



**Financial Audit Division Report**

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**Department of Employment  
and Economic Development**

**Internal Controls and  
Compliance Audit**

**July 2011 through May 2015**

**December 18, 2015**

**Report 15-17**

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The 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 has a staff of about 30 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.

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

<b>Conclusion</b>	<b>Characteristics</b>
<b>Adequate</b>	<b>The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Generally Adequate</b>	<b>With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Not Adequate</b>	<b>The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.</b>

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

December 18, 2015

Representative Sondra Erickson, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Katie Clark Sieben, Commissioner  
Department of Employment and Economic Development

This report presents the results of our internal controls and compliance audit of the Department of Employment and Economic Development for the period from July 1, 2011, through May 31, 2015. The objectives of this audit were to determine if the department had adequate internal controls over selected economic development programs and complied with applicable legal requirements. This has not been a comprehensive audit of the Department of Employment and Economic Development.

We discussed the results of the audit with the department's staff at an exit conference on December 4, 2015. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Director), Pat Ryan (Auditor-in-Charge), and auditors Kevin Herrick and Heather Rodriguez.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



# Table of Contents

	<u>Page</u>
Report Summary .....	1
Background .....	3
Audit Objective, Scope, and Methodology .....	6
Audit Criteria .....	7
Conclusion .....	7
Findings and Recommendations .....	9
1. For small business investment tax credits, the Department of Employment and Economic Development did not always ensure businesses continued to meet statutory qualifications after making an initial certification. In addition, the department did not always accurately calculate and document the tax credit amounts.....	9
2. The Department of Employment and Economic Development did not always comply with state grant policies and grant agreements in administering and monitoring grants from the Minnesota Investment Fund .....	11
3. The Department of Employment and Economic Development did not pay a tribal government for the cost to administer Indian business loans.....	12
Agency Response .....	13

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# Report Summary

## Background

The Office of the Legislative Auditor conducted this audit to determine whether the Department of Employment and Economic Development had adequate internal controls over selected economic development programs and complied with applicable legal requirements. We audited selected programs for the period July 1, 2011, through May 31, 2015.

The department administers several types of programs whose main goals are to assist companies to retain existing jobs, create new high-quality jobs, and encourage private investment in small companies within Minnesota. These programs involve the use of grants, loans, and tax incentives.

## Conclusion

The Department of Employment and Economic Development's internal controls over economic development programs and funds were generally adequate to ensure that it accurately reimbursed recipients for allowable grant expenditures, processed loan payments and recoveries, issued tax credits to eligible investors and businesses in accordance with management's authorizations and finance-related legal provisions, and recorded these transactions in the state's accounting system and the department's financial records. For items tested, the department generally complied with finance-related legal provisions.

However, the department had some internal control weaknesses and noncompliance concerns related to loan administration, grant monitoring, and tax credit processing.

## Findings

- For small business investment tax credits, the Department of Employment and Economic Development did not always ensure businesses continued to meet statutory qualifications after making an initial certification. In addition, the department did not always accurately calculate and document the tax credit amounts. ([Finding 1, page 9](#))
  - The Department of Employment and Economic Development did not always comply with state grant policies and grant agreements in administering and monitoring grants from the Minnesota Investment Fund. ([Finding 2, page 11](#))
  - The Department of Employment and Economic Development did not pay a tribal government for the cost to administer Indian business loans. ([Finding 3, page 12](#))
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## Background

The Department of Employment and Economic Development's Business and Community Development Division administers programs for economic development that help businesses retain existing jobs and create new high-quality jobs. Various economic development programs managed by the department are authorized in *Minnesota Statutes* 2014, 116J, and financed using loans, grants, and tax credit incentives.

The following sections provide a brief description of the economic development programs and funds we selected to review. Each program's financial activity was determined from the state's accounting system for fiscal years 2012 to 2015 (through May 31, 2015).

