OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Technology, Incorporated

For the Period July 1, 1996, through June 30, 1999

JULY 20, 2000

00-33

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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

Report Summary

Financial-Related Audit

Minnesota Technology, Incorporated
For the Period July 1, 1996, through June 30, 1999

Overall Conclusion:

Minnesota Technology, Incorporated's (MTI), payroll, administrative, and grant expenditures were properly authorized, supported, and recorded on MTI accounting records and in compliance with board policies and applicable finance-related legal provisions. MTI transferred its Seed Capital (Equity) Fund assets to the Minnesota Investment Network Corporation according to the transfer agreement. The audit report contained no findings or recommendations for improvement.

Agency Background:

Minnesota Technology, Incorporated (MTI), is a public nonprofit corporation established to assist Minnesota companies in becoming more competitive through the application and development of technology. MTI operates six offices throughout the state. The main office is located in Minneapolis with other offices in Rochester, Redwood Falls, St. Cloud, Virginia, and Moorhead. MTI is governed by a 15 member board of directors. Jacques Koppel has served as president since September 1990.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Technology, Incorporated, included payroll, grants, and other administrative expenditures.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Jacques Koppel, President
Minnesota Technology, Incorporated

We have conducted a financial related audit of Minnesota Technology, Incorporated (MTI), for the period July 1, 1996, through June 30, 1999. Our audit scope included payroll, administrative expenditures, fixed assets, and grants.

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 also require that we design the audit to provide reasonable assurance that MTI complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. MTI's management is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of MTI. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 20, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 2000

Report Signed On: July 17, 2000

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Chapter 1. Introduction

Minnesota Technology, Incorporated (MTI), is a public nonprofit corporation established to assist Minnesota companies in becoming more competitive through the application and development of technology. MTI operates six offices throughout the state. The main office is located in Minneapolis with other offices in Rochester, Redwood Falls, St. Cloud, Virginia, and Moorhead.

MTI operates under the provisions of Minn. Stat. Chapter 116O. Its purpose, as specified in Section 116O.03, is:

> ...to foster long-term economic growth and job creation by stimulating innovation and the development of new products, services, and production processes through energy conservation, technology transfer, applied research, and financial assistance. The primary focus of the corporation's activities must be to benefit new or existing small and medium-sized businesses in greater Minnesota.

MTI receives direction from a 15-member board. The board is responsible for appointing a president who serves as the chief executive officer of the corporation. Jacques Koppel has served as MTI's president since September 1990. Although MTI is not subject to the laws governing a state agency, it must follow certain financial reporting, budgeting, allotting, encumbering, accounting, and indirect cost requirements specified in Minn. Stat. Section 16A.

A public accounting firm annually audits the financial statements of MTI, including federal grant programs under OMB Circular A-133, the Single Audit. Table 1-1 shows summarized information from MTI's Statement of Financial Position as of June 30, 1999.

Table 1-1
Statement of Financial Position
As of June 30, 1999

Assets	
Cash and Cash Equivalents	$ 9,098,516
Accounts receivable	142,272
Due from federal government	593,441
Interest receivable	38,991
Equipment and leasehold improvements (net of depreciation)	470,660
Total Assets	$10,343,880
Liabilities:	
Accounts Payable	$ 950,073
Accrued compensation and benefits	269,982
Total Liabilities	$ 1,220,055
Net Assets:	
Unrestricted:	
Undesignated[1]	$ 7,525,790
Designated[2]	1,598,035
Total Unrestricted	$ 9,123,825
Total Liabilities and Net Assets	$10,343,880

(1) The undesignated portion of unrestricted net assets represents funds available for the day-to-day operations and programs sponsored by MTI.

(2) The designated portion of unrestricted net assets represents funds available for investment in small business concerns to promote economic growth and job creation. Eighty percent of these investments must be in greater Minnesota. Under a transfer agreement, MTI assigned and transferred approximately $6.9 million of its investments in small business concerns to the Minnesota Investment Network Corporation on July 1, 1998, as further explained in Chapter 4.

Source: MTI's audited financial statements as of June 30, 1999.

Minnesota Technology, Incorporated

MTI operations are financed primarily through General Fund appropriations and federal grants. Table 1-2 highlights MTI's financial activity for the three years ending June 30, 1999.

