

WORLD TRADE CENTER CORPORATION

FINANCIAL AUDIT

FOR THE PERIOD JULY 1, 1991 - DECEMBER 31, 1993

APRIL 1994

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

94-16

WORLD TRADE CENTER CORPORATION

FINANCIAL AUDIT FOR THE PERIOD JULY 1, 1991 - DECEMBER 31, 1993

Public Release Date: April 28, 1994

No. 94-16

AGENCY BACKGROUND

The World Trade Center Corporation is to promote and market the Minnesota World Trade Center and to sponsor conferences or promotional events in the conference and service center. From 1987 to 1993, the policy of the corporation was determined by a board of 15 members. Since July 1, 1993, it has been governed by a 12 member board of directors. Richard Nolan served as the corporation president until June 30, 1993. The current president, George Crolick, Jr. is employed by the Department of Trade and Economic Development.

AUDIT AREAS

◆ *Financial Viability*

The World Trade Center Corporation faces severe financial difficulties in continuing operations through June 30, 1995. Even with a \$111,000 legislative appropriation the corporation is currently seeking, the financial viability of the corporation remains in doubt. Another effect is that the corporation is not placing in escrow amounts to make payments on an equipment lease purchase agreement.

◆ *World Medical Exposition*

Prior management made questionable use of the world medical exposition appropriation. Unrelated payments have been made out of the account and to date no world medical exposition has been held. Currently, the management of the World Trade Center Corporation is pursuing the possibility of holding a smaller conference in October 1994. Prior management also used proceeds from a City of St. Paul loan to temporarily finance activity not authorized by the loan agreement.

◆ *Payroll*

The World Trade Center Corporation appropriately processed its payroll through the statewide payroll system. Severance payments to former employees were proper, with the exception of a compensatory amount of \$639 paid to the former president.

Current management responded to our report and virtually agreed with our assessment of the situation.

Contact the Financial Audit Division for additional information.
296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Darin Narayana, Chair
World Trade Center Board

Mr. George Crolick, President
World Trade Center Corporation

Audit Scope

We have completed a financial related audit of the World Trade Center Corporation for the period July 1, 1991 through December 31, 1993. Chapter 1 provides a brief description of the corporation; chapters 2 through 4 discuss the results of our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures into various categories:

- conference center receipts,
- payroll,
- expenditures paid from imprest cash (local small bills) account,
- world medical exposition expenditures,
- equipment lease purchase payments, and
- occupancy costs.

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For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. Our review was more limited than would be necessary to express an opinion on the World Trade Center Corporation's system of internal accounting control taken as a whole.

We also considered whether the World Trade Center Corporation's financial activities were conducted in a reasonable manner for a public entity. To achieve this objective, we reviewed selected policies and practices in effect during the audit period and as of the time of our fieldwork in February 1994.

Management Responsibilities

The management of the World Trade Center Corporation changed at July 1, 1993, as discussed in the Introduction. Current management, however, disavows responsibility for activities of the prior management. Management is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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Conclusions

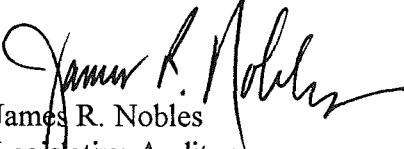
Our audit disclosed the situation discussed in finding 1 relating to the corporation's ability to continue as a going concern. It must realize highly optimistic financial results, and continue to defer payments on several significant debts in order to survive until June 30, 1995.

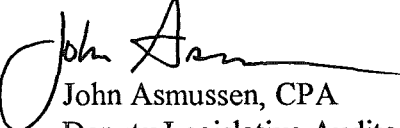
The results of our tests indicate that, except for the issues discussed in findings 2, 3, 4, and 5, with respect to the items tested, the World Trade Center Corporation complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the World Trade Center Corporation had not complied, in all material respects, with those provisions.

We also noted some conditions involving the internal control structure and its operation that we reported to the management of the World Trade Center Corporation at the exit conference held on April 6, 1994.

This report is intended for the information of the Legislative Audit Commission and management of the World Trade Center Corporation. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 28, 1994.

We thank the World Trade Center Corporation staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 15, 1994

Report Signed On: April 25, 1994

World Trade Center Corporation

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Audit Participation

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

| | |
|--------------------|----------------------------|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Warren Bartz, CPA | Audit Manager |
| Tony Toscano | Auditor-in-Charge |
| Kari Irber, CPA | Auditor |

Exit Conference

The issues in this report were discussed with the following representatives of the World Trade Center Corporation on April 6, 1994:

| | |
|-------------------|-------------------|
| George Crolick | President |
| Noor Doja | Managing Director |
| Paul Gam | Board Member |
| E. Peter Gillette | Board Member |

World Trade Center Corporation

Chapter 1: Introduction

The World Trade Center Corporation began operations July 1, 1987. It replaced the World Trade Center Board, which was a state agency created by the 1984 Legislature. As of July 1, 1993, it has been governed by a 12 member board of directors. Four members are elected by the Minnesota World Trade Center membership, four are appointed by the governor, one is the mayor of St. Paul or the mayor's designee, and three are commissioners of state departments. The current president, George Crolick, is employed by the Department of Trade and Economic Development. The board elected Darin Narayana as its current chair under the authority provided by Minn. Stat. Chapter 44A.