- Minnesota Investment Fund.**<sup>1</sup> The department uses this fund to provide financing to create and retain high quality jobs with a focus on industrial, manufacturing, and technology-related industries. The department awards grants to local units of government and Indian tribal governments for loans to assist new and expanding businesses in their communities. A local government or tribe may retain 40 percent, but not more than \$100,000, of a Minnesota Investment Fund loan when it is repaid by the business. The remaining 60 percent is repaid to the state and credited back to the fund. The appropriations for this fund are available until the balance is expended.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Appropriations	\$3,000,000 <sup>2</sup>	\$ 0	\$15,000,000 <sup>3</sup>	\$15,000,000 <sup>3</sup>
Grant Expenditures	\$1,249,074	\$2,174,000	\$ 6,570,600	\$ 5,002,000

- Business Development Competitive Grant Program.**<sup>4</sup> The 2011 Legislature required the department to develop and implement a competitive grant program to provide business development assistance and services. Funding is available only to nonprofit organizations selected on a competitive basis. The types of business development include, but are not limited to, biosciences, minorities, women, rural areas, entrepreneurs, and inventors.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Appropriations	\$ 0	\$1,096,000 <sup>4</sup>	\$1,425,000 <sup>5</sup>	\$1,425,000 <sup>5</sup>
Grant Expenditures	\$ 0	\$1,000,565	\$1,115,766	\$1,156,518

<sup>1</sup> *Minnesota Statutes* 2014, 116J.8731.

<sup>2</sup> *Laws of Minnesota* 2011, chapter 4, art. 1, sec. 3, subd. 2(k).

<sup>3</sup> *Laws of Minnesota* 2013, chapter 85, art. 1, sec. 3, subd. 2(a), (1).

<sup>4</sup> *Laws of Minnesota* 2011, chapter 4, art. 1, sec. 3, subd. 2(i).

<sup>5</sup> *Laws of Minnesota* 2011, chapter 4, art. 1, sec. 3, subd. 2(i).

- Host Community Economic Development Grant Program.**<sup>6</sup> The 2013 Legislature created this program to provide grants to host communities to pay for the capital costs of eligible economic development projects to create jobs, increase a city's tax base, and enhance a city's attractiveness to private investment. Host communities are defined as a city located in the seven-county metropolitan area that is the site of a waste disposal facility. After consulting with the Pollution Control Agency, the department determined that the cities of Burnsville and Inver Grove Heights were eligible for these grants. Each city was awarded grants totaling \$831,250 for various development projects during our audit period.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Appropriations	\$ 0	\$ 0	\$875,000 <sup>7</sup>	\$ 875,000 <sup>7</sup>
Grant Expenditures	\$ 0	\$ 0	\$ 0	\$1,103,847

- Minnesota Job Creation Fund.**<sup>8</sup> The Legislature created this fund in 2013 with General Fund appropriations of \$12 million each year for fiscal years 2014 and 2015. The fund provides grants to expanding businesses that are in an eligible industry and meet program requirements. Among the eligibility requirements are spending at least \$500,000 in real property improvements within one year and creating at least ten new full-time positions that meet compensation requirements within two years, or making a capital investment of \$25 million and retaining at least 200 jobs in the metropolitan area or 75 jobs for projects outside the metropolitan area. The department awards grants to businesses and pays them after eligibility requirements are met. During the scope of our audit, the department awarded 37 companies a total of \$17,520,700. However, by May 31, 2015, no payments had yet been made to companies.
- Minnesota Minerals 21<sup>st</sup> Century Fund.**<sup>9</sup> The department uses this fund to make loans, grants, or equity investments in mineral or taconite processing facilities, steel production facilities, facilities for the manufacturing of renewable energy products, or facilities for the manufacturing of bio based or biomass products, and that are located within the taconite relief tax area. The fund may also be used to make grants to a municipality, county, or to a county regional rail authority for public infrastructure needed to support eligible projects. In fiscal year 2015, the department transferred \$6.5 million from the fund to the Iron Range Resources and Rehabilitation Board for a 50 percent interest in a grant to Magnetation, Inc. In addition, the department transferred \$7.1 million to the Iron Range Resources and Rehabilitation Board for a

<sup>6</sup> *Minnesota Statutes* 2014, 116J.548.

