



**Financial Audit Division Report**

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**Department of Employment and  
Economic Development**

**and the**

**Minnesota Opportunities Industrialization  
Centers State Council**

**Special Review**

**July 1, 2007, through June 30, 2010**

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**January 13, 2011**

**Report 11-01**

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# OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

January 13, 2011

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Legislative Audit Commission

Members of the Legislative Audit Commission

Dan McElroy, Commissioner  
Department of Employment and Economic Development

Linda White, Chair  
Minnesota Opportunities Industrialization Centers State Council

Members of the Minnesota Opportunities Industrialization Centers State Council

William Means, Executive Director  
Minnesota Opportunities Industrialization Centers State Council

This report presents the results of our special review of the Minnesota Opportunities Industrialization Centers State Council for the period July 1, 2007, through June 30, 2010.

Page 1 contains a Report Summary that presents background about the State Council and the results of our review. The Table of Contents indicates where to locate more detailed information about the information within the report.

We discussed the results of the special review with the council's chair and the executive director of the Minnesota Opportunities Industrialization Centers State Council and the staff of Department of Employment and Economic Development on December 29, 2010. This special review was conducted by Brad White, CPA, CISA, CFE (Audit Manager), Sonya Johnson, CPA, CFE (Director of Investigations), and assisted by Mark Allan, CPA, CFE.

This report is intended for the information and use of the Legislative Audit Commission, the management of the Minnesota Opportunities Industrialization Centers State Council, and the Department of Employment and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 13, 2011.

We received the full cooperation of the Minnesota Opportunities Industrialization Centers State Council and the Department of Employment and Economic Development, and we thank them for their assistance.

James R. Nobles  
Legislative Auditor

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

The Minnesota Opportunities Industrialization Centers State Council is a private, nonprofit organization that receives state grant funds through the Department of Employment and Economic Development. The council is the state level affiliate of a national organization whose mission is to provide education, training, employment, and housing services to economically disadvantaged people of all races and backgrounds. We undertook this special review because of concerns raised during an audit of the Department of Employment and Economic Development that examined grants the department made to a wide variety of organizations, including nonprofit organizations.<sup>1</sup> That report concluded that the department needed to improve its oversight of grant recipients to ensure that they complied with applicable legal provisions, including laws, state policies, and grant agreements.

Our review covered the time period from July 1, 2007, through June 30, 2010, and included a review of how the State Council spent state grant funds it received through the Department of Employment and Economic Development.

## Findings

- The State Council did not have adequate internal controls to ensure that it used state grant funds in compliance with state law and grant agreements with the Department of Employment and Economic Development. ([Finding 1, page 7](#))
- The State Council was unable to show that approximately \$20,000 of its costs were appropriate uses of state grant funds. ([Finding 2, page 9](#))
- The Department of Employment and Economic Development provided “in kind” assistance to the State Council beyond the amount of support authorized in state law. ([Finding 3, page 12](#))

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<sup>1</sup> Office of the Legislative Auditor, Financial Audit Division [Report 10-31](#), September 23, 2010.



# **Department of Employment and Economic Development**

**and the**

## **Minnesota Opportunities Industrialization Centers State Council**

### **Background**

The Minnesota Opportunities Industrialization Centers State Council (the State Council), is one of the regional affiliates of the Opportunities Industrialization Centers of America. The national organization states that its mission is to provide “quality education, training, employment, and housing services through a national network of local affiliated organizations enabling economically disadvantaged people of all races and backgrounds to become productive fulfilled members of the American society.”

The State Council, founded in 1984, is governed by a board of directors, which appoints an executive director. The board states that the executive director has the responsibility to coordinate and lead local affiliated agencies through “advocacy, resources development, grant management, fiduciary oversight, empowerment strategies, and sharing of best practices.” As of December 2010, the State Council’s board chair was Linda White and the executive director was William Means. The State Council had two administrative staff – an executive secretary and a part-time accountant. The State Council’s administrative staff had workspace within the Department of Employment and Economic Development’s Saint Paul office. The State Council prepared annual financial statements that were independently audited.