Table 1-2
Minnesota Technology Incorporated
Summary of Financial Activity

	FY 1997	FY 1998	FY 1999
Sources:			
Balance-in	$11,297,784	$ 9,628,955	$ 9,728,160
State Appropriations[(1)]	7,587,000	9,537,000	10,037,000
Federal programs	2,074,372	2,539,912	2,216,029
Other income	1,516,823	1,983,568	1,526,897
Total sources	$22,475,979	$23,689,435	$23,508,086
Uses:			
Grants[(1)]	$ 4,407,568	$ 5,167,877	$ 5,613,733
Personnel	4,231,464	4,749,273	5,207,173
Professional/Technical services	1,857,416	1,315,873	751,850
Purchased services	549,490	797,078	1,620,360
Printing and Advertising	299,017	349,273	518,108
Rent and Utilities	323,558	300,628	325,046
Travel	306,386	312,618	322,165
Equipment	276,338	223,013	106,344
Other	595,787	745,642	722,453
Total uses:	$12,847,024	$13,961,275	$15,187,232
Balance Out	$ 9,628,955	$ 9,728,160	$ 8,320,854

(1) As part of its operating appropriation, MTI receives funding for several outside organizations. These legislative grants pass through MTI. Although pass-through organizations submit a statement of work and a budget to MTI, MTI does not monitor their activity or establish programmatic control over how the pass-through organizations use the funds. See Chapter 4 for further discussion.

Source: Minnesota Accounting and Procurement System (MAPS) and state appropriation laws.

Chapter 2. Payroll

Chapter Conclusions

MTI's internal controls provided reasonable assurance that payroll expenditures were properly authorized, supported, and recorded on MTI accounting records and in compliance with board policies and applicable finance-related legal provisions. In addition, for the items tested, MTI complied with its board policies and applicable finance-related legal provisions.

MTI employs approximately 90 full-time employees. Although MTI employees are not state employees, Minn. Stat. Section 116O.04, Subd. 2, provides that they may participate in the state's retirement system, insurance plans, and deferred compensation program. MTI employees serve at the pleasure of the corporation, similar to unclassified positions in state service. Unlike the state's classified service, MTI employees are not represented by employee bargaining units.

MTI has a written employee handbook that also serves as its policies and procedures manual for payroll. The manual details employee classification, attendance, benefits, and termination policies. Benefits include sick leave, vacation leave, personal leaves of absence, Family and Medical leave, and severance pay. MTI employees submit their timecards on a biweekly basis and are paid every other Friday. MTI's full-time salary expenditures totaled $4,212,041, $4,718,987, and $5,176,757 for fiscal years 1997, 1998, and 1999, respectively.

MTI maintains a clearing account for its employee payroll at a local bank. MTI requests the Minnesota Department of Finance to transfer money from its state appropriation accounts to its bank account. MTI has contracted with a private vendor to process employee payroll checks, provide reports, and file various wage detail reports. The reports provide MTI with the transfer amount necessary to meet immediate payroll cash needs. The vendor also delivers the payroll checks and reports to MTI for distribution unless employees have requested direct deposit.

Objectives and Methodology

Our audit of MTI's payroll expenditures focused on the following questions:

- Did MTI's internal controls provide reasonable assurance that payroll expenditures were properly approved, supported, and recorded on MTI accounting records and in compliance with board policies and applicable finance-related legal provisions?

- For the items tested, did MTI comply with board policies and applicable finance-related legal provisions?

Minnesota Technology, Incorporated

To answer these questions, we interviewed MTI staff to gain an understanding of the controls in place over the payroll process. We reviewed MTI's policies and procedures regarding personnel and payroll and analyzed employee timesheets, leave balances, ADP reports, bank account activity, and transfers from the Department of Finance.

Conclusion

MTI's internal controls provided reasonable assurance that payroll expenditures were properly approved, supported, and recorded on MTI accounting records and in compliance with board policies and applicable finance-related legal provisions. In addition, for the items tested, MTI complied with board policies and applicable finance-related legal provisions.

Chapter 3. Administrative Expenditures

Chapter Conclusions

MTI's internal controls provided reasonable assurance that its administrative expenditures were properly authorized, supported, and recorded in the accounting system and in compliance with board policies and applicable finance-related legal provisions. Also, MTI maintained adequate controls over its equipment inventory. In addition, for the items tested, MTI complied with board policies and applicable finance-related legal provisions.

Administrative expenditures included payments for non-payroll items, such as professional/technical services, purchased services, rent and utilities, printing and advertising, employee travel, equipment, and per diems. Table 3-1 summarizes MTI's administrative expenditures during the audit period.