<sup>7</sup> *Laws of Minnesota* 2013, chapter 85, art. 1, sec. 3, subd. 2(r).

<sup>8</sup> *Minnesota Statutes* 2014, 116J.8748.

<sup>9</sup> *Minnesota Statutes* 2014, 116J.423.

grant to the city of Hoyt Lakes to support a biochemical manufacturing plant.<sup>10</sup>

- **Foundation Grants for Business Loans Program.**<sup>11</sup> The 2014 Legislature appropriated \$2,850,000 from the General Fund to provide grants to six nonprofit foundations around the state. Each foundation was named in the law and was granted \$475,000 to provide loans to businesses at below market interest rates.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Appropriations	\$ 0	\$ 0	\$ 0	\$2,850,000
Grant Expenditures	\$ 0	\$ 0	\$ 0	\$2,850,000

- **Indian Business Loan Program.**<sup>12</sup> This program supports the development of Indian-owned and operated businesses and promotes economic opportunities for Native American people throughout Minnesota. In addition to loan repayments and interest, the program receives money from a percentage of the tax imposed on mineral interests.<sup>13</sup> Eligible applicants must be enrolled members of a federally recognized Minnesota-based band or tribe. Each band or tribe is allocated funds from the Indian Business Loan Fund, based on the number of enrolled members. The department administers the program and services the loans, while the appropriate tribal council processes and approves loan applications.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Loans Issued	\$38,200	\$492,325	\$201,301	\$223,232

- **Urban Initiative Loan Program.**<sup>14</sup> This program primarily assists minority-owned and operated businesses and others that will create jobs in low-income areas of the Twin Cities. The department has entered into partnerships with several local nonprofit organizations, which then provide loans (with final authorization by the department's commissioner) and technical assistance to start-up and expanding businesses. In addition to receiving one-half the principal and interest on the loans, the program received a \$755,000 legislative appropriation in fiscal year 2008<sup>15</sup> and a General Fund grant of \$650,000 in fiscal year 2015.<sup>16</sup> Projects must demonstrate potential to create jobs for low-income people, be unable to obtain sufficient capital from traditional private lenders, and demonstrate

<sup>10</sup> *Laws of Minnesota* 2014, chapter 312, art. 2, sec. 2, subd. 6.

<sup>11</sup> *Laws of Minnesota* 2014, chapter 312, art. 2, sec. 2, subd. 2(b-g).

<sup>12</sup> *Minnesota Statutes* 2014, 116J.64.

<sup>13</sup> *Minnesota Statutes* 2014, 273.165, subd. 1.

<sup>14</sup> *Minnesota Statutes* 2014, 116M.15.

<sup>15</sup> *Laws of Minnesota* 2007, chapter 135, art. 1, sec. 3, subd. 2(v).

<sup>16</sup> *Laws of Minnesota* 2014, chapter 312, art. 2, sec. 2, subd. 2(h).

the potential to succeed. Eligible projects are provided loans for start-up and expansion costs, including normal expenses, such as machinery and equipment, inventory and receivables, working capital, new construction, renovation, and site acquisition.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Loans Issued	\$657,570	\$579,770	\$815,630	\$1,069,112

- **Small Business Tax Credit Program.**<sup>17</sup> This program encourages investments in early stage small businesses. The department certifies that businesses, investors, and investment funds qualify to participate in the Small Business Investment Tax Credit Program (commonly referred to as the Angel Tax Credit Program). Once the department verifies that the investments occurred, it allocates a 25 percent investment tax credit to the investors. The department works with the Department of Revenue to verify tax credits claimed on investor tax returns agree with credit amounts allocated by the department. The Legislature authorized \$12 million in tax credits for 2012 and 2013 and \$15 million for 2014. Tax credits not allocated can be carried forward to subsequent tax years.