*Minnesota Statutes 2010, Section 116L.62, directs the commissioner of the Department of Employment and Economic Development to distribute money the Legislature appropriates for:*

- “(a) comprehensive job training and related services or job opportunities programs for economically disadvantaged, unemployed, and underemployed individuals, including persons of limited English speaking ability, through opportunities industrialization centers; and
  - (b) the establishment and operation in Minnesota of these centers.”
-

For fiscal years 2008 through 2010, the Legislature appropriated \$1.375 million annually from the state's Workforce Development Fund (administered by the Department of Employment and Economic Development) to support the Opportunities Industrialization Centers (OIC). The department entered into a grant agreement with the State Council and provided the funds through monthly payments. Correspondingly, the State Council passed the majority of these funds to the five local affiliate OICs to provide employment training programs and services.

The State Council and each local affiliate OIC are independently operated, private, nonprofit organizations that provide employment and training programs to disadvantaged and at risk populations. The local affiliate OICs are accountable to their own boards of directors. The State Council allocated the state grant funds to the affiliates, but was not responsible for the oversight of the local affiliate centers. Table 1 identifies the local affiliate OICs and their locations.

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**Table 1**  
**Minnesota Opportunities Industrialization Centers Local Affiliates**  
**December 2010**

| <u>Local OIC Affiliate</u> | <u>Location</u> |
|----------------------------|-----------------|
| American Indian OIC        | Minneapolis     |
| Summit Academy OIC         | Minneapolis     |
| Teocalli Tequiotl OIC      | Minneapolis     |
| Northwest Indian OIC       | Bemidji         |
| Anishinabe OIC             | Onamia          |

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Source: Auditor prepared based on the State Council's records.

The State Council retained approximately 13 percent of the state grant funds for administrative purposes. The State Council and the local OICs also received funding through foundations and donations. During fiscal years 2008 through 2010, the State Council received two grants from a private foundation for its general operating costs, one for \$73,900 and another for \$5,000.

Table 2 shows the State Council's sources of administrative funds during the period from July 2007 through June 2010.

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**Table 2**  
**Opportunities Industrialization Centers State Council**  
**Sources of Administrative Funds**  
**July 1, 2007, through June 30, 2010**

| <b><u>Sources of Funds</u></b>                                  | <b>Fiscal Year<br/>2008</b> | <b>Fiscal Year<br/>2009</b> | <b>Fiscal Year<br/>2010</b> |
|-----------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| State Grants                                                    | \$1,375,000                 | \$1,375,000                 | \$1,375,000                 |
| Less: Payments to Local Affiliate OICs                          | (\$1,215,504)               | (1,203,500)                 | (1,152,733)                 |
| Amount Retained by State Council for<br>Administrative Purposes | 159,496                     | 171,500                     | 222,267                     |
| Other Contributions <sup>1</sup>                                | 43,400                      | 0                           | 35,500                      |
| Interest                                                        | 240                         | 13                          | 797                         |
| <b>Total</b>                                                    | <b>\$ 203,136</b>           | <b>\$ 171,513</b>           | <b>\$ 258,564</b>           |

<sup>1</sup>Other contributions consisted of grants and a donation from a private foundation.

Source: Auditor prepared based on the State Council's records.

Table 3 shows the State Council's uses of funds for the period from July 2007 through June 2010.

**Table 3**  
**Opportunities Industrialization Centers State Council**  
**Uses of Administrative Funds**  
**July 1, 2007, through June 30, 2010**

| <b><u>Uses of Funds</u></b>             | <b>Fiscal Year<br/>2008</b> | <b>Fiscal Year<br/>2009</b> | <b>Fiscal Year<br/>2010</b> |
|-----------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Personnel Costs                         | \$142,242                   | \$154,729                   | \$170,074                   |
| Accounting/Audit Fees                   | 10,858                      | 11,641                      | 12,171                      |
| Travel, Meetings, and Staff Development | 7,955                       | 13,445                      | 14,542                      |
| Contract Services                       | 5,655                       | 12,641                      | 6,004                       |
| Miscellaneous Expenses <sup>1</sup>     | 9,632                       | 11,857                      | 17,354                      |
| <b>Total</b>                            | <b>\$176,342</b>            | <b>\$204,313</b>            | <b>\$220,145</b>            |

<sup>1</sup>Miscellaneous expenses includes parking, printing and postage, bank charges, supplies, board insurance, dues and subscriptions, depreciation, public relations, phone, and bad debt expense.

