Minnesota Technology, Incorporated

Selected Scope Financial Audit
For the Three Years Ended June 30, 1995

December 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-45

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STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Jacques Koppel, President
Minnesota Technology Incorporated

We have audited selected components of the Minnesota Technology, Incorporated (MTI) operations for the three years ended June 30, 1995, as further explained in Chapter 1. Our audit scope included payroll, contracts, grants, travel reimbursements, and fixed asset inventory. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the MTI complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the MTI is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the MTI. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 6, 1996.

We thank the MTI staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 19, 1996 *

Report Signed On: December 2, 1996

* Subsequent to this date, in August 1996, we completed additional inquiries and audit procedures on selected payroll/personnel transactions.

SUMMARY

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Minnesota Technology, Incorporated

Selected Scope Financial Audit
For the Three Years Ended June 30, 1995

Public Release Date: December 6, 1996 No. 96-45

Agency Background

Minnesota Technology, Incorporated (MTI) is a public nonprofit corporation under the direction of a 14 member board. It is located in Minneapolis. MTI has technical resource centers in Moorhead, Rochester, Redwood Falls, Virginia, and St. Cloud. The board appointed Jacques Koppel as its president in September 1990.

MTI's mission is to foster long-term economic growth and job creation with a specific focus on new or existing small and medium-sized businesses in greater Minnesota.

Selected Audit Areas and Conclusions

Our audit objectives were to obtain an understanding of management controls relevant to payroll, contracts, grants, travel reimbursements, and fixed asset inventory. We also designed our audit to provide reasonable assurance that MTI complied with provisions of laws and regulations.

We concluded that MTI processed payroll according to its policies and procedures. MTI's internal control structure was adequate to detect or prevent material payroll errors in a timely manner. However, MTI did not properly separate accounting duties over its payroll account. MTI should also transfer its nonpayroll receipts balance from the payroll account into a special revenue fund. We also noted that MTI employee timesheets occasionally lacked proper authorization. In addition, MTI could further strengthen controls by developing a written agreement for services with its payroll processor.

We concluded that MTI is awarding contracts in accordance with its policies and procedures, including its competitive bidding process. In addition, MTI identified and resolved potential conflicts of interest brought to its attention by its employees. We concluded that MTI supported grant awards with written contracts or stock purchase agreements. However, MTI's equity fund's investment in seven-county metropolitan area based companies exceeds the 20 percent limitation specified in Minn. Stat. Section 1160.122.

We concluded that MTI's travel policy was reasonable and similar to the state of Minnesota's travel policy. MTI reimburses its employees in compliance with its travel policy, however, travel reimbursement requests did not always demonstrate a deduction for commuter miles. Per diem payments to board members are proper. In addition, we concluded MTI's inventory controls are inadequate. MTI improved controls since the prior audit over new computer purchases. However, inventory lists are not up-to-date, asset activities are not recorded, and spot checks are not performed.

Contact the Financial Audit Division for additional information.
296-1727

Minnesota Technology, Incorporated

Table of Contents

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Lori Kloos, CPA	Auditor
Steve Johnson	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Minnesota Technology, Incorporated on November 18, 1996:

Jacques Koppel	President
Patty Billings	Managing Director
Murtuza Siddiqui	Controller

Chapter 1. Introduction

Minnesota Technology, Incorporated (MTI) is a public nonprofit corporation. The corporation's purpose, as specified in Minn. Stat. Section 1160.03, is:

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

MTI receives direction from a 14 member board. The board is responsible for appointing a president who serves as the chief executive officer of the corporation. Jacques Koppel has served as president since September 1990. Employees of MTI are not state employees, but may, at the option of the board, participate in the state's retirement system, insurance plans, and deferred compensation program. MTI employees are not represented by any bargaining unit. They serve at the pleasure of the corporation similar to unclassified positions in state service.

MTI has six technical resource centers located in Minneapolis, Moorhead, Rochester, Redwood Falls, Virginia, and St. Cloud. Table 1-1 highlights MTI's financial activities for each of the three fiscal years ended June 30, 1993, 1994, and 1995. A public accounting firm audits the financial statements of the MTI on an annual basis, including federal programs under OMB Circular A-133 Single Audit.