	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>
Tax Credits Issued <sup>18</sup>	\$11,415,751	\$12,365,229	\$13,841,673

## Audit Objective, Scope, and Methodology

Our objective for this audit was to answer the following questions:

- Were the department's internal controls over economic development programs and funds adequate to ensure that it accurately reimbursed grant recipients for allowable grant expenditures, accurately processed loan payments and recoveries, issued tax credits to eligible investors and businesses in accordance with management's authorizations and finance-related legal provisions, and accurately recorded these transactions in the state's accounting systems and the department's financial records?
- For the items tested, did the department comply with significant finance-related legal requirements related to grant, loan, and tax credit programs?

Our audit scope was comprised of selected economic development program and fund expenditures and tax credits issued by the Department of Employment and Economic Development for the period July 1, 2011, through May 31, 2015.

<sup>17</sup> *Minnesota Statutes* 2014, 116J.8737.

<sup>18</sup> Angel Tax Credit Program, *2014 Annual Report to the Legislature*, April 13, 2015.

To meet our audit objective, we used the following methodology: We gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We obtained and analyzed the accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected financial transactions and reviewed supporting documentation to determine whether the department's controls over grant, loan, and tax credit financial transactions were effective and whether these transactions complied with applicable legal criteria. For tax credits, we compared amounts authorized by the Department of Employment and Economic Development to credits claimed on Minnesota tax returns filed with the Department of Revenue.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Criteria

We used various criteria to evaluate internal controls and compliance. We used, as our criteria to evaluate internal controls, the guidance contained in the *Standards of Internal Control in the Federal Government*, published by the Government Accountability Office.<sup>19</sup> We used state laws, regulations, and contracts, as well as policies and procedures established by the department as evaluation criteria over compliance. In the absence of department policies and procedures, we used, as guidance, the policies and procedures established for executive branch state agencies by the Office of Grants Management in the Minnesota Department of Administration.<sup>20</sup>

## Conclusion

The Department of Employment and Economic Development's internal controls over economic development programs and funds were generally adequate to ensure that it accurately reimbursed grant recipients for allowable expenditures, processed loan payments and recoveries, issued tax credits to eligible investors and businesses in accordance with management's authorizations and finance-related legal provisions, and recorded these transactions in the state's accounting system and the department's financial records. For items tested, the department generally complied with finance-related legal provisions.

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<sup>19</sup> The state has adopted these standards as its internal control framework for the executive branch.

<sup>20</sup> *Minnesota Statutes* 2014, 16B.97, required the commissioner of Administration to "...create general grants management policies and procedures that are applicable to all executive agencies."

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However, the department had some internal control weaknesses and noncompliance concerns related to loan administration, grant monitoring, and tax credit processing.

The following *Findings and Recommendations* section provides further explanation about the exceptions noted above.

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# Findings and Recommendations

**For small business investment tax credits, the Department of Employment and Economic Development did not always ensure businesses continued to meet statutory qualifications after making an initial certification. In addition, the department did not always accurately calculate and document the tax credit amounts.**

## Finding 1

State statutes require the department to certify that investors, investment funds, and businesses qualify to receive Minnesota Small Business Tax Credits (commonly referred to as the Angel Tax Credit Program) before it allocates those credits.<sup>21</sup> Our testing of the department's tax credit allocations found the following weaknesses:

- The department did not accurately calculate the tax credit it allocated to one investor in 2012. The investor invested \$12,500 in a qualified business and, according to the statutory formula, the department should have allocated a tax credit of \$3,125. However, due to an error in the database the department used to track investment transactions, the department allocated a \$40,518 tax credit to the investor.

For this investor, we reviewed Department of Revenue tax records and found the investor (who was not a Minnesota resident) had not filed a Minnesota tax return for the years 2012 through 2014 and, as a result, had not used the allocated tax credit.

