared and authorized by division management. Written grant agreements were reviewed to ensure that the grant amount, allowable costs, payment terms, and any match or other legal requirements were specified. We verified that the division disbursed funds for allowable costs and obtained the required reports and/or performed site visits. In addition, we determined whether payments had been properly recorded in the state's accounting system and that a mechanism was in place to monitor unexpended funds. Finally, we reviewed certain specific legal requirements, such as matching provisions.

Conclusions

The Business and Community Development Division's internal controls provided reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. However, we noted that the division did not accurately record approximately $11 million in Minnesota Investment Fund loans in the state's accounting system nor include them in the state's annual financial statements. Instead, the department recorded the annual loan collections as revenues. For the items tested, the division complied with financial-related legal provisions and policies for those grant activities.

2. The division did not accurately record certain loan programs in the state's accounting system or in the state's annual financial statements.

The Business and Community Development Division internally managed and controlled certain Minnesota Investment Fund loan programs. However, the loan receivable balance was not recorded in the state's accounting system, and annual loan recoveries were incorrectly recorded as revenues. As a result, the loan receivable balances were not included in the state's annual financial statements.

All expenditures of the Minnesota Investment Fund are recorded as grants, although the amount disbursed in excess of $100,000 is ultimately to be returned to the state. Minn. Stat. Section

116J.8731 sets a $500,000 limit that can be granted to an eligible recipient. Grant funds are awarded to local communities or tribal governments, which, in turn, make loans to companies. The statute states, *"The portion of a Minnesota Investment Fund grants that exceeds $100,000 must be repaid to the state when it is repaid to the local community or recognized Indian tribal government."* The grant recipient retains the first $100,000 of principal and interest payments, while the excess repaid to the state is credited to the General Fund. The state General Fund collects approximately $1,000,000 annually in repayments. Currently, the division annually estimates the amount of loan recoveries due back to the state under the program and, as repayments are received, the funds are recorded as revenue. As of February 2002, the state was due to collect $10,958,892 of loan recoveries, which should be reflected as an asset on the state's balance sheet.

Recommendation

- *The division should record Minnesota Investment fund loans receivable in the state's accounting system.*

Chapter 4. Workforce Development Division Grants

Chapter Conclusions

The Workforce Development Division's internal controls provided reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. For the items tested, the division complied with material finance-related legal provisions and policies concerning grant activities.

The Department of Trade and Economic Development created the Workforce Development Division in July 2000. Its primary funding source is a special assessment on all taxable wages, as defined by statutes governing the Unemployment Insurance Program. The assessment is deposited into the Workforce Development Fund. The division provides policy, technical, and financial services addressing the workforce needs of Minnesota businesses, workers, and communities. The division manages the following programs:

- ***Job Skills Partnership***
- ***State and Federal Dislocated Worker***

For fiscal year 2001, the total operating budget for the division was approximately $36 million. Prior to July 2000, the Job Skills Partnership program was part of the Business and Community Development Division and received a General Fund appropriation.

Job Skills Partnership

The Job Skills Partnership program provides training grants to add or improve skills of the Minnesota workforce and improve the competitiveness of Minnesota businesses. It provides financial assistance for businesses that are seeking to upgrade the skills of their workforce. The program, designed to train new or existing workers, provides matching grants of up to $400,000 that can be applied to customized training programs that are designed specifically for a business or consortium of businesses. Grant agreements cover a one to three year period. A local match is also required. A similar program, called Pathways, helps transition people from public assistance to work.

Table 4-1 shows the Workforce Development and Job Skills Partnership grants and unexpended balances recorded in the General Fund and Workforce Development Fund for the audit period.

Table 4-1
Job Skills Partnership Grants
Grant Expenditures
From July 1, 1998, to December 31, 2001

	Budgetary Fiscal Year			
	1996-1998	**1999**	**2000**	**2001**
General Fund: (Note 1)				
Job Skills Partnership	$4,979,418	$3,480,853	$2,345,839	$ 690,306
Pathway Grants	479,558	620,553	428,076	0
Total General Fund	$5,458,976	$4,101,406	$2,773,915	$ 690,306
Workforce Development Fund: (Note 2)				
Job Skills Partnership			$4,728,363	$1,420,061
Pathway Grants			81,081	19,106
Total Workforce Development Fund			$4,809,444	$1,439,167

Note 1: General Fund appropriations were provided to the Job Skills Partnership and Pathways programs. As of December 31, 2001, program accounts reflected that $7 million was encumbered but not yet expended.