Table 3-1
Selected Administrative Expenditures
For the three years ending June 30, 1999

	FY 1997	FY 1998	FY 1999
Professional/Technical Services	$1,857,416	$1,315,873	$751,850
Purchased Services	549,490	797,078	1,620,360
Printing and Advertising	299,017	349,273	518,108
Rent and Utilities	323,558	300,628	325,046
Travel - In-State	214,878	234,978	234,874
Travel - Out-of-State	91,508	77,640	87,291
Per Diems	21,230	21,670	21,210
Equipment	276,338	223,013	106,344

Source: Minnesota Accounting and Procurement System (MAPS) as of September 1999.

MTI's purchasing policy applies to the purchase of most goods and services and includes competitive bidding, vendor selection, signature authority, purchase order processing, ordering, and invoicing. Except for rent and utilities, the purchase of goods or services requires a purchase order. The purchase order must be properly authorized. Current policy provided the following authorization limits:

Approval By	Expenditure Limit
MTI Board	All items over $25,000
President	Up to $25,000
Director	Up to $10,000
Manager/Designee	President/Director's discretion

In addition, MTI's policy provided the following directives for competitive bidding of goods and services:

- Goods/services less than $3,000 require no bids or quotes.
- Goods/services between $3,000 and $10,000 require verbal or faxed bids from more than one vendor and submitted to MTI's Finance department.
- Goods/services over $10,000 require a minimum of three written bids.

In cases where goods or services can only be provided by one vendor, the President, the Managing Director, the Director, or the Controller must be consulted prior to making a commitment. In addition, a letter of justification to document the reasons for a sole source vendor was required.

MTI also maintains a written policy to reimburse employees, including board members, for their actual expenses while traveling in the performance of MTI business activities. During the audit period, MTI in-state and out-of-state travel expenditures were $684,730 and $256,439, respectively. Eligible expenses include mileage at the rate prescribed by the Internal Revenue Service (IRS), meal expenses, lodging, transportation, and related expenses at actual costs. Alcohol, spousal, and entertainment expenses are ineligible expenses for reimbursement.

Minn. Stat. Section 15.0575, Subd. 3, provides that MTI board members "be compensated at the rate of $55 a day spent on board activities, plus expenses." During the audit period, MTI paid per diem totaling $64,110 to its board members.

During the audit period, MTI purchased general office equipment, including computers totaling $605,695. MTI maintained an electronic inventory file for its equipment and completes an annual physical inventory.

Objectives and Methodology

Our audit of MTI's administrative expenditures focused on the following questions:

- Did MTI's internal controls provide reasonable assurance that its administrative expenditures were properly approved, supported, and recorded in the accounting system and in compliance with board policies and applicable finance-related legal provisions?

- Did MTI maintain adequate control over equipment inventory?

- For the items tested, did MTI comply with board policies and applicable finance-related legal provisions and management authorizations?

To answer these questions, we reviewed MTI policies and procedures and interviewed key personnel to gain an understanding of the internal control structure over the procurement and disbursement process. We performed detailed testing of professional/technical and purchased service transactions, equipment transactions, employee travel reimbursements, and board per diem transactions. We also reviewed a sample of administrative expenditures to determine if

Minnesota Technology, Incorporated

MTI complied with its policies and applicable finance-related legal provisions. For a sample of equipment expenditures, we located the items and examined inventory records.

Conclusion

MTI's internal controls provided reasonable assurance that its administrative expenditures were properly authorized, supported, and recorded in the accounting system and in compliance with board policies and applicable finance-related legal provisions. Also, MTI maintained adequate controls over its equipment inventory. In addition, for the items tested, MTI complied with board policies and applicable finance-related legal provisions.

Chapter 4. Grant Expenditures

Chapter Conclusions

MTI's internal controls provided reasonable assurance that grant expenditures were properly authorized, supported, and recorded in the accounting system and in compliance with board policies and applicable finance-related legal provisions. In addition, for the items tested, MTI complied with board policies and applicable finance-related legal provisions. MTI transferred its Seed Capital (Equity) Fund assets to the Minnesota Investment Network Corporation according to the transfer agreement.

MTI disbursed grant funds as a means to fulfilling its mission of providing assistance to Minnesota companies in becoming more competitive through the application and development of technology. The funding sources for these programs included MTI's state appropriation and federal grants. MTI has a long-standing relationship with the US Department of Commerce's National Institute of Standards and Technology (NIST). During the audit period, NIST provided MTI with approximately $6 million in grant funds. MTI's federally funded programs are audited annually in accordance with OMB Circular A-133, the Single Audit. Therefore, we did not review these programs.