- The department allocated a tax credit to one investor for a \$770,000 investment that did not have the required type of evidence proving the investment was made. For investments made through a wire transfer, department policies require investors to submit a copy of the wire transfer transaction, showing the investment amount leaving the investor's bank account and being deposited into the qualified business's bank account. Instead, department staff relied on a signed letter on bank stationery stating the funds had been transferred.
- The department did not use information it had to monitor the continued qualification of a business it had certified as qualified for tax credit investments in 2013 and 2014. For 2014, the department allocated tax credits totaling \$375,000 to investors in this business.

The department did not note that an annual report it received from the business in January 2014 stated it had 80 employees in a unitary business. *Minnesota Statutes* 2014, 116J.8737, subdivision (2) (c) (5), requires that

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<sup>21</sup> *Minnesota Statutes* 2014, 116J.8737.

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a qualifying business have fewer than 25 employees. Subdivision (d) of that section further states that when determining whether the business has fewer than the 25 employee limit, the department should include “the employees in all members of the unitary business,” as defined in *Minnesota Statutes* 2014, 290.17, subdivision 4. That statute defines “unitary business” as follows:

The term “unitary business” means business activities or operations which result in a flow of value between them. The term may be applied within a single legal entity or between multiple entities and without regard to whether each entity is a sole proprietorship, a corporation, a partnership, or a trust.

Unity is presumed whenever there is unity of ownership, operation, and use, evidenced by centralized management or executive force, centralized purchasing, advertising, accounting, or other controlled interaction, but the absence of these centralized activities will not necessarily evidence a nonunitary business. Unity is also presumed when business activities or operations are of mutual benefit, dependent upon or contributory to one another, either individually or as a group.

We discussed with the department’s staff whether this business continued to meet the requirement that it have less than 25 employees. Department staff contacted the Department of Revenue to obtain tax filing information. They learned that the businesses included in the annual report as a unitary business did not file their 2013 taxes as a unitary business, but as individual businesses. The Department of Revenue is reviewing the businesses involved to determine if they should have filed taxes as a single unitary business.

#### *Recommendation*

- *The Department of Employment and Economic Development should establish controls to ensure that:*
    - *tax credits entered into its database are accurately calculated and based on actual investments made;*
    - *investors provide adequate evidence of investment transactions, as required by department policies; and*
    - *staff review information about qualified businesses to determine that they continue to be eligible businesses for subsequent investment tax credits.*
-



**The Department of Employment and Economic Development did not always comply with state grant policies and grant agreements in administering and monitoring grants from the Minnesota Investment Fund.**

## Finding 2

The department did not always perform required grant monitoring functions. We tested 5 of the 35 grants the department issued from the Minnesota Investment Fund during our audit scope. The five grants we tested ranged from \$200,000 to \$1,000,000 and totaled \$2.7 million. The department had the following deficiencies in its administration of the grants we tested:

- The department did not perform sufficient monitoring for three of the five grants we tested, as required by the state's grants management policy.<sup>22</sup> The purpose of monitoring is to review and ensure progress towards the grant recipient's goals and to address any problems or issues the grant recipient may be having. State policy requires at least one monitoring visit per grant period on all grants over \$50,000 and annual visits on grants over \$250,000. Payments to these three grant recipients during fiscal years 2012 through 2015 ranged from \$200,000 to \$803,716.
- The department did not perform financial reconciliations for one of the grants we tested, as required by the state's grants management policy.<sup>23</sup> The policy requires a financial reconciliation for grants over \$50,000. The reconciliation is a detailed comparison of a grant recipient's cost reimbursement request to the underlying supporting documentation for those costs. A financial reconciliation helps to ensure that the recipient of the grant is using funds for costs that are allowable under the grant agreement. Because the department did not perform a financial reconciliation for this grant recipient, it did not have assurance that the \$803,716 reimbursed was used for allowable costs under the grant agreement.
- The department did not consistently receive grant recipient progress reports for three of the five grants tested. Each grant agreement required annual progress reports detailing the status of the project, project expenditures, and the number of jobs created.