Note 2: Minnesota Laws for 1999, Ch. 223, Sec. 2, Subd 2 appropriated $10 million each year from the Workforce Development Fund to the Job Skills Partnership Program for fiscal years 2000 and 2001. As of December 31, 2001, $12.7 million, of the $20 million appropriation, was encumbered but not yet expended.

Source: Minnesota Accounting and Procurement System from July 1, 1996 through December 31, 2001, for all fiscal years.

State Dislocated Worker

The State Dislocated Worker program provides employment and training programs to assist workers dislocated from work by plant closings or mass layoffs. The Department of Economic Security administered the State Dislocated Worker Program until 2000. The Legislature transferred the program to the Job Skills Partnership Board, administered through the Department of Trade and Economic Development, effective July 1, 2000.

The federal Workforce Investment Act (WIA) establishes the distribution methodology for federal and state dislocated worker funds. In addition, Minn. Stat. Section 116L.17, Subd. 2 further provides allocation ranges. Grants are awarded through two different processes; project and formula grants.

- **Project grants** are used for mass layoffs resulting from plant closings. Grantees apply for a dislocation event services grant by submitting a proposal to the commissioner. The application must describe the demonstrated need for intervention, including the need for retraining, targeted workers to be served, coordination of available local resources, services to be provided, and a planned budget. As of December 31, 2001, the fiscal year 2001 project grant expenditures totaled approximately $16.3 million.

- **Formula grants** are used for smaller layoffs, and a formula is used to calculate the grant awards. As of December 31, 2001, fiscal year 2001 formula grants totaled approximately $12.8 million.

Table 4-2 shows the grant expenditures as of December 31, 2001.

Table 4-2
State Dislocated Worker
Grant Expenditures
From July 1, 2000, to December 31, 2001

	Budgetary Fiscal Year 2001
Workforce Development Fund:	
Project Grants	$16,270,922
Formula Grants	12,835,849
Total State Dislocated Worker Grants	$29,106,771

Note: As of December 31, 2001, the accounting system reflected that $7.5 million was encumbered but not yet expended.

Source: Minnesota Accounting and Procurement System for fiscal year 2001 as of December 31, 2001.

Once State Dislocated Worker grants are allocated, Minn. Stat. Section 116L.17, Subd 5 requires recipients to adhere to cost limitations for administration, training assistance, and support services.

Audit Objectives and Methodology

Our audit focused on the following questions:

- Did the Workforce Development Division's internal controls provide reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization?
- Did the division comply with material finance-related legal provisions and policies concerning grant activities?

To answer these questions, we interviewed employees to understand the process to award, monitor, and closeout grants administered through the State Dislocated Worker and Job Skills Partnership Programs. We focused on internal controls designed to ensure that grants were properly awarded, expenditures were properly recorded in the state's accounting system, and that grant activities complied with the applicable legal provisions. Program expenditures were tested to ensure grants were made to eligible recipients for allowable costs, grants were within designated program limits, grant agreements were filed and approved by management, and grant recipients filed the required reports specified in the grant agreement.

Conclusions

The Workforce Development Division's internal controls provided reasonable assurance that grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. For the items tested, the division complied with material finance-related legal provisions and policies concerning grant activities.

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Chapter 5. Office of Tourism Grants

Chapter Conclusions

The Office of Tourism's internal controls provided reasonable assurance that its grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. However, we found that the office did not consistently execute written agreements for certain grants it managed. For the items tested, the office complied with applicable finance-related legal provisions and policies concerning grant activities.

The Minnesota Office of Tourism had a total operating budget of $8,205,000, $10,805,000, and $10,910,000, for fiscal years 1999, 2000, and 2001, respectively. The budget was contingent upon receiving specified contributions from nonstate sources in order to develop maximum private sector involvement in marketing activities.

The Tourism Office awarded grants for marketing activities that promote the tourism industry. Table 5-1 shows grants disbursed for fiscal years 1999 through 2001. A description of the various types of grants follows the table.

Table 5-1
General Fund Grant Expenditures
From July 1, 1998, to December 31, 2001

Office of Tourism Grants	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
Partnership Grants	$ 522,596	$ 986,518	$ 728,920
Special Appropriations:			
Minnesota Film Board	$ 329,000	$ 329,000	$ 329,000
Fishing Dispute	90,000	0	0
Mille Lacs Tourism	0	100,000	0
Northwest Angle Tourism	0	90,000	0
Lanesboro Regional Arts Center	0	90,000	0
Lake Benton Visitors Center	0	67,500	0
Chatfield Brass Band Museum	0	45,000	0
Duluth EDA Railroad Ties	0	45,000	0
Mississippi River Parkway	0	37,000	0
Wildlife Partnerships	0	21,630	2,450
Total Special Appropriations	$ 419,000	$ 825,130	$ 331,450
Total Grant Expenditures	$ 941,596	$1,811,648	$1,060,370

Note: As of December 31, 2001, special appropriation accounts reflected that $27,500 was encumbered but not yet expended.