From 1987 to 1993, the policy of the corporation was determined by a board of 15 members, which consisted of nine public members and six legislators serving as nonvoting members. Richard Nolan served as the corporation president until June 30, 1993. The Legislature changed the composition of the board in Minn. Laws 1993, Chapter 369, Section 42.

According to Minn. Stat. Section 44A.025, the board is to promote and market the Minnesota World Trade Center, and sponsor conferences or other promotional events in the conference and service center. It is to conduct public relations and liaison activities between the corporation and the international business community, but not to duplicate programs or services provided by the Commissioner of Trade and Economic Development, the Minnesota Trade Division, and the Commissioner of Agriculture.

Prior to July 1, 1993, the board employed its own accounting staff. After July 1, 1993, the Department of Trade and Economic Development began providing management and accounting support to the board. Revenue and expenditures of the board, as shown in the Table 1-1, are discussed more fully in the next chapter.

World Trade Center Corporation

Table 1-1
Financial Resources and Expenditures

| | Fiscal Year | | Period July 1 to December 31, 1993 |
|--|------------------|--------------------|---|
| | 1992 | 1993 | |
| Resources: | | | |
| State Appropriations | | | |
| Asset Preservation/Operations | \$120,000 | \$360,000 | \$200,000 |
| World Medical Exposition | 120,000 | 150,000 | * 63,558 |
| Privatization Study | 100,000 | | |
| Revenue | | | |
| World Trade Center Operations | 386,688 | 394,721 | 188,147 |
| Corporation Sponsored Programs | 48,757 | 0 | 0 |
| Other | 15,095 | 21,351 | 4,581 |
| Loan Proceeds | | | |
| Housing and Redevelopment Authority of the City of St. Paul | 130,000 | 0 | 0 |
| Total Resources | <u>\$920,540</u> | <u>\$926,072</u> | <u>\$456,286</u> |
| Expenditures: | | | |
| World Trade Center Operations | \$546,549 | \$537,500 | ** \$363,395 |
| World Medical Exposition | 156,793 | 358,529 | 0 |
| Executive Certification Program | 11,844 | 0 | 0 |
| Investors Escrow Account | 12,281 | 0 | 0 |
| U.S./Mexico Free Trade Conference | 25,979 | 0 | 0 |
| Privatization Study | 65,000 | 36,574 | 0 |
| Other | 3,337 | 0 | 0 |
| Local Bank Account | 64,191 | 103,271 | 6,204 |
| Total Expenditures | <u>\$885,974</u> | <u>\$1,035,874</u> | <u>\$369,599</u> |

* This represents the remaining unmatched amount from the original \$294,300 appropriation, the unliquidated balance in the matching account, and investment income on these amounts. See Table 2-4 and Table 3-1.

** Expenditures for the six months ended 12/31/93 are presented primarily on a cash basis. This amount includes unpaid bills due as of 6/30/93, including a \$77,634 equipment lease purchase payment and \$22,235 of other accounts payable identified by current management. It excludes any accounts payable due as of 12/31/93.

Source: Statewide Accounting System Reports:

- Estimated/Actual Receipts Report as of September 6, 1993
- Managers Financial Report as of September 8, 1993 and December 30, 1993
- Transfer Out Report as of July 14, 1992 and September 2, 1993

World Trade Center Corporation Records

World Trade Center Corporation

Chapter 2. Financial Viability

Chapter Conclusions

The World Trade Center Corporation faces severe financial difficulties in continuing operations through June 30, 1995. Even with a \$111,000 legislative appropriation the corporation is currently seeking, the financial viability of the corporation remains in doubt.

Financial Resources

The World Trade Center Corporation received financial resources from three main sources during the audit period - conference center rentals, corporate and individual memberships, and legislative appropriations. In addition, the corporation obtained a loan from the City of St. Paul Housing and Redevelopment Authority.

The World Trade Center Corporation manages the World Trade Conference Center and generates revenue through the rental of the conference center facilities. Table 2-1 shows the revenue generated from conference center bookings from July 1, 1991, through December 31, 1993.