Source: Auditor prepared based on the State Council's records.

## Objectives, Scope, and Methodology

We examined the financial operations of the Minnesota Opportunities Industrialization Centers State Council for the period July 1, 2007, through June 30, 2010. We undertook this review because of concerns raised during a recent internal control and compliance audit of the Department of Employment and Economic Development that examined grants the department made to a wide variety of organizations, including nonprofit organizations.<sup>2</sup> That report concluded that the department needed to improve its oversight of grant recipients to ensure that they complied with applicable legal provisions, including laws, state policy, and grant agreements.

Our objectives were to address the following questions:

- Did the State Council have adequate internal controls to ensure it used state grant funds in compliance with state law and the grant agreements it entered into with the Department of Employment and Economic Development?
- Did the State Council use grant funds for costs that were allowable, reasonable, and necessary to accomplish the purposes of the grant?

We examined relevant State Council documents, including bank statements, cancelled checks, accounting records, transaction receipts, grant agreements, audited financial statements, and other selected financial information. We interviewed staff from the Department of Employment and Economic Development, the State Council, and the local affiliate OICs. We verified that grant amounts paid by the State Council to the local affiliate OICs agreed to amounts the centers recorded as received and that the centers did not use state grant funds for lobbying activities.

The following *Findings and Recommendations* explain the results of our special review.

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<sup>2</sup> Office of the Legislative Auditor, Financial Audit Division [Report 10-31](#), September 23, 2010.

## Findings and Recommendations

**The State Council did not have adequate internal controls to ensure that it used state grant funds in compliance with state law and grant agreements with the Department of Employment and Economic Development.**

The State Council lacked adequate internal controls to ensure that it accurately accounted for its use of state grant funds. The State Council comingled state funds with other funds in its bank account and used its accounting records to separately account for the use of each funding source. However, the State Council did not have processes or documentation to ensure that the executive director used specific funds appropriately or that the State Council's accountant recorded the expenditures to the correct funding source. The oversight processes of the board chair were not effective to ensure the proper use of specific funds.

The State Council had the following internal control weaknesses:

- The State Council's executive director signed most of the State Council's checks and was the only authorized user of the two debit cards. The executive director incurred costs without regard to the source of funds used and often did not document any direction to the State Council's accountant about which funding source he intended to use for the expense. Without clear direction from the executive director, the State Council's accountant generally recorded the expense to the state grant.

When we asked the executive director about \$15,592 of the costs we thought might not be appropriate uses of the state grant, the executive director asserted that \$5,750 of these costs should have been charged to the State Council's private grant funding and not the state grant.<sup>3</sup> However, the State Council's accounting records showed that the State Council recorded \$1,681 of these costs in the state grant account and that it had incurred \$1,062 of the costs before receiving any private grant funding. Ultimately, in response to our audit questions, the executive director identified costs of \$2,998 in excess of the private funding source as having been intended uses of those funds and not the state funds.

- The board had not established clear policies defining the limits for meals and mileage, the documentation required to support costs incurred, or the

**Finding 1**

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<sup>3</sup> An appropriate cost is one that is allowable, necessary, and reasonable; it is allowable by the grant agreement, necessary to achieving the grant's purpose, and its nature or amount are reasonable with the expectations of a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

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processes it would use to monitor the executive director's use of state grant and private grant funds.

- The board chair (who asserted that she was familiar with most typical operating costs due to her long-term association with the State Council) regularly reviewed the monthly bank statements, and she stated that she asked the executive director about particular transactions; however, there was no documentation to show that the executive director had adequately addressed her concerns. In addition, the bank statements did not distinguish transactions by funding source, limiting the board chair's ability to determine whether a cost was allowable.
- The executive director provided a director's report to State Council's board members at the monthly board meetings, but these reports were high-level summaries of his activities and not specific to particular expenditures or their funding sources. For example, the report might state that the executive director met with a potential business partner, but not specifically indicate that he used state grant funds to pay for a meal and travel costs related to that meeting.

The Minnesota Council of Nonprofits provides guidance for the establishment of good financial management practices. It states, "Nonprofits have an obligation to act as responsible stewards in managing their financial resources. Nonprofits must comply with all legal financial requirements and should adhere to sound accounting principles that produce reliable financial information, ensure fiscal responsibility, and build public trust. Nonprofits should use their financial resources to accomplish their missions in an effective and efficient manner and should establish clear policies and practices to regularly monitor how funds are used."