Source: Minnesota Accounting and Procurement System from July 1, 1998, through December 31, 2001, for all fiscal years.

The Office of Tourism manages three different types of grants:

(1) Partnership Grants:

The office provides on-going grants in partnership with non-profit tourism organizations to attract non-resident travelers and conventions to the state. Up to 50 percent of the marketing costs for consumer advertising, trade shows, media familiarization tours, or international sales missions are eligible for reimbursement. Office of Tourism partnerships include Organizational (component and special organization), Meeting and Convention, or Special Partnerships such as the Cultural/Heritage Partnership Program. Organizational Partnership grants are the largest category.

Each partnership program has specific grant guidelines, local match, and other requirements that must be met in order to be eligible. For example, Organizational (component) Partnerships are intended to predominantly reach out-of-state markets. However, if an organization's grant request is ineligible under the guidelines of an Organizational (component) Partnership, it can submit a proposal for an Organizational (special organization) Partnership and negotiate unique grant objectives, responsibilities, funding, and performance measurement. This situation occurred on a partnership grant formed with the Gunflint Trail Association in August 1999 to aggressively promote tourism after a severe storm. The requirements for out-of-state promotion and matching funds were waived.

(2) Minnesota Film Board Grant:

The Office of Tourism provided annual pass-through funding of $329,000 to the Minnesota Film Board for general administrative support. Minnesota Laws for 1999, Chapter 223, Sec. 2, Subd. 4 required a $1 match for every $3 of state appropriation funding provided. The administrative funding was in addition to the film grant money provided to the Minnesota Film Board by the Business and Community Development Division, as discussed in Chapter 3.

(3) Special Appropriation Grants:

Pass-through grants were awarded through specific legislative appropriations that target funds for a special project or purpose. The Legislature designated the grant recipient, amount to be expended, purpose for the expenditure, and timeframes in which the grant could be used. In some cases, specified match or compliance requirements must be met in order for recipients to be eligible for the grant funds. For example, the Legislature authorized a fiscal year 2000 pass-through grant of $100,000 to the City of Lanesboro for predevelopment costs for the Root River Regional Arts Center. The grant required the recipient to generate $21,456 of cash or in-kind contributions. The office advanced 90 percent of the grant, or $90,000. As of June 30, 2002, the remaining $10,000 was unpaid since the final report had not been received with justification of the local match.

Audit Objectives and Methodology

Our audit of Office of Tourism grant expenditures focused on the following questions:

- Did the office's internal controls provide reasonable assurance that grants were properly awarded and monitored, accurately recorded in the accounting records, and made in compliance with applicable legal provisions and management's authorization?

- Did the office comply with significant finance-related legal provisions concerning grant activities?

To answer these questions, we reviewed the internal control process to award, monitor, and closeout the grants administered through the Office of Tourism. We also focused on controls ensuring grants were properly awarded, expenditures were properly recorded in the state's accounting system, and grant activities complied with applicable legal provisions. We tested Partnership grants to ensure the award was based on a written proposal stating the grant purpose and that a grant contract was executed. Using office grant files, we verified that the office monitored the grant by disbursing funds for allowable costs, verifying that the match was made, monitoring unexpended balances, and receiving any final reports.

For the Film Board and special appropriation pass-through grants, the Legislature had specified the recipient of grant funds. Our review focused on the monitoring and recording of these grants, in addition to compliance with finance-related legal provisions. We determined that the office monitored these grants by requiring a detailed work plan, an approved budget, documentation supporting any required match, and a final grant report.

Conclusions

The Office of Tourism's internal controls provided reasonable assurance that its grants were properly awarded and monitored, accurately recorded in the state's accounting system, and in compliance with applicable legal requirements and management's authorization. However, we found that the office did not consistently execute written agreements for certain grants it managed. For the items tested, the office complied with applicable finance-related legal provisions and policies concerning grant activities.

3. The Office of Tourism did not prepare written grant agreements for Component Organizational Partnership grants.

The office documented its Component Organizational Partnerships grants using purchase orders rather than written grant agreements. The purchase orders served as the encumbering document to set aside funds, however, they did not include certain key features, such as data practices and disclosure, audit access, period of availability, and cancellation of funds. Also, the purchase orders are not signed by the grantee, which would show acceptance of the terms of the partnership program. The Department of Finance's MAPS Operating Policy and Procedure #0707-02 requires grant contracts for state agency financial assistance paid to third parties.