Table 2-1
World Trade Conference Center Revenue

| | Fiscal Year | | |
|----------------------|------------------|------------------|----------|
| | 1992 | 1993 | 1994 |
| July | \$17,961 | \$27,465 | \$28,013 |
| August | 31,315 | 17,887 | 34,458 |
| September | 21,699 | 61,795 | 34,148 |
| October | 37,304 | 26,721 | 31,020 |
| November | 18,175 | 14,260 | 30,203 |
| December | 39,007 | 21,077 | 24,992 |
| January | 22,335 | 37,192 | |
| February | 22,013 | 23,870 | |
| March | 30,284 | 24,129 | |
| April | 22,229 | 30,033 | |
| May | 41,545 | 43,103 | |
| June | 30,857 | 19,166 | |
| Total Annual Revenue | <u>\$334,724</u> | <u>\$346,698</u> | |

Source: World Trade Center Corporation Records.

World Trade Center Corporation

The World Trade Center Corporation also generates revenue from selling individual and corporate memberships in the World Trade Center Corporation Association of Members. Individual memberships cost \$300 each year, while corporate memberships launched in January, 1994 cost \$1,500 each year. As of March 21, 1994, there were two corporate members and 113 individual members.

The World Trade Center Corporation received \$1,074,300 in appropriations since July 1, 1991. Of this amount \$294,300 was for a world medical exposition, \$580,000 was for a privatization study and preservation of corporation assets, and \$200,000 was for operating costs and debt service. Minn. Laws 1993, Chapter 369, Section 4 states, in part, that the \$200,000 appropriation:

...in no way constitutes a commitment or obligation by the state of Minnesota to make any payments on obligations of the corporation outstanding as of July 1, 1993. This section is intended to make it clear that the state of Minnesota is not and never has been nor will be responsible for the obligations of the corporation.

The corporation also received a loan of \$130,000 from the City of St. Paul Housing and Redevelopment Authority to be used as matching funds for the world medical exposition.

In Minn. Laws 1992, Chapter 513, Article 3, Section 13, the Legislature appropriated \$580,000 to the World Trade Center Corporation to preserve the assets and goodwill of the corporation while exploring the feasibility of selling the corporation to a private investor or investors. The board was to select an investment advisor to perform the privatization analysis, subject to approval of the commissioner of administration. The firm completed the study and indicated the potential for privatization of the corporation; however, no sale ever transpired.

Types of Expenditures

The World Trade Center Corporation processes its payments through the statewide accounting (SWA) system and a local bank account. During fiscal years 1992, 1993 and the period July 1, 1993, to December 31, 1993, the World Trade Center Corporation processed a total of \$2,294,447 in expenditures: \$2,117,208 from the SWA system and \$177,239 from the local bank account. Table 2-2 provides a breakdown of disbursements as recorded on both records. Payroll is discussed more fully in Chapter 4.

World Trade Center Corporation

Table 2-2
World Trade Center Corporation Expenditures

| | Fiscal Year | | Period July 1 - December 31 |
|--|------------------|--------------------|--------------------------------|
| | 1992 | 1993 | 1993 |
| Payroll, including severance payments | \$402,023 | \$485,736 | \$ 66,994 |
| Professional/technical services - | | | |
| Medical exposition contractor | 0 | 99,838 | 0 |
| Other | 130,540 | 65,699 | 0 |
| Purchased services, including catering | 134,534 | 132,768 | 43,754 |
| Rent | | | |
| Equipment lease | 52,985 | 77,634 | 155,268 |
| Occupancy costs * | 0 | 0 | 48,417 |
| Other | 18,899 | 32,056 | 14,136 |
| Travel of staff | 35,419 | 35,619 | 109 |
| Other - SWA | 70,328 | 80,887 | 34,717 |
| Other - Local Account ** | 41,246 | 25,637 | 6,204 |
| Total Expenditures | <u>\$885,974</u> | <u>\$1,035,874</u> | *** <u>\$369,599</u> |

* Occupancy costs were not paid in fiscal years 1992 and 1993 due to a dispute with the building owner. The current World Trade Center Corporation management negotiated a resolution to the dispute and is currently paying monthly occupancy costs of \$9,783.

** As shown in Table 1-1, total expenditures from the local account were \$173,666. In this table, amounts spent from the local account for catering, \$22,945, and lease payments, \$77,634, are shown with those categories.

*** Includes two equipment lease purchase payments of \$77,634 each. Also, see note ** to table 1-1.

Source: Manager's Financial Report as of September 8, 1993 and World Trade Center records.

The World Trade Center Corporation manages the World Trade Conference Center, and rents the facilities to organizations that hold training seminars, conferences, or board meetings at the conference center. Some of the costs of holding such events include the payroll of the conference center staff, catering costs, and other miscellaneous costs.

Current Status of Corporation

Management of the World Trade Center Corporation changed on July 1, 1993. On that day the former management of the corporation was replaced by personnel of the Minnesota Trade Office of the Department of Trade and Economic Development (DTED). The payments of the corporation now are processed through the fiscal services section of DTED. The new president, managing director, and membership director are all employees of DTED. They continue to be paid by DTED although they assume the responsibilities of operating the World Trade Center Corporation in addition to their responsibilities at the DTED Trade Office.