The State Council did not fulfill its responsibility to ensure that it properly used and accounted for its state grant and private grant funds. It had not established adequate internal controls, such as sound accounting practices that required documentation to support transactions and identification of funding sources for expenses, clear board policies, or effective monitoring procedures. Without these internal controls, it is unable to assure the state or other grantors that it had used grant funds appropriately.

The Department of Employment and Economic Development did not ensure that the State Council had these internal controls before it provided the State Council with state grant funds. The department's grant agreement with the State Council broadly defined allowable uses of grant funds, but those definitions were insufficient. For example, the grant agreement did not specify the maximum reimbursement amounts for meals or mileage. The department also did not periodically require the State Council to account for and substantiate costs it incurred through a financial reconciliation, as required by the state grants policy

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for grants exceeding \$50,000.<sup>4</sup> Had the department periodically held the State Council accountable for the use of its state grant funds, it could have intervened and provided the State Council with better guidance to prevent many of the costs we question in Finding 2.

### *Recommendations*

- *The board should establish sound accounting practices that enable it to accurately classify and allocate costs to available funding sources.*
- *The board should develop policies to define and limit the types and amounts of costs that are allowable, reasonable, and necessary for the State Council to achieve the objectives of its state grant. The policies should include cost documentation requirements and board monitoring practices*
- *The Department of Employment and Economic Development should:*
  - *verify that the State Council has corrected deficiencies in its accounting practices and internal controls;*
  - *enhance its grant agreement with the State Council to adequately define the types of costs allowable under the grant; and*
  - *periodically perform a financial reconciliation to substantiate that the State Council's costs are allowable, necessary, and reasonable.*

**The State Council was unable to show that approximately \$20,000 of its costs were appropriate uses of state grant funds.**

## **Finding 2**

We examined all of the State Council's financial transactions from July 2007 through June 2010. The State Council used two bank accounts for its financial activities - a main checking account and a petty cash account. The executive director spent funds out of the accounts by writing checks or using debit cards.

The largest expense was to compensate the executive director and the other administrative staff. All of these costs were allowable and necessary to achieve the purpose of the grant and seemed reasonable. We also found that \$58,970 of

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<sup>4</sup> Minnesota Department of Administration, Office of Grants Management, Operating Policy and Procedure Number 08-10, *Policy on Grant Monitoring*

contract services and audit costs during fiscal years 2008 through 2010 were allowable, necessary, and reasonable.

The State Council was unable to show, however, that about \$20,000 of the expenses it identified as “*Travel, Meeting and Staff Development*” and “*Miscellaneous*” expenses (totaling \$74,785 during fiscal years 2008 through 2010) were appropriate uses of the state grant. The State Council lacked documentation for some of the costs, and the documentation for other costs did not show that the costs were allowable, necessary, and reasonable. Table 4 summarizes these questionable costs.

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**Table 4**  
**Opportunity Industrialization Centers State Council**  
**Undocumented and Inappropriate Costs**  
**July 2007 through June 2010**

| <u>Category</u>     | <u>Amount Questioned</u> |
|---------------------|--------------------------|
| Undocumented Costs  | \$13,806                 |
| Inappropriate Costs | <u>5,814</u>             |
| Total               | <u>\$19,620</u>          |

Source: Auditor prepared based on the State Council's bank statements and other records.

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**Undocumented Costs:** The State Council lacked documentation sufficient to show that some costs it incurred were allowable, necessary, and reasonable uses of the state grant funds. Although the executive director told us his recollection about the nature of some of these costs, verbal explanations are insufficient as sole support for the use of state grant funds. The undocumented costs included the following:

- There were 64 transactions totaling \$5,303 (predominantly debit card purchases ranging from \$3 to \$609) where the documentation was either missing or insufficient to establish the allowability, necessity, or reasonableness of the cost.
- The executive director used \$4,985 of state grant funds for food, but did not clearly document who attended each meal or its business purpose.
- The executive director used \$3,518 of state grant funds for gas for his personal vehicle. He did not document when and for what purpose he used his vehicle for State Council business.