Currently, the office relies on grantee adherence to Organizational Partnership guidelines that contain eligibility and matching requirements, reporting and payment timeframes, and outcome measurements. Grantees submit invoices to support the total program cost, and the Office of Tourism reimburses 50 percent of the eligible costs. However, we noted grantees do not always follow the established guidelines. For example, one grantee received an $11,568 grant that was requested over six months after the advertising costs were actually incurred. Program guidelines indicate that invoices should be submitted within 30 days. Late fees were incurred by the grantee, but not funded from state grant money. Having specific criteria, such as payment timeframes, contained in a written grant agreement provides a clearer understanding of program requirements.

The office documents other similar grants for Special Organizational Partnerships and its special appropriations using a standard grant contract with attachments citing specific requirements of the grant. These contracts could serve as a guide for developing written agreements for its Component Organizational Partnerships.

Recommendation

- *The Office of Tourism should prepare written grant agreements for its Component Organizational Partnership grants.*

Status of Prior Audit Issues
As of April 5, 2002

Most Recent Statewide/Single Audit

Legislative Audit Report 02-11, issued on March 1, 2002, examined the department's financial activities and programs material to the State of Minnesota's general purpose financial statements for the fiscal year ending June 30, 2001. We reviewed the financial activities of the Agriculture and Economic Development Fund and three loan programs in the Special Revenue Fund. We also examined the Community Development Block Grant (CFDA #14.228) as part of the Single Audit of the state's federal expenditures.

The audit contained one finding concerning inaccurate recording of Rural Challenge Grant loans in the state's accounting system. The department changed the financial management of the loan program to allow the loans to revolve at the regional level instead of being repaid into the state treasury and reissued back to the regional organization. The department is currently working to revise the coding of these transactions as grants rather than loans.

Most Recent Department Audit

Legislative Audit Report 99-55, issued in October 1999, covered the three fiscal years ending June 30, 1998. The audit scope included a review of selected grant and loan programs, the tourism revenue match program, payroll, and professional and technical services. The audit contained no issues or findings requiring improvement.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Appendix A
General Fund Grant Financial Activities
Business and Community Development
Ongoing Grant Programs
Cumulative Financial Activity through December 31, 2001

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out & Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec. 31, 2001
Minnesota Investment Fund grants were awarded to local governments who, in turn, provide loans to assist expanding businesses. The annual grant maximum is $500,000 and 50% of project costs must be matched from non-state sources.	1996	Yes	$6,017,000	$ 0	$3,598,120	$ 85,000	$2,333,880	$ 0	$ 0
	1997	Yes	4,017,000	2,333,880	3,404,892	1,620,000	1,325,998	0	0
	1998	Yes	7,017,000	1,725,998	1,281,476	3,357,989	4,103,523	0	0
	1999	Yes	6,017,000	4,103,523	0	5,893,194	1,197,642	2,628,748	400,940
	2000	Yes	5,017,000	1,306,424	0	3,202,587	1,220,527	0	1,900,581
	2001	Yes	4,017,000	1,260,257	0	2,900,242	625,957	20,300	1,730,758
Minnesota Investment Fund Flood grants were provided to local units of government for loan programs for businesses adversely affected by floods.	1998	No	$6,000,000	$ 0	$3,762,917	$2,186,195	$ 11,129	$ 0	$ 39,759
	1999		0	221,520	0	210,391	0	11,129	0
	2000		0	27,100	0	27,100	0	0	0
Minnesota Investment Fund Tornado grants were provided for locally administered loan programs to businesses adversely affected by tornados.	1999	No	$4,800,000	$1,350,000	$ 0	$6,075,770	$ 0	$ 0	$ 74,230
Contaminated Grants were awarded with the help of the Pollution Control Agency for contamination investigations and cleanup to sites where there are planned redevelopment intentions. Appropriated funds were available until expended.	1996	Yes	$7,800,000	$ 227,783	$2,210,550	$ 268,209	$5,353,524	$ 0	$ 195,500
	1997		0	5,672,236	2,286,438	1,036,894	2,348,904	0	0
	1998	Yes	5,800,000	2.348,904	170,596	3,933,934	4,084,374	0	0
	1999		0	3,584,303	0	3,547,662	36,641	0	0
	2000	Yes	4,800,000	36,640	0	3,788,256	21,738	0	1,026,646
	2001	Yes	2,800,000	21,738	0	1,701,859	9,313	0	1,110,566
Mortgage Credit Certificate Aid grants were provided to cities for home ownership programs to homebuyers with low and moderate income levels.	1999	No	$ 368,134	$ 0	$ 0	$ 368,134	$ 0	$ 0	$ 0
	2000	No	220,730	0	0	220,730	0	0	0
	2001	No	246,211	0	0	230,726	0	0	15,485

Note: The financial activity presented above includes grants expended from July 1, 1998 through December 31, 2001. Fiscal year 1996, 1997 and 1998 grants expended prior to July 1, 1998 are not shown.