World Trade Center Corporation

Table 2-3 shows the obligations of the corporation as of February 8, 1994.

Table 2-3
World Trade Center Corporation Liabilities
as of February 8, 1994

| | <u>Current Liabilities</u> | | <u>Long-Term Liability</u> |
|-------------------------------|----------------------------|---------------------|----------------------------|
| | <u>Restricted</u> | <u>Unrestricted</u> | |
| City of St. Paul loan * | | \$63,016 | \$ 66,984 |
| Catering services | | 29,106 | |
| Delinquent escrow payments ** | \$ 223 | 25,655 | 569,846 |
| Unemployment taxes | | 19,185 | |
| Accrued payroll | | 5,052 | |
| Customer parking | | 1,969 | |
| Maintenance | | 1,719 | |
| Telecommunications | 1,078 | 575 | |
| Other | 0 | 5,938 | 0 |
| Total Liabilities | <u>\$1,301</u> | <u>\$152,215</u> | <u>\$636,830</u> |

* The balance of \$66,984 is due July 15, 1994. The amounts shown are for principal only without any accrued interest added.

** The long-term portion of this liability is our estimate of unpaid principal after allowing for the delinquent escrow payments.

Source: World Trade Center Corporation Records.

Table 2-4 shows the current resources of the corporation. However, not all of the resources shown in Table 2-4 are available to use as needed by the corporation. The amounts in the restricted column (Medical Exposition and Medical Exposition Matching accounts) are only available for expenses incurred in conjunction with putting on a world medical exposition in St. Paul. The amounts in the unrestricted column are available to cover the current payables shown in Table 2-3.

Table 2-4
World Trade Center Corporation Resources
as of February 8, 1994

| | <u>Restricted Amount</u> | <u>Unrestricted Amount</u> |
|---------------------------------------|--------------------------|----------------------------|
| Statewide Accounting accounts: | | |
| Conference center | | \$22,316 |
| WTC operations/memberships | | 2,841 |
| Corporate Reserve Fund | | 9,701 |
| Medical exposition | \$30,898 | |
| Medical exposition - matched | 32,660 | |
| Investors escrow account | 223 | |
| Privatization study | | 2 |
| Local bank account | | 941 |
| Conference center accounts receivable | 0 | 38,436 |
| Total | * <u>\$63,781</u> | <u>\$74,237</u> |

* See finding 3 in Chapter 3. It cites some questionable costs paid from this restricted account. Depending upon the resolution of that finding, some unrestricted funds may be due back to the restricted account.

Source: Statewide Accounting System inquiries and World Trade Center Corporation records.

World Trade Center Corporation

1. The World Trade Center Corporation faces severe financial difficulties for the immediate future.

The World Trade Center Corporation faces severe financial difficulties for the remainder of the 1994-1995 biennium. It must realize highly optimistic financial results, and continue to defer payments on several significant debts in order to survive until June 30, 1995.

In order to continue operations the corporation must:

- Be able to cover its operating losses through June 30, 1994,
- Receive the state appropriation for \$111,000 it is currently seeking,
- Turn around operations in early fiscal year 1995 in order to build up sufficient resources to meet its semi-annual equipment lease purchase payment due by December 30, 1994,
- Receive the continued support of the Department of Trade and Economic Development, and
- Continue to defer significant debts such as the equipment lease purchase payments, the loan payments to the City of St. Paul, and the unemployment taxes owed to the Department of Jobs and Training.

Currently, according to its own estimates, the corporation loses about \$3,000-5,000 each month. The status of the corporation as of March 15, 1994, is such that approximately \$11,700 is available to fund losses through the end of the fiscal year. An equipment lease purchase payment also is due on June 30, 1994, but the corporation does not have sufficient resources to pay it.

The corporation currently is seeking an \$111,000 appropriation from the Legislature to make its June equipment lease purchase payment and carry it into fiscal year 1995. Assuming the corporation can continue until the end of the fiscal year and it receives the appropriation it is seeking, it would immediately have to use \$77,634 to make the equipment lease purchase payment. A \$33,366 balance would remain. The corporation then would be faced with reversing monthly losses and generating at least \$44,268 in the first six months of fiscal year 1995 just to make the equipment lease purchase payment due on December 30, 1994.

The corporation's current management arrangement has helped to reduce the strain on corporate resources due to DTED's Trade Office assuming the management responsibility of the corporation. The corporation, however, must deal with several large debts:

World Trade Center Corporation

- Semiannual equipment lease purchase payments of \$77,634,
- a City of St. Paul loan with a balance of \$130,000, and
- outstanding unemployment taxes totaling \$19,185 to the Department of Jobs and Training.

Therefore, we conclude that even with an appropriation of \$111,000 the financial viability of the corporation remains in question.

Recommendation

- *The World Trade Center Corporation needs to analyze its current situation and develop an appropriate plan of action to deal with its current and long-term financial situation.*

2. The World Trade Center Corporation is not complying with the escrow requirements of an equipment lease purchase agreement.