The state's grant management policies set the baseline expectations for state agencies' oversight of grants. Noncompliance with these policies increases the risk that grant recipients could use grant money inappropriately and not accomplish the goals of the grants.

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<sup>22</sup> Department of Administration's Office of Grants Management Policy 08-10.

<sup>23</sup> The Department of Administration's Office of Grants Management Policy 08-10, requires at least one financial reconciliation during the grant period for grants over \$50,000. Some of the other grants we tested had not reached the end of the grant period, and a reconciliation was not yet required.

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*Recommendation*

- *The Department of Employment and Economic Development should complete financial reconciliations, monitoring visits of grant recipients, and ensure that required progress reports are received in compliance with state policies and grant agreement requirements.*

### **Finding 3**

**The Department of Employment and Economic Development did not pay a tribal government for the cost to administer Indian business loans.**

Tribal governments may administer business loans if they submit a plan to the department for review and approval. The plan describes how the business loans will be administered by the tribe. The department approved a plan submitted by the Minnesota Chippewa Tribe; however, it did not pay the tribe the administrative cost percentage required in law.<sup>24</sup>

*Minnesota Statutes* 2014, 116J.64, subd. 7, states:

*On the placing of a loan, additional money equal to ten percent of the total amount made available to any tribal government, eligible organization, or the agency, if it is administering the loan, for loans during the fiscal year shall be paid to the tribal government, . . . prior to December 31 for the purpose of financing administrative costs.*

The department did not pay the Minnesota Chippewa Tribe \$27,020 for administrative costs on two loans the tribe administered totaling \$270,200 between fiscal years 2012 and 2014. An additional \$8,059 for loans issued during fiscal year 2015 is due to be paid by December 31, 2015.

The department told us they had not yet paid the tribe because the agreement with them inadvertently omitted administrative costs, and the department needed to receive an invoice for the amount owed.

*Recommendations*

- *The Department of Employment and Economic Development should ensure that approved tribal governments are paid an amount equal to 10 percent of the Indian business loans they administer by December 31 each year.*
- *The Department of Employment and Economic Development should pay \$27,020 to the Minnesota Chippewa Tribe for administrative costs on loans issued for fiscal years 2012 through 2014.*

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<sup>24</sup> The department administers Indian business loans for other tribes that did not submit a plan.

December 14, 2015

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the audit of selected economic development programs for the period July 1, 2011 through May 31, 2015. We are pleased that the audit determined that the Department of Employment and Economic Development (DEED) generally complied with finance-related legal provisions and had adequate controls.

**Audit Finding 1: For small business investment tax credits, the Department of Employment and Economic Development did not always ensure businesses continued to meet statutory qualifications after making an initial certification. In addition, the department did not always accurately calculate and document the tax credit amounts.**

*Recommendation*

- *The Department of Employment and Economic Development establish controls to ensure that:*
  - *Tax credits entered into its database are accurately calculated and based on actual investments made;*
  - *Investors provide adequate evidence of investment transactions, as required by department policies; and*
  - *Staff review information about qualified businesses to determine that they continue to be eligible businesses for investment tax credits.*

**Response:**

DEED agrees with the finding that the department should utilize controls to ensure the program authorizes tax credits to eligible investment transactions. The Department has implemented several procedural changes to reflect these recommendations:

- When investor investment/credit information is input into the Angel Tax Credit Program database, the identity fields are automatically populated (including the Social Security number) once the name is entered. The database error found in the audit was due to a manual correction of an investor's Social Security number entered after both the initial certification application information and the investment/credit information was entered. Prior to tax credits being authorized, the department will review any manual database changes involving an investor tax identification number to ensure that the changes accurately reflect underlying application documents supporting the change. In addition, MNIT@DEED is reviewing software program code to identify and correct any errors.