Source: Minnesota Accounting and Procurement System from July 1, 1998, through December 31, 2001, for all fiscal years.

Appendix B
Business and Community Development Division
General Fund – Special Appropriation Financial Activities
Grants to Recipients Specified in Appropriation Laws
Cumulative Financial Activity through December 31, 2001

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec. 31, 2001
Advantage Minnesota, Inc. is a non-profit marketing entity, authorized under Minn. Stat. 116J.693, and created to attract businesses and bring jobs to Minnesota. A dollar-for dollar match was required before the release of grant funds.	1999 2000 2001	Yes Yes	$ 450,000 400,000 0	$ 0 0 94,500	$ 0 0 0	$ 450,000 305,500 37,000	$ 0 94,500 0	$ 0 0 57,500	$ 0 0 0
Asian Development Corp. was awarded grants to create and operate community development corporations in Hennepin County and Ramsey County that target Asian-Pacific Minnesotans.	1998 1999	No No	$ 100,000 100,000	$ 0	$ 2,860 0	$ 37,557 99,950	0 0	$ 59,583 50	$ 0 0
Biomass Energy Project grant was provided to the Granite Falls economic development authority for the development of a farm-grown, closed-loop biomass energy project. The grant was used to manage the development, financing and equity participation for the project, reimburse third party due diligence exercises, and perform environmental review and permitting.	1999	No	$ 500,000	$ 0	$ 0	$ 500,000	$ 0	$ 0	$ 0
Brooklyn Center was a recipient of an appropriation to redevelop the Brookdale regional center and construct a series of storm water retention ponds that will facilitate the redevelopment of the area. The city matched 25%.	1998	Yes	$ 2,000,000	$ 0	$ 0	$2,000,000	$ 0	$ 0	0
Camp Heartland Center received a special appropriation grant for Phase II capital construction costs of the center's lodge, offices, and medical facility in Minneapolis.	2000	No	$350,000	$ 0	$ 0	$350,000	$ 0	$ 0	$ 0
Duluth Technology Village grant was paid to the city of Duluth to support the development of partnerships and attract software businesses. The technology campus providing benefits to educational institutions, government, and private industry. The grant was matched with $1.7 million of local funds used to finance the facility's lease.	2000	Yes	$450.000	$ 0	$ 0	$424,743	$ 0	$ 0	$ 25,257

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec. 31, 2001
Defense Conversion monies were appropriated by the 1995 Legislature to provide pass-through funding for the state's matching share of federal defense conversion grants to Hennepin and Ramsey counties. The appropriation is available until spent.	1996 1997	Yes	$250,000 0	$ 0 250,000	$ 0 0	$ 0 77,290	$250,000 0	$ 0 0	$ 0 172,710
Ely Technical Building obtained a special grant appropriation to assist with the city of Ely's renovation and rehabilitation costs.	2000	No	$150,000	$ 0	$ 0	$150,000	$ 0	$ 0	$ 0
Fridley Infrastructure-Moore Lake grant funds were provided to the city of Fridley for the costs of designing and constructing infrastructure improvements required for a large business campus development in the Moore Lake area.	2000	No	$500,000	$ 0	$ 0	$209,298	$ 0	$ 0	$290,702
Grey Eagle Water Treatment Plant received a grant for the construction of a wastewater treatment facility in Grey Eagle. The Pollution Control Agency managed the project.	1998	No	$100,000	$ 0	$ 0	$100,000	$ 0	$ 0	$ 0
Hennepin Grimm Farm appropriation was paid to the Suburban Hennepin Regional Park District for the restoration of the Grimm farmstead.	2000	No	$150,000	$ 0	$ 0	$150,000	$ 0	$ 0	$ 0
Highland Park Enhancements involved a grant to the Highland Park district council for the enhancement of the West Seventh Street/Gateway area. An equal amount of non-state funding match was required.	2000	Yes	$50,000	$ 0	$ 0	$2,743	$ 0	$ 0	$47,257
Judy Garland Museum pass-through funds were provided to assist in the design and construction of the children's museum in the city of Grand Rapids.	1998	Yes	$200,000	$ 0	$ 0	$ 0	$ 0	$ 0	$200,000
Metropolitan Economic Development Association received pass-through appropriations for the past several fiscal years to fund grant reimbursements issued by the association.	1998 1999 2000 2001	No No No No	$130,000 155,000 155,000 155,000	$ 0 0 0 0	$ 104,000	$ 26,000 155,000 155,000 155,000	$ 0 0 0 0	$ 0 0 0 0	$ 0 0 0 0
Metropolitan Foreign Trade Zones involved grant appropriations to market and promote foreign trade zones to store foreign or domestic goods, repackage materials, assemble products, or manufacture or re-export goods without paying the usual custom's duty.	1998 1999	No	$80,000 $80,000	$ 0 0	$ 13,699	$66,301 $80,000	$ 0 0	$ 0 0	$ 0 0