Another effect of the poor financial condition is that the corporation is not placing in escrow amounts to make payments on an equipment lease purchase agreement between the World Trade Center Corporation and a Minnesota bank. The agreement requires the corporation to place in escrow on the first of each month one-sixth of the total amount due on the next payment date. The next payment is due June 30, 1994, and to date the corporation has not made the escrow payments for January and February 1994. Failure to make the required escrow payments puts the corporation in default status on its agreement with the bank. The Minnesota bank required the corporation to escrow amounts because of its past financial difficulties.

The corporation presently does not have sufficient resources to make the semiannual lease payment due in June 1994. It also has not satisfied the escrow requirements of its loan agreement. The lessor has not sought to enforce the requirement since July 1, 1993.

Recommendation

- *The World Trade Center Corporation must renegotiate the escrow requirements on its equipment lease purchase agreement until it acquires sufficient funds to make the monthly payments.*

World Trade Center Corporation

Chapter 3. World Medical Exposition

Chapter Conclusions

Prior management made questionable use of the world medical exposition appropriation. Unrelated payments have been made out of the account and to date no world medical exposition has been held. Currently, the management of the World Trade Center Corporation is pursuing the possibility of holding a smaller conference in October 1994.

In Minn. Laws 1991, Chapter 345, Article 1, Section 23, the Legislature appropriated \$500,000 to the Department of Trade and Economic Develop for transfer to the World Trade Center Corporation to establish an annual medical exposition, trade fair, and health care congress to commence in 1993. The Legislature reduced the appropriation by \$5,700 in 1991 and \$200,000 in 1992. Minn. Laws 1993, Chapter 369, Section 33, allowed the exposition to begin in either 1993 or 1994. The appropriation was only available to the corporation to the extent that it is able to secure an equal amount from nonstate sources. In October 1991, the corporation entered into a loan agreement with the Housing and Redevelopment Authority of the City of St. Paul, to provide matching funds for a portion of the world medical exposition appropriation. The agreement provided \$130,000 in funding to the corporation. Table 3-1 shows a summary of the resources available for the World Medical Exposition.

Table 3-1
World Medical Exposition Financial Activity
Fiscal Years 1992 to 1994

| | Matched <u>Account</u> | Unmatched <u>Account</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|------------------|
| State Appropriation | \$270,000 | \$24,300 | \$294,300 |
| Sources of Non-State Matching Funds: | | | |
| Transfer from Conference Center Account | 200,000 | | 200,000 |
| St. Paul Loan Proceeds * | 70,000 | | 70,000 |
| Investment Income | 7,338 | 6,598 | 13,936 |
| Other | 644 | 0 | 644 |
| Subtotal Matching Funds | <u>\$277,982</u> | <u>\$6,598</u> | <u>\$284,580</u> |
| Total Resources | <u>\$547,982</u> | <u>\$30,898</u> | <u>\$578,880</u> |
| Expenditures (See Table 3-2) | <u>\$515,322</u> | <u>\$ 0</u> | <u>\$515,322</u> |
| Balance (See Table 2-4) | <u>\$ 32,660</u> | <u>\$30,898</u> | <u>\$ 63,558</u> |

* See discussion in finding #3.

Source: Office of the Legislative Auditor, Department Transfer Transaction Report for fiscal years 1992 and 1993.

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From March 1992 through March 1993, the corporation paid the full salary of its president from this account. It also paid the full salaries of three other employees, including the account clerk, from the account for various periods of time. The total salary charged to the world medical exposition account during fiscal years 1992 and 1993 was \$279,254. On February 25, 1993, the corporation responded to concerns raised by our office regarding the distribution of salaries to the world medical exposition account. As a result, it developed new percentages to distribute salaries to its accounts. We estimate that if the new percentages had been used throughout the audit period, the world medical exposition account would have saved approximately \$36,194. Table 3-2 provides a summary of the expenditures relating to the world medical exposition to June 30, 1993.

Table 3-2
World Medical Exposition Expenditures

| | Fiscal Year | | Total |
|--|------------------|------------------|------------------|
| | 1992 | 1993 | |
| Payroll, including severance payments | \$101,167 | \$178,087 | \$279,254 |
| Contractual payments to exposition developer | 27,000 | 113,447 | 140,447 |
| Travel | 25,402 | 32,839 | 58,241 |
| Parking | 0 | 5,341 | 5,341 |
| Other | 3,224 | 28,815 | 32,039 |
| Total | <u>\$156,793</u> | <u>\$358,529</u> | <u>\$515,322</u> |

Source: Statewide Accounting System Manager's Financial Report as of September 8, 1993.