MTI received $3.5 million in state appropriations for fiscal years 1998 and 1999 to fund the Technology Partnership Fund (TPF). This program was established to aid companies in research and development costs associated with new or improved products. Under this program, MTI could invest $20,000 to $100,000 in each company. Once the board approved the grant applications, MTI made installment payments based on company submitted progress reports. MTI directors monitor grants payments on internal spreadsheets to ensure that the proper amounts are paid. MTI disbursed approximately $320,000 in fiscal year 1998 and $1,564,000 in fiscal year 1999 in companies under the TPF program.

MTI also disbursed grant funds from its Seed Capital (Equity) Fund through June 30, 1998. Disbursements for the two years ended June 30, 1998, totaled approximately $3.7 million. The purpose of the fund was to encourage the start-up and development of small businesses in rural Minnesota. MTI invested cash in companies it selected in return for an ownership interest. On July 1, 1998, MTI entered into a transfer agreement with the Minnesota Investment Network Corporation (MIN-Corp), a non-profit supporting organization of MTI. Under authorizing legislation within Minn. Stat. Section 116O.05, Subd. 4, MTI transferred its investments in the Seed Capital (Equity) Fund totaling $6,939,024 to MIN-Corp on July 1, 1998. In addition, $2 million in remaining funds were disbursed to MIN-Corp or for investments in companies on MIN-Corp's behalf. The transfer agreement defines the program's requirements for the disbursing of funds and is modeled after the Seed Capital (Equity) Fund.

As part of its operating appropriation, MTI receives funding for several outside organizations, as shown in Table 4-1. These legislative grants pass through MTI. MTI is not required to establish programmatic control over how outside organizations use the funds. MTI disburses funds to these organizations typically in a lump sum payment at the start of the fiscal year. MTI requires pass-through organizations to submit a statement of work and a budget, but does not monitor the activity.

Table 4-1
Pass-Through Funding By Recipient
Fiscal Years 1997-1999

	FY 1997	FY 1998	FY 1999
MN Investors Congress	$ 75,000	$ 75,000	$ 75,000
MN Project Innovation	494,000	694,000	694,000
Natural Resources Research Institute	700,000	950,000	950,000
MN Council for Quality	88,000	113,000	113,000
MN Cold Weather Research Center	75,000	100,000	100,000
MN Technology Corridor Corp.	50,000	0	0
	$1,482,000	$1,932,000	$1,932,000

Source: Minnesota Appropriation Laws for MTI for fiscal years 1997-1999.

Objectives and Methodology

Our audit of MTI's grant expenditures focused on the following questions:

- Did MTI's internal controls provide reasonable assurance that its grant expenditures were properly authorized, supported, and recorded in the accounting system and in compliance with board policies and applicable legal provisions?

- For the items tested, did MTI comply with board policies and applicable finance-related legal provisions?

- Did MTI transfer its investments in the Seed Capital (Equity) Fund to MIN-Corp according to the transfer agreement?

To answer these questions, we interviewed key personnel to gain an understanding of the internal control process over grant programs, including the application process and disbursement of grant funds. We also reviewed board minutes to determine if the grants were properly authorized and approved. In addition, we performed detailed tests of grant expenditure transactions to determine if they were properly supported. Also, we reviewed the transfer agreement between MTI and the Minnesota Investment Network Corporation (MIN-Corp) and corresponding asset transfer authorizations.

Conclusion

MTI's internal controls provided reasonable assurance that grant expenditures were properly authorized, supported, and recorded in the accounting system and in compliance with board policies and applicable finance-related legal provisions. In addition, for the items tested, MTI complied with board policies and applicable finance-related legal provisions. MTI transferred its Seed Capital (Equity) Fund assets to MIN-Corp according to the transfer agreement.

Status of Prior Audit Issues
As of March 27, 2000

Most Recent Audits

Legislative Audit Report 96-45, issued in December 1996, covered the three-year period ending June 30, 1995. The audit scope included payroll, contract and grant expenditures, travel reimbursements, and fixed asset inventory. The report contained six findings that the company has resolved.

KPMG issued two audit reports to MTI dated September 24, 1999. The first report was an unqualified opinion on MTI's financial statements as of June 30, 1999. The second report was on MTI's internal control over financial reporting and compliance with OMB Circular A-133.

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 the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.