**Inappropriate Costs:** The executive director had documentation for some costs, but we did not think that \$5,814 of the costs were appropriate uses of state grant funds, because they were not allowable, necessary, or reasonable uses of state

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grant funds. For example, the executive director used state grant funds for the following inappropriate costs:

- \$2,329 for parking for the executive director. Employee parking is typically a personal expense. Department of Employment and Economic Development staff told us that if they had been aware that the State Council had used grant funds for this purpose, they would have disallowed it.
- \$1,225 for airfare and lodging associated with his participation in United Nations forums in New York.<sup>5</sup> The executive director was unable to show that his participation in these forums was related to the Opportunities Industrialization Centers or his role as executive director.
- \$387 for gifts.
- \$360 for bank overdraft fees which the executive director and the board chair said resulted from an “identity theft” on the State Council’s bank account.
- \$350 to attend a funeral for an Opportunities Industrialization Center founder.
- \$320 for golf green fees and tournament entry fees.
- \$305 for food for a community event and \$100 for a donation to a community center.
- \$227 to attend a retirement party for an executive director of an affiliated Opportunities Industrialization Center.
- \$175 to purchase luggage.
- \$36 for car washes for the executive director’s personal vehicle. The executive director stated that he needed to have a clean vehicle as a representative of the State Council.

The board chair’s review of the State Council’s bank statements did not identify these costs as inappropriate uses of state or private grant funds. The board did not have policies requiring the executive director to submit receipts for purchases or other documentation to support the business purpose of the costs. Without this documentation, the State Council lacked accountability to the state or any other grantor for the appropriate use of the grant funds.

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<sup>5</sup> The costs (\$1,225) do not include costs that the executive director incurred on the same trip for an OIC job training-related event in Washington, D.C.

The grant agreement between the Department of Economic Development and the State Council did not specifically allow for meals or fuel expense and did not set limits for these costs. Often, state grant agreements limit the amount of allowable meal reimbursements to amounts specified in the state's bargaining unit agreements and allow for reimbursement of business use of a vehicle at the rate set by the federal Internal Revenue Service.

#### *Recommendations*

- *The State Council should retain sufficient documentation of all costs paid with state grant funds.*
- *The board should establish policies defining and limiting allowable uses of funds and specifying the extent of documentation required to support those costs.*
- *The Department of Employment and Economic Development should clarify the grant's allowable costs and set limits and expectations on certain costs in its grant agreements with the State Council.*
- *The Department of Employment and Economic Development should review the undocumented and inappropriate costs and seek repayment from the State Council for misspent grant funds.*

## **Finding 3**

**The Department of Employment and Economic Development provided “in kind” assistance to the State Council beyond the amount of support authorized in state law.**

Since at least the past 20 years, the department has provided the State Council with free workspace in its central office in Saint Paul and free use of other state resources, including office supplies and the use of photocopiers, computers, state telephones, and state e-mail addresses. The department did not establish the legality of this unusual arrangement and did not formally document its terms in a written agreement with the State Council. The department did not quantify the costs related to the State Council's use of its office space and equipment; in its financial statements, the State Council valued this “in-kind” assistance at \$15,000. The department did not reduce the grant to the State Council to recover these costs. As a result, the department provided financial and “in-kind” assistance to the State Council exceeding the amount authorized in law.

In addition, the State Council's workspace was not segregated from the department's other staff and business functions, and its administrative staff had

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security cards that allowed them unfettered access to the department's offices. Statutes require state agencies to protect not public data.<sup>6</sup>

*Recommendations*

- *The department should determine the legality of providing “in kind” assistance to the State Council. If legal, it should determine the reasonable value of the assistance and ensure that its grant and the “in kind” assistance do not exceed the amount authorized in state law.*
- *The department should identify and control the risks associated with the State Council administrative staff’s access to the department’s facilities.*

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<sup>6</sup> Minnesota Statutes 2010, 13.05, subd 3.



January 10, 2011

Mr. James R. Nobles  
Legislative Auditor  
First Floor, Centennial Office Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations as a result of the special review of the Minnesota Opportunities Industrialization Centers (OIC) State Council. The report contains recommendations for both the OIC State Council and the Department of Employment and Economic Development (DEED). This responds to those recommendations related to DEED.