Although prior management spent over \$500,000, to date, no World Medical Exposition has been held. The current management of the corporation is now pursuing the possibility of holding a smaller conference in conjunction with the Medical Design and Manufacturing Trade Show scheduled for October 10 - 11, 1994. Currently, \$32,660 is available in the matching account and \$30,898 remains in the unmatched account. The corporation has additional matching funds to justify transferring some portion of the unmatched account to the matched account. The current management has not made any expenditures from the accounts, except for settling prior claims.

3. The World Trade Center Corporation incurred some questionable costs from resources designated for the world medical exposition.

We found three areas where the corporation made questionable payments from the world medical exposition account. The World Trade Center Corporation spent some of the world medical exposition appropriation on items not related to the exposition. The laws for the appropriation states that the funds are to be used to establish an annual medical exposition, trade fair, and health care congress to commence in 1993 or 1994. The corporation made the following payments from the account that were not related to the exposition:

World Trade Center Corporation

- three payments totaling \$6,620 to the law firm working on the privatization of the corporation,
- a net amount totaling \$3,000 to a contractor who worked on the a U.S./Mexico free trade conference, and
- two payments totaling \$3,575 for general assembly registrations.

These amounts more appropriately could have been paid from the accounts set up for the specific purposes of the accounts.

Recommendation

- *The World Trade Center Corporation should repay the \$13,195 to the world medical exposition account, or document the propriety of the expenditures.*

4. The World Trade Center Corporation used proceeds from a City of St. Paul loan to temporarily finance activities not authorized by the loan agreement.

The World Trade Center Corporation entered into a loan agreement with the City of St. Paul on October 7, 1991. From December 1991 to March 1992, the corporation deposited a net amount of \$50,000 in loan proceeds into its local bank account and \$10,000 into its operating account on the statewide accounting system. The corporation repaid \$60,000 to the world medical exposition account in October and November, 1992.

We reviewed the checks written on the local bank account, but were unable to find any significant payments that related to the development of the medical exposition. Therefore, we believe that the loan proceeds were used to temporarily fund the operations of the corporation.

Recommendation

- *The World Trade Center Corporation should disclose the noncompliance with the loan agreement to the City of St. Paul and take any corrective action required.*

World Trade Center Corporation

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Chapter 4. Payroll

Chapter Conclusions

The World Trade Center Corporation appropriately processed its payroll through the statewide payroll system. Severance payments to former employees were proper, with the exception of a compensatory amount of \$639 paid to the former president.

The World Trade Center Corporation processed its payroll through the state's central payroll system. The corporation currently pays only six from corporate funds. It pays five employees fully from the conference account. It pays the other employees 50 percent from the conference center and 50 percent from the memberships account. Beginning July 1, 1993, the Trade Office of the Department of Trade and Economic Development assumed management of the corporation. The current president, managing director, and memberships director are DTED employees and are paid by DTED rather than the World Trade Center Corporation.

As part of our audit we reviewed severance payments for former employees and selected transactions prior to July 1, 1993. We also reviewed current controls over the payroll process and noted several areas of concern relating to payroll. The severance payments for former employees appear to be calculated and paid correctly, except for the former president's payment, as discussed in finding 5.

The World Trade Center Corporation (Minnesota corporation) reimbursed the former president \$3,521 for an airline flight to Seoul, Korea for the annual conference of World Trade Center Association (world organization) held in October 1993, four months after his employment ended. Although the former president was no longer employed by the corporation, the board and current president believed that it was beneficial for the corporation to send the former president to the conference. The former president was on the board of directors of the World Trade Center Association, and the corporation felt it was beneficial for Minnesota to have representation on the board of directors.

The World Trade Center Corporation treated this reimbursement as part of the former president's severance package, which was approved by the board. The former president was employed under an agreement, which commenced on January 1, 1992, and continued for three years. In consideration for terminating the employment agreement at June 30, 1993, the corporation provided the former president with the flight to Korea. He was also to represent the Trade Center on the World Trade Center Association Board of Directors. The current corporation management provided us with an unsigned copy of the agreement, which was to have been signed by the corporation chair and the former president at that time. It could not locate a signed copy of the agreement.

World Trade Center Corporation

5. The World Trade Center Corporation erroneously paid the former president for compensatory time recorded during his employment.

The World Trade Center Corporation paid the former president of the corporation \$639 for compensatory time recorded during his employment. The former president had a balance of 17 compensatory hours at the time of his termination and was paid for these hours in error.

The corporation's policies and procedures state in part that "management and professional staff may accrue compensatory hours (which have a straight time value but no cash value)." Paying for the balance of 17 compensatory hours at the time of termination was against corporation policy and should not have been made.

Recommendation

- *The World Trade Center Corporation should seek reimbursement for the unallowable compensatory payment of \$639 made to the former president of the corporation.*

MINNESOTA



WORLD TRADE CONFERENCE CENTER

DATE: April 21, 1994

MEMO TO: James R. Nobles, Legislative Auditor
John Asmussen, Deputy Legislative Auditor

FROM: George R. Crolick, Minnesota Trade Office *GR Crolick*

SUBJECT: Response to Minnesota World Trade Center Corporation
Audit - Period Ending 31 December 1993.