Table 1-1
Minnesota Technology Incorporated
Financial Summary

	1993	1994	1995
Revenues:			
State Appropriations	$ 2,113,335	$ 5,200,000	$ 5,802,000
Pass Through Funds	5,796,665	2,672,000	2,672,000
Federal Programs	1,500,000	2,213,023	3,756,414
Other Income	1,075,622	1,086,926	2,887,766
Total Revenues	$10,485,622	$11,171,949	$15,118,180
Expenditures:			
Payroll	$ 3,231,000	$ 4,046,466	$ 4,384,060
Grants	1,718,238	2,422,238	2,755,069
Contracts	631,759	544,299	1,276,856
Travel	348,603	364,178	394,298
Inventory	299,965	369,106	211,329
Pass through Grants	5,796,665	2,672,000	1,725,000
Other Expenses	1,107,380	1,304,739	1,525,359
Total Expenditures	$13,133,610	$11,723,026	$12,271,971

Note: The Laws of 1993, Chapter 363, abolished the Minnesota Project Outreach (MPO) Corporation, which received pass through funds from MTI. The fiscal year 1995 pass through grant expenditures were reduced by $947,000, which is the amount of pass through funds appropriated to MPO.

Source: Statewide Accounting System Manager's Financial Report as of the close.

Minnesota Technology, Incorporated

According to Minn. Stat. Section 1160.05, Subd. 1(d), all MTI expenditure transactions, except payroll, are processed through the state's Statewide Accounting System. Beginning July 1, 1995, MTI expenditures were processed through the Minnesota Accounting and Procurement System (MAPS), the state's new accounting and procurement system.

Chapter 2. Payroll

Chapter Conclusions

MTI processed payroll according to its policies and procedures. In addition, MTI's internal control structure is adequate to detect or prevent material payroll errors in a timely manner. However, MTI did not properly separate accounting duties over its payroll account. MTI should also transfer its nonpayroll receipts balance from the payroll account into a special revenue fund. We also noted that MTI employee timesheets occasionally lacked proper authorization. Also, MTI does not have a written agreement with its payroll services vendor.

MTI maintains a checking account at National City Bank to function as a clearing account for its employee payroll. MTI requests the Minnesota Department of Finance to transfer funds from its state appropriation accounts to National City Bank. MTI uses a vendor, Automatic Data Processing (ADP), to process employee payroll checks, provide reports, and file various wage detail reports. ADP delivers the payroll checks and reports to MTI for distribution and review. The reports provide MTI with the transfer amount necessary to meet immediate payroll cash needs. ADP also provides MTI with reports that contain the detailed transactions.

During the audit period, the development of written policies and procedures was an ongoing process. We were provided copies of written policies and procedures governing employee classification, attendance, benefits, and termination, dated as of January 1995. Benefits include paid sick leave, vacation, short-term disability, and severance pay. MTI processes work and leave hours recorded on the timesheets and delivers checks to the employees on a biweekly basis. Table 2-1 summarizes MTI's payroll expended through ADP.

Table 2-1
Payroll Dollars By Earnings Type

Earnings Type:	FY 1993	FY 1994	FY 1995
Regular	$2,747,193	$3,146,541	$3,324,619
Overtime	5,905	6,441	7,227
Severance	20,000	14,227	26,642
Sick/Vacation	62,396	113,375	155,634
Disability	10,631	12,763	15,049
Other Expenditures	384,875	753,119	854,889
Totals	$3,231,000	$4,046,466	$4,384,060

Note: Other expenditures include health care benefits, employer withholding taxes, and retirement contributions. In fiscal year 1993, other expenditures do not reflect approximately $291,000 in nonpayroll receipts used during fiscal year 1993 to reduce payroll drawdowns. See Finding 1 for further discussion.

Source: Statewide Accounting System Manager's Financial Report as of the close, detailed ADP payroll reports, and bank activity.

Minnesota Technology, Incorporated

Our audit of payroll focused on answering the following questions:

- Was MTI processing payroll transactions according to its policies and procedures?
- Are MTI's internal controls adequate to ensure that payroll information is accurate?

To answer these questions, we reviewed MTI's current payroll policy and procedures manual; interviewed payroll, personnel, and finance staff; tested time sheets; and reviewed sick leave accruals, selected lump-sum payouts, vacation leave adjustments, and the basis for severance payments. We analyzed MTI's current control structure over payroll processing, including deposits and expenditures to MTI's National City Bank account, payroll transfer requests to the Department of Finance, and ADP payroll reports provided to MTI.

We concluded that MTI processed payroll according to its policies and procedures. MTI's internal control structure is adequate to detect or prevent material payroll errors in a timely manner. However, MTI did not properly separate accounting duties over its payroll account. MTI should also transfer its nonpayroll receipts balance from the payroll account into a special revenue fund. We also noted that MTI employee timesheets occasionally lacked proper authorization. MTI could further strengthen controls by developing a written agreement for services provided by ADP. Findings 1 through 3 discuss these issues further.