**Audit Finding 1: The State Council did not have adequate internal controls to ensure that it used state grant funds in compliance with state law and grant agreements with the Department of Employment and Economic Development.**

*Recommendations:*

- *The Department of Employment and Economic Development should:*
  - *verify that the State Council has corrected deficiencies in its accounting practices and internal controls;*
  - *enhance its grant agreement with the State Council to adequately define the types of costs allowable under the grant; and*
  - *periodically perform a financial reconciliation to substantiate that the State Council's costs are allowable, necessary, and reasonable.*

*Response:* The department agrees with the finding and the recommendations. The department will enhance its grant agreement to better define the type of costs allowable under the grant. DEED is challenged, however, in its ability to provide the appropriate level of oversight/monitoring of this and other pass-through grants awarded by the legislature. The department was directed by the 2010 Legislature to develop a consistent and equitable method of assessing recipients for the costs of its monitoring activities. DEED will be submitting its recommendation to the 2011 Legislature. Bonnie Elsey, Workforce Development Division Director, will oversee implementation of the recommendation by June 30, 2011.

**Audit Finding 2: The State Council was unable to show that approximately \$20,000 of its costs were appropriate uses of state grant funds.**

*Recommendations:*

- *The Department of Employment and Economic Development should clarify the grant's allowable costs and set limits and expectations on certain costs in its grant agreements with the State Council.*

- *The Department of Employment and Economic Development should review the undocumented and inappropriate costs and seek repayment from the State Council for misspent grant funds.*

Response: The department agrees with the finding and the recommendations. As stated above, the department will enhance its grant agreement to better define the type of costs allowable under the grant. The department will review the auditors documentation of those costs identified in the audit report as questionable and determine whether such costs were reasonable, necessary, and allowable under the grant agreement. The department will seek recovery of any costs determined to be unallowable. Bonnie Elsey, Workforce Development Division Director, will oversee implementation of the recommendation by June 30, 2011.

**Audit Finding 3: The Department of Employment and Economic Development provided “in kind” assistance to the State Council beyond the amount of support authorized in state law.**

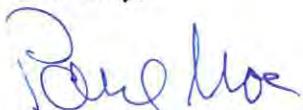
*Recommendations:*

- *The department should determine the legality of providing “in kind” assistance to the State Council. If legal, it should determine the reasonable value of the assistance and ensure that its grant and the “in kind” assistance do not exceed the amount authorized in state law.*
- *The department should identify and control the risks associated with the State Council administrative staff’s access to the department’s facilities.*

Response: The department agrees with the finding and the recommendations. The department will evaluate the “in-kind” assistance provided to the State Council and assess the risk associated with their shared use of DEED facilities. Cindy Farrell, Chief Financial Officer, will oversee implementation of these recommendations by June 30, 2011.

If you have questions or need additional information please contact Cindy Farrell at 651-259-7085 or [Cindy.Farrell@state.mn.us](mailto:Cindy.Farrell@state.mn.us).