BACKGROUND:

The Board, management and staff of the World Trade Center Corporation thank the members of the Office of the Legislative Auditor for their work and cooperation during the audit. The audit was requested and clearly the Corporation will benefit from the review and improved communications. It is recognized that:

- The audit is a financial-related audit and not a program audit.
- The audit is directed toward the World Trade Center Corporation (third and fourth floors of the building) and should not be misconstrued to represent the entire building which is owned and managed by different companies.
- The audit covers a period where the Corporation was managed by two different boards and management teams.
 - July 1, 1991 - June 30, 1993 - 15 Board members, Richard Nolan, President
 - July 1, 1993 - December 31, 1993 - 12 Board members, George Crolick, President (management and accounting support from Department of Trade and Economic Development).

The current management team accepts responsibility for all financial and program activities since 1 July 1993; and, the current management team accepts responsibility for financial debts to the Corporation prior to 1 July 1993. However, the current management team cannot make judgment nor accept responsibility for program and financial activities prior to 1 July 1993.

CHAPTER 2 - FINANCIAL VIABILITY

Finding 1:

The World Trade Center Corporation faces severe financial difficulties for the immediate future.

Legislative Auditor's Recommendation:

"The World Trade Center Corporation needs to analyze its current situation and develop an appropriate plan of action to deal with its current and long-term financial situation."

WTCC Response:

The Board and management is optimistic about the future for the World Trade Center Corporation. When comparing the current model of management (support from DTED's Minnesota Trade Office), it is much more cost-effective than in the past. Additionally, blending the two organizations created more harmony and intangible opportunities to leverage assets in support Minnesota's global business goals.

The Board and management of the World Trade Center Corporation agrees that financial viability is a challenge and requires on-going analyses, flexibility and creativity to meet all financial requirements. Below is a brief description of the current management's approach to satisfying the Legislative Auditor's recommendations.

A. CURRENT OPERATING REQUIREMENTS:

The first hurdle addressed by the current management team was to meet day-to-day operating requirements. This has been done through cost reductions, increased revenues, and cash management.

EXPENSES:

Since July 1, 1993, operating expenses have been reduced 35-40% when compared to the previous 6-month period. Current costs include occupancy costs which have been paid since August 1993 but were not paid in the previous 6-month period.

CONFERENCE CENTER OPERATING REVENUE:

Since the field work was concluded in this report (2/15/94), Conference Center operating revenue has increased 4% over the previous 6 months. Further, with 10 weeks left in this 6-month period, we are optimistic that business will have larger increases. This is in spite of the fact that one large client's business is off 60%.

MEMBERSHIP REVENUE:

The first phase of a membership campaign was launched in January 1994. Membership goals are 200 individual and 40 corporations. To date 60% of the individual goals are met and 25% of the corporate. If we meet our projections for membership, membership revenue will be \$120,000.

EDUCATION REVENUE:

The third source of revenue is an education program which is planned to deliver \$30-50,000 in annual revenue. This program will be launched by 1 July 1994.

PROFIT AND LOSS PROJECTIONS (FY 95)

| | <u>Best Case</u> | <u>Worst Case</u> |
|---|----------------------|-----------------------|
| Revenue: Conference Center (90% probability) | \$360,000 | 324,000 |
| Membership (60% probability) | 120,000 | 70,000 |
| Education Programs (60% probability) | <u>50,000</u> | <u>30,000</u> |
| TOTAL | \$530,000 | 424,000 |
| Costs: Operational Expenses | \$180,000 | 162,000 |
| Occupancy costs | 116,400 | 116,000 |
| Membership costs | 23,200 | 23,000 |
| Education expense | 25,000 | 15,000 |
| Salaries | 107,412 | 107,000 |
| Other expenses | <u>34,628</u> | <u>30,000</u> |
| TOTAL | \$486,640 | 453,000 |
| OPERATING PROFIT | \$ 43,360 | (\$29,000) |
| CASH FLOW PROJECTED (FY 95) | | |
| Net operating profit (loss) | \$ 43,360 | (\$29,000) |
| Debt service - Norwest | <u>(\$155,000)</u> | <u>(\$155,000)</u> |
| NET CASH DEFICIT | (\$111,908) | (\$184,000) |

B. LONG-TERM FINANCIAL REQUIREMENTS:

STATE APPROPRIATION:

A request has been made to the Legislature for \$111,000 to support debt service. This amount is also in the Governor's FY 95 Supplemental Budget.

SAINT PAUL OBLIGATION:

This \$130,000 obligation is connected to a proposed World Medical Exposition. If that plan is developed and carried out over the next five years, it is planned that this obligation could be rescheduled, renegotiated, or redefined as a grant. This point will require confirmation and agreement from the City of St. Paul. The City of St. Paul also recognizes that the World Trade Conference Center business is largely a St. Paul or east metro business conference center.