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec. 31, 2001
Minneapolis Employment Connect was a pass-through grant to coordinate economic development activities of the Minneapolis Community Development Agency with the City of Minneapolis' employment and training programs.	1996 1997	No	$100,000 $100,000	$ 0 0	$ 0 0	$100,000 $45,190	$ 0 0	$ 0 0	0 $54,810
Minnesota Film Board received annual special appropriation grants of $500,000 to reimburse the film producers for 2-5% of the documented film production wages paid to Minnesotans.	1999 2000 2001	Yes Yes Yes	$500,000 $500,000 $500,000	$ 0 0 0	$ 0 0 0	$194,651 500,000 500,000	$305,349 0 0	$ 0 0 0	$ 0 0 0
Morrison Cty Rural Finance Authority received a grant for capital improvements to a paper and wood products manufacturer located in the county. Moneys were used to help Hennepin Paper Company upgrade its equipment and retain 151 jobs, however, the company has since closed	1998	No	$250,000	$ 0	$ 195,382	$53,833	$ 0	$785	$ 0
Neighborhood Development Center received state grant funding for the purpose of expanding and improving its neighborhood and ethnic-based support programs to the poorest communities of Minneapolis and St. Paul.	1999	No	$80,000	$ 0	$ 0	$80,000	$ 0	$ 0	$ 0
New Brighton Coalition was part of a seven-city coalition receiving a grant for planning along the Interstate 35W expansion near Interstate 694. The city of New Brighton was the project coordinator and fiscal agent.	1999	No	$100,000	$ 0	$ 0	$100,000	$ 0	$ 0	$ 0
Newport Study grant funds were provided to the city of Newport to conduct a study of the economic impact on the city resulting from regional infrastructure projects, including gathering information about economic use, fiscal impact, infrastructure and traffic impact. The grant required a one-to-one match and half of the city's expenses were reimbursed.	1998	Yes	$125,000	$ 0	$ 0	$125,000	$ 0	$ 0	$ 0
Perham Business Technology Center received a state grant to equip the training center with interactive television and for program funds to implement its business plan.	2000	No	$75,000	$ 0	$ 0	$75,000	$ 0	$ 0	$ 0

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec. 31, 2001
Richfield Redevelopment funds were disbursed to the City of Richfield to help with acquisition and site preparation costs incurred in the expansion of the Minneapolis-St. Paul International Airport. The normal matching requirements of the department's redevelopment program were waived, however, other legislative plans and reports were required.	2001	No	$5,000,000	$ 0	$ 0	$4,851,618	$ 0	$ 0	$ 148,382
Rural Policy and Development Center received grant funds for operations. The Center, established by the Legislature as a statewide resource for rural policy research and analysis, is located at Mankato State University. In addition, a $2 million endowment, provided by the 1997 Legislature to the Center, remains in the state treasury earning investment income and has a balance of $2.4 million as of December 31, 2001.	1999 2000	No No	$250,000 200,000	$ 0 0	$ 0	$248,519 200,000	$ 0 0	$ 1,481 0	$ 0 0
Software Technology Center received a pass-through appropriation to broaden industry-related educational and technological services. The grant required a dollar for dollar match from other sources.	1998	No	$250,000	$ 0	$ 178,000	$72,000	$ 0	$ 0	$ 0
St. Paul Jobs and Economic Development funds were appropriated to the city to develop and implement a program connecting economic development activities with employment and job development programs.	1996	No	$300,000	$ 0	$ 30,000	$270,000	$ 0	$ 0	$ 0
Women Venture received grant moneys to encourage women to enter nontraditional careers in trade and technical occupations and produce outreach programs to women and girls.	1998 1999 2000 2001	No No No No	$240,000 265,000 265,000 265,000	$ 0 0 0 0	$ 220,000 0 0 0	$ 20,000 265,000 264,996 265,000	$ 0 0 0 0	$ 0 0 4 0	$ 0 0 0 0

Note: The financial activity presented above includes grants expended from July 1, 1998, through December 31, 2001. Fiscal years 1996, 1997, and 1998 grants expended prior to July 1, 1998, are not shown.