- For all investment transactions, financial documents are produced demonstrating proof of investment. When the transaction is an intra-bank transfer, only a bank book entry is made and a check or deposit receipt is not produced. The audit identified a rare occurrence intra-bank investment where the parties provided a signed statement from the bank verifying the transaction. In 2015, the program revised its procedures and book entries must now demonstrate proof of investment through investor and business bank statements showing transaction activity.
- The department has instituted new procedures involving unitary group or related eligibility issues. If there are questions related to tax filing status for a business qualifying for the program, the department will request a copy of the applicant's business tax return and review the information to confirm eligibility. The department will also compare application materials with annual report filings to discover any inconsistencies in employee count reporting and, if necessary, will utilize the department's unemployment insurance records in their investigation.

Kevin McKinnon, DEED's deputy commissioner for the Economic Development Division, has overseen the implementation of new policies and procedures that will resolve the finding and avoid future errors.

**Audit Finding 2: The Department of Employment and Economic Development did not always comply with state grant policies and grant agreements in administering and monitoring grants from the Minnesota Investment Fund.**

*Recommendation*

- *The Department of Employment and Economic Development should complete financial reconciliations, monitoring visits of grant recipients, and ensure that required progress reports are received in compliance with state policies and grant agreement requirements.*

**Response:**

DEED agrees with the audit finding and has implemented the following corrective actions over the last year:

- The department relies on local government grantees to provide the progress report information necessary to monitor Minnesota Investment Fund grants. In two of the three cases, progress reports were provided and subsequently reviewed by the department, but a monitoring form summarizing the progress was not completed. In one case, the annual monitoring wasn't completed because funds had not yet been granted. The department has since implemented procedures requiring a monitoring form to be completed for every progress report received and to ensure that a monitoring form is completed annually even when funds have not yet been disbursed.
- Because the progress reports provided by the local government grantee are essential to monitoring grant agreement performance, annual reports are required by the department. The department has implemented procedures following OGM policy which requires an

annual monitoring visit (desk review or in person) for all grants in excess of \$250,000 and will work with grantees to ensure that annual progress reports are submitted in a timely manner.

- Prior to 2015, the department sometimes relied on local government grantees to maintain all receipts supporting the use of grant funds as loan to a business recipient due to the volume and complexity of the invoice transactions. At the time of the grant closeout, the department visited the local government, reviewed all documents and conducted the financial reconciliation to ensure all funds were allowable costs under the grant agreement. The new Business Community Development procedure now requires detailed invoices to accompany disbursement requests which allows the department to perform the necessary financial reconciliation during the grant contract period.

Kevin McKinnon, DEED's deputy commissioner for the Economic Development Division, has overseen the implementation of new policies and procedures that will enable DEED to rectify the finding and avoid future policy deviations.

**Audit Finding 3: The Department of Employment and Economic Development did not pay a tribal government for the costs to administer Indian business loans.**

*Recommendations*

- *The Department of Employment and Economic Development should ensure that approved tribal governments or eligible organizations are paid an amount equal to 10 percent of the Indian business loans they administer by December 31 each year.*
- *The Department Employment and Economic Development should issue a payment of \$27,020 to the Minnesota Chippewa Tribe for administrative costs on loans issued for fiscal years 2012 through 2014.*

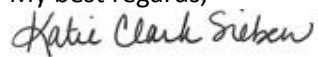
**Response:**

DEED agrees with the audit finding. The department and the Minnesota Chippewa Tribe amended the operating contract in December 2015 to authorize these administrative payments and funds should be disbursed in early 2016. In addition, the department has modified policies related to this statutory requirement and will now work with the tribal government to ensure that the 10 percent administrative cost is added to the actual loan disbursement.

Kevin McKinnon, DEED's deputy commissioner for the Economic Development Division, will oversee resolution of this finding by March 30, 2016.

If you have any questions or need additional information, please contact Julie Freeman, CFO, at [Julie.freeman@state.mn.us](mailto:Julie.freeman@state.mn.us) or 651-259-7085.

My best regards,



Katie Clark Sieben  
Commissioner