UNEMPLOYMENT TAXES:

This amount accrued when four full-time employees left the Corporation in June 1993. Discussion will be held with the Department of Jobs and Training by 15 June 1994.

In addition to the response above, the current management team commits itself to provide an updated operational plan by 31 December 1994 so the 1995 Legislature will have information and the opportunity to take any necessary fiscal or legislative action before June 30, 1995.

Finding 2:

The World Trade Center Corporation is not complying with the escrow requirements of an equipment lease purchase agreement.

Legislative Auditor's Recommendation:

"The World Trade Center Corporation must renegotiate the escrow requirements on its equipment lease purchase agreements until it acquires sufficient funds to make the monthly payments."

WTCC Response:

Since 1 July 1993, the lender has not requested escrow payments. It is the current management's understanding that this requirement was waived during the December 1992 payment negotiation.

A meeting is scheduled with the lender to discuss, confirm, and reconcile this point.

Additionally, the lender will be asked to revise the current amortization schedule in order to relieve pressure on operational cash flow.

CHAPTER 3 - WORLD MEDICAL EXPOSITION

Finding 3:

The World Trade Center Corporation incurred some questionable costs from resources designated for the world medical exposition.

Legislative Auditor's Recommendation:

"The World Trade Center Corporation should repay the \$13,195 to the world medical exposition account, or document the propriety of the expenditures."

WTCC Response:

Current management will investigate with the Legislative Auditor's staff the appropriateness of expenditures indicated on page 11 and repay the amount, if any, agreed upon.

Finding 4:

The World Trade Center Corporation used proceeds from a City of St. Paul loan to temporarily finance activities not authorized by the loan agreement.

Legislative Auditor's Recommendation:

"The World Trade Center Corporation should disclose the noncompliance with the loan agreement to the City of St. Paul and take any corrective action required."

WTCC Response:

Previous management has indicated that the City of St. Paul approved its use of the funds. Current management has had additional communication with the City of St. Paul regarding the World Medical Exposition. It is agreed that further discussions are necessary to ensure no misunderstandings. This will be completed by 1 June 1994.

In an effort to satisfy the intent of the original legislation, monies available in the World Med accounts have been preserved since 1 July 1993 (see Tables 2-4, 3-1). A business plan is being developed at no operational cost which will lay out a World Med for a period of five (5) years. This plan will describe and qualify an activity which starts small as a collaborated conference and trade

show and, if successful and warranted, grows to a full exposition in five (5) years. It is predicated on cooperation from numerous sectors: business community, universities, medical associations, etc. Three events are scheduled for 1994 - MD & M Medical Manufacturers Trade Show, an international program sponsored by Medical Alley, and a local medical conference.

Ultimately success will occur if several medically-related events are packaged and repeated annually during the same time period (late September/early October). Through these events Minnesota will be able to communicate and confirm globally that we are leaders in the medical industry.

CHAPTER 4 - PAYROLL

Finding 5:

The World Trade Center Corporation erroneously paid the former president for compensatory time recorded during his employment.

Legislative Auditor's Recommendation:

"The World Trade Center Corporation should seek reimbursement for the unallowable compensatory payment of \$639 made to the former president of the corporation."

WTCC Response:

Current management will seek reimbursement for this payment which occurred prior to 1 July 1993. This issue will be resolved by 1 June 1994.

SUMMARY:

The current Board management and staff are optimistic about both the near- and long-term future of the World Trade Center Corporation. It is a unique resource and an asset to the citizens of the state of Minnesota. It should be preserved and, following new paths, can be made financially viable with civic and member support.

Government/Business Connections:

Governments outside the United States tend to be more closely partnered with business than U.S. federal and state governments. When foreign officials visit Minnesota, they are normally interested in developing or expanding both government and business connections. The World Trade Center Corporation and the Minnesota Trade Office are in a unique position to make those connections. Further, the physical proximity of Minnesota's State Capitol and the World Trade Center Building greatly assists in helping international visitors visualize that cooperation and partnership.

Minnesota has come a long way in carving a niche for itself in the global marketplace, but there are many untapped opportunities for Minnesotans looking for increased growth.

Global Network:

The World Trade Center Corporation is a potential gateway for Minnesota businesses seeking new markets in more than 250 cities throughout the world. This additional, cost-effective trade center network is separate from all other government and industry association networks. The United Nations and the United States government are presently taking action to encourage expansion of this network. Minnesota has already achieved a critical mass with the organization/network in place.

Focal Point:

The World Trade Center Corporation provides a world-class focal point for the more than 60 non-profit internationally related organizations in the state of Minnesota. It has the outlook and potential resources to collect that energy and assist those organizations in achieving a common goal -- Minnesota's increased understanding of and participation in the global marketplace.