Sincerely,



Paul A. Moe  
Acting Commissioner

## Legislative Audit Responses by MNOIC State Council-January 11, 2011

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| <p><b>Finding 1-Page 7-9</b></p> <p><b>The State Council did not have adequate internal controls to ensure that it used state grant funds in compliance with state law and grant agreements with the Department of Employment and Economic Development.</b></p>                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>Audit Recommendations-Page 9</b></p> <ul style="list-style-type: none"> <li>The board should establish sound accounting practices that enable it to accurately classify and allocate costs to available funding sources.</li> </ul>                                                                                                                                                                                                                                                                                                                              | <p><b>MNOIC Responses to Recommendations</b></p> <p>Since 1984 the MNOIC State Council has operated in compliance with State law and grant agreements and passed every audit. Our sound accounting practices have been improved to identify the funding sources for the documented expenses.</p>                                                                                                                                                                                                                                                                                           |
| <ul style="list-style-type: none"> <li>The board should develop policies to define and limit the types and amounts of costs that are allowable, reasonable, and necessary for the State Council to achieve the objectives of its state grant. The policies should include cost documentation requirements and board monitoring practices.</li> </ul>                                                                                                                                                                                                                   | <p>The MNOIC, in accordance with DEED guidelines will develop improved cost documentation and monitoring policies. The MNOIC Executive Director and Board Chair will meet with DEED at least quarterly to ensure that the correction of the deficiencies and improved policies are being maintained.</p>                                                                                                                                                                                                                                                                                   |
| <ul style="list-style-type: none"> <li>The Department of Employment and Economic Development should: <ul style="list-style-type: none"> <li>-verify that the State Council has corrected deficiencies in its accounting practices and internal controls;</li> <li>-enhance its grant agreement with the State Council to adequately define the types of costs allowable under the grant; and</li> <li>-periodically perform a financial reconciliation to substantiate that the State Council's costs are allowable, necessary, and reasonable.</li> </ul> </li> </ul> | <p>MNOIC , for over 25 years, has provided high quality employment and training to low-income and underserved communities throughout the state and earned the support of the State Legislature to fulfill our mutual goals of increasing the numbers of skilled workers paying taxes in Minnesota with a laudable return on investment. We practice what we teach. Our grant agreement with DEED will continue to specify State grant compliance requirements, sound accounting practices, and appropriate internal controls. We are privileged to have a good relationship with DEED.</p> |
| <p><b>Finding 2-Page 9-12</b></p> <p><b>The State Council was unable to show that approximately \$20,000 if its costs were appropriate uses of state grant funds.</b></p>                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>Audit Recommendations-Page 12</b></p> <ul style="list-style-type: none"> <li>The State Council should retain sufficient documentation of all costs paid with state grants.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                            | <p><b>MNOIC Responses to Recommendations</b></p> <p>The MNOIC will retain improved documentation consistent with DEED's guidelines.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

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| <ul style="list-style-type: none"> <li>The board should establish policies defining and limiting allowable uses of funds and specifying the extent of documentation required to support those costs.</li> </ul>                                                                                                                                                                                                                                                                                                                  | <p>The MNOIC Executive Director and Board Chair will review their improved policies, forms, and practices with DEED to ensure that they are in compliance with DEED's guidelines.</p>                                                                                                                                                                                                                                                                                                                                        |
| <ul style="list-style-type: none"> <li>The Department of Employment and Economic Development should clarify the grant's allowable costs and set limits and expectations on certain costs in its grant agreements with the State Council.</li> </ul>                                                                                                                                                                                                                                                                              | <p>As MNOIC clarifies the funding source for our expenses DEED will more immediately observe that we are in compliance with our grant agreement requirements as we provide culturally appropriate support for our programs and services.</p>                                                                                                                                                                                                                                                                                 |
| <ul style="list-style-type: none"> <li>The Department of Employment and Economic Development should review the undocumented and inappropriate costs and seek repayment from the State Council for misspent grants funds.</li> </ul>                                                                                                                                                                                                                                                                                              | <p>The clarification of allowable expenses should not be applied retroactively and result in repayment. The assumption that expenses were either inappropriate or misspent is misapplied. MNOIC gets a small amount of its annual budget from non-government sources to support activities that are necessary and appropriate to the mission of MNOIC.</p>                                                                                                                                                                   |
| <p><b>Finding 3-Pages 12-13</b><br/> <b>The Department of Employment and Economic Development provided "In kind" assistance to the State Council beyond the amount of support authorized in state law.</b></p>                                                                                                                                                                                                                                                                                                                   | <p><i>How do the auditors conclude that MNOIC State Council has exceeded the 'in-kind' assistance support authorized by state law if the reasonable value of such assistance has not been determined? The finding should say 'may have exceeded' rather than 'beyond the amount of support authorized in state law.'</i></p>                                                                                                                                                                                                 |
| <p><b>Recommendations-Page 13</b></p> <ul style="list-style-type: none"> <li>The department should determine the legality of providing "In kind" assistance to the State Council. If legal, it should determine the reasonable value of the assistance and ensure that its grant and the assistance do not exceed the amount authorized in state law.</li> <li>The department should identify and control the risks associated with the State Council's administrative staff's access to the department's facilities.</li> </ul> | <p><b>MNOIC Responses to Recommendations</b></p> <p>The monies granted to MNOIC come from a legislative bill passed in each biennium. "In-kind" services have been provided to MNOIC for several years and have not previously been a concern of auditors or brought to the attention of the Minnesota Legislature, DEED, or MNOIC.</p> <p>MNOIC's access to department facilities is no greater than the access that the janitorial service employees have. MNOIC will abide by any necessary changes required by DEED.</p> |