Source: Minnesota Accounting and Procurement System from July 1, 1998, through December 31, 2001, for all fiscal years.

Appendix C
Business and Community Development Division
General Fund Grant Financial Activities
Special Appropriations – Unnamed Recipients
Cumulative Financial Activity through December 31, 2001

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec 31, 2001
Border City Enterprise grants were provided to cities, primarily bordering the North and South Dakota boarder, pursuant to Minn. Stat. Sections 469.166 to 469.173 to offset taxes imposed on or remitted by businesses in the enterprise zone.	1998 1999	No No	$ 1,200,000 0	$ 0 7,552	$203,774 0	$ 988,674 0	$ 7,552 0	$ 0 7,552	$ 0 0
Catalyst Grants were appropriated to tribal and local governments to expand Internet access in rural areas. The grants were to fund capital expenditures for traditional fiber optic cable or wireless technology.	2001	Yes	$ 1,000,000	$ 0	$ 0	$ 370,453	$ 0	$ 0	$ 629,547
Community Development Corporations certified by the department were provided organizational operating grants pursuant to Minn. Stat. Section 116J.982.	1997 1998 1999	No No No	$50,000 50,000 50,000	$ 0 0 0	$ 47,354 13,158 0	$ 2,500 36,842 50,000	$ 0 0 0	$ 146 0 0	$ 0 0 0
Community Resources grants are awarded to cities with populations over 100,000 pursuant to Minn. Stat. Ch. 466A to increase community safety, reduce crime, enhance family stability, and create community cohesiveness.	1998 1999 2000	No No No	$1,000,000 1,000,000 500,000	$ 0 0 0	$ 981,461 0 0	$ 118,539 1,000,000 500,000	$ 0 0 0	$ 0 0 0	$ 0 0 0
County and District Agricultural Society competitive grants were provided in the amount of $1,000 for every fair conducted each year.	1999 2000	No No	$ 95,000 50,000	$ 0 0	$ 0 0	$ 95,000 50,000	$ 0 0	$ 0 0	$ 0 0
Iron Processing Facility was a grant awarded ***"to develop a direct reduction iron-processing facility in Minnesota"***. No competitive process was conducted, but instead the grant was awarded to the Minnesota Iron and Steel Company with support of certain Iron Range legislators and the Dept. of Natural Resources.	1998 1999	No No	$3,000,000 0	$ 0 1,236,830	$ 189,587 0	$1,573,583 1,185,018	$1,236,830 0	$ 0 0	$ 0 51,812
Labor Force Assessments were grants to local economic development agencies to assess areas in which the education of the available workforce were underutilized. The grant reimbursed 60% of the invoiced project costs.	2001	Yes	$ 750,000	$ 0	$ 0	$356,688	$ 0	$ 24,384	$ 368,928

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec 31, 2001
Microenterprise Assistance grants were disbursed to nonprofit organizations to provide technical assistance to Minnesota entrepreneurs with fewer that five employees pursuant to Minn. Stat. Section 116J.8745.	1998 1999 2000 2001	No No No	$500,000 0 220,000 220,000	$ 0 180,101 0 0	$ 311,817 0 0 0	$ 8,082 102,436 201,524 204,026	$180,101 0 0 0	$ 0 77,665 18,476 0	$ 0 0 0 15,974
Public Infrastructure-Tornado funds were distributed to local units of government for infrastructure repair to public buildings, bridges, sewers and utilities that were damaged by tornados. Additional funding of $3.5 million was provided by the Department of Agriculture, Housing Finance Agency, and from other miscellaneous receipts. $1.35 million was transferred to the Minnesota Investment Fund Tornado account. The division has relied on the federal Housing and Urban Development (HUD) agency to monitor the progress of these projects.	1999	No	$1,000,000	$3,486,943	$ 0	$2,429,282	$1,350,000	$8,219	$ 699,442
Redevelopment Grants were disbursed to development authorities to pay for costs of land acquisition, stabilizing unstable soils when infill is required, and infrastructure improvements. Development authorities were provided funds contingent on an equal match of nonstate money.	2000 2001	Yes	$3,000,000 0	$ 0 2,111	$ 0 0	$2,047,016 0	$ 2,111 0	$ 0 0	$ 950,873 2,111
Regional and Marketing Initiatives involved miscellaneous projects sponsored by the division. A 1999 grant was provided to the Southeast Minnesota Development Council to develop a regional financial intermediary for local revolving loan funds and a 2001 grant was provided to reimburse a non-profit organization for marketing expenses.	1999 2000 2001	No No No	$ 0 0 0	$ 50,000 5,000 52,612	$ 0 $ 0 $ 0	$ 50,000 5,000 52,612	$ 0 0 0	$ 0 0 0	$ 0 0 0
Rural Job Creation grants were provided to eligible for-profit businesses pursuant to Minn. Stat. Section 469.309. Statutes required employers to be located outside the metropolitan area and create 10 new jobs in a two-year period. The maximum award was $5,000 for each eligible employee, up to $100,000 grant limit.	1998 1999 2000	No No No	$240,000 240,000 216,000	$ 0 0 0	$ 0 0 0	$190,000 0 216,000	$ 0 0 0	$ 0 240,000 0	$ 50,000 0 0

Program / Purpose	Budget Fiscal Year	Match Required	Appropriation	Balance-In, Transfers-In, & Receipts	Expenditures prior to June 30, 1998	Expenditures after June 30, 1998	Balance-Out and Transfers-Out	Cancellations	Unexpended Encumbrances @ Dec 31, 2001
Taconite Mining grants are awarded to taconite mining companies for taconite pellet product improvements, value-added production of taconite iron ore or cost-savings production improvements at taconite plants pursuant to Minn. Stat. Section 116J.992.	1998 1999	Yes	$ 650,000 0	$ 0 650,000	$ 0 0	$ 0 650,000	$ 650,000 0	$ 0 0	$ 0 0
Technical Assistance Tornado funds were provided for technical assistance for grants and loans relating to the tornado disaster. The Region Nine Development Commission was awarded the grant for damage in southwest Minnesota.	1998 1999	No	$150,000 0	$ 0 30,000	$ 0 0	$ 120,000 30,000	$30,000 0	$ 0 0	$ 0 0
Tornado Contingency funds were provided to the Commissioner of Finance for the needs of tornado disaster victims. Funds were transferred to the Department of Trade and Economic Development for grants to the cities of Comfrey and St. Peter.	1999	No	$ 0	$2,145,126	$ 0	$1,889,000	$ 0	$ 0	$ 256,126
Youth Entrepreneurship grants provided assistance to school or student-operated businesses to improve the entrepreneurial skills of students and aid in their transition from school to business creation. Funds were paid to seven educational institutions.	1998 1999	Yes Yes	$ 0 0	$ 25,000 70,000	$ 0 0	$ 25,000 70,000	$ 0 0	$ 0 0	$ 0 0

Note: The financial activity presented above includes grants expended from July 1, 1998, through December 31, 2001. Fiscal years 1996, 1997, and 1998 grants expended prior to July 1, 1998, are not shown.

Source Minnesota Accounting and Procurement System as of December 31, 2001.

MINNESOTA

Trade &
Economic
Development

October 9, 2002

Mr. James R. Nobles
Legislative Auditor
140 Centennial Building; 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to discuss the draft audit report on department grants during our recent exit conference. As reflected in our response below, our agency will continue to strive toward balancing good tracking mechanisms while meeting our program goals and client needs.

1. The department expended grants several years after the fiscal year in which the funds were originally appropriated, and unspent encumbrances may not always be cancelled in a timely manner.

Recommendation: DTED should structure its grant award process to ensure compliance with statutory guidelines governing the period of availability for state appropriations. The department should review their current outstanding encumbrances and ensure that General Fund encumbrances are cancelled in a timely manner.

Agency Response: DTED will work to structure its grant award process to ensure compliance with statutory guidelines governing the period of availability for state appropriations. Outstanding encumbrances will be reviewed to ensure that General Fund encumbrances are cancelled in a timely manner. Person responsible: Louie Jambois

2. The division did not accurately record certain loan programs in the accounting system or in the state's annual financial statements.

Recommendation: The division should record Minnesota Investment fund loans receivable in the state's accounting system.

Agency Response: DTED has worked with the Department of Finance and will incorporate the Minnesota Investment Fund loans receivable into the quarterly accounts receivable reporting process. Through this process, this receivable will be reported in the state's annual financial statements. Person responsible: Judy Kislenger

3. The Office of Tourism did not prepare written grant agreements for Component Organizational Partnership grants.

Recommendation: The Office of Tourism should prepare written grant agreements for its Component Organizational Partnership grants.

Agency Response: The Office of Tourism will prepare written grant agreements for its Component Organizational Partnership grants. A draft of the agreement is currently being reviewed. Person responsible: Colleen Tollefson

If you have additional questions, please call Elaine Bliss at (651) 297-3184.

Sincerely,

/s/ Rebecca Yanisch

Rebecca Yanisch
Commissioner