1. Controls over MTI's National City Bank account need improvement.

MTI did not properly separate accounting duties over its payroll account. Also, as of June 30, 1995, MTI had a nonpayroll cash balance of $29,508 in its payroll account. In addition, we noted $35,540 in manual checks drawn on the payroll account that were not processed through the state accounting system.

Currently, the controller performs both the bank statement reconciliation and the check writing functions for the bank account. The controller calculates the transfer amount and the accounting staff transfer in funds from the state. The controller also issues manual checks for various withholding deductions, such as state retirement and insurance. These duties are incompatible functions. The record keeping function should be separate from the cash handling and reconciliation functions.

In our prior audit, we reported that MTI deposited nonpayroll receipts totaling $593,749 into the payroll bank account during the period March 1991 through February 1993. The accumulations resulted from deposits of forum fees, advertising, public relations, and a transfer from the St. Cloud Regional Office. At February 28, 1993, the account had a balance of $208,860. We recommended that MTI deposit this balance into the state treasury as provided in Minn. Stat. Section 1160.12. Rather than make the deposit, MTI used approximately $179,352 of these nonpayroll funds for payroll after February 28, 1993. Subsequent to April 1993, MTI no longer deposited nonpayroll receipts into its payroll account. However, in our analysis, we have identified a $65,048 difference between the bank activity and the activity processed through the state accounting system. The $65,048 difference has two components: (1) a nonpayroll cash balance as of June 30, 1995, of $29,508; and (2) $35,540 in manual checks that were not processed through the state appropriation account.

The nonpayroll cash balance of $29,508 remains and could be deposited to a special revenue fund in the state treasury as provided in Minn. Stat. Section 1160.12. The $35,540 represents manual checks that MTI wrote against the payroll checking account that were not processed through the state appropriation account or ADP. We calculated this balance by comparing payroll checking account deposits and charges to activity recorded on both the state appropriation account and ADP reports.

Recommendations

- *MTI should separate the duties of check writing and bank statement reconciliation for MTI's bank account.*
- *MTI should deposit nonpayroll receipts, including the balance of $29,508 into a special revenue fund maintained by the Department of Finance as required by Minn. Stat. Section 1160.12.*
- *MTI should reconcile the $35,540 in manual checks to the state appropriation account and ADP reports. In addition, MTI should review the documentation supporting the expenditures to determine propriety.*

2. Timesheets were not properly authorized.

We noted several instances where supervisors did not consistently authorize employee timesheets. In addition, several instances of employees not signing their timesheets were noted as well. Employee and supervisory signatures provide a control attesting to the validity of the hours worked and leave taken.

Currently, MTI's policy requires directors to authorize employee timesheets by signing them. The MTI president authorizes the directors' timesheets. MTI's policy also requires employees to sign their timesheets. Without authorized timesheets, errors may occur and remain undetected in the processing of the payroll.

Recommendation

- *MTI should enforce its policy requiring both supervisor and employee authorization of timesheets.*

3. MTI does not have a written agreement with ADP for payroll services.

A written agreement for payroll services provided by ADP, MTI's payroll vendor, did not exist. ADP provides services biweekly to MTI on a fee for service basis. Payments to ADP totaled $15,707 for the three years audited.

MTI exposes itself to unnecessary risks without a written agreement. Under the current arrangement, ADP could discontinue payroll services without notifying MTI, resulting in unnecessary delays. Also, written contracts typically offer control over fee increases for an established period of time.

Recommendation

- *MTI should address services provided by ADP in a written agreement.*

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Chapter 3. Contracts

Chapter Conclusions

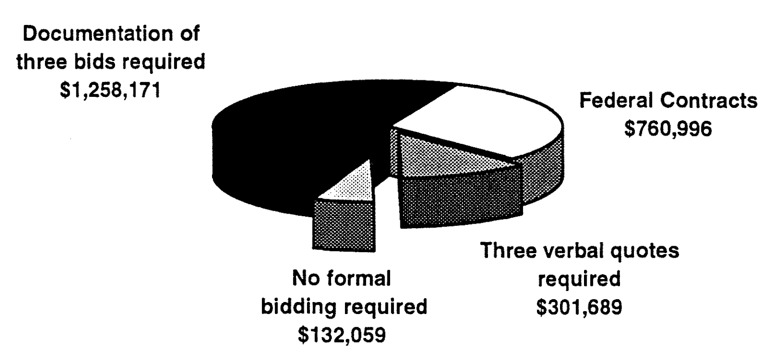
MTI awarded contracts in accordance with its policies and procedures including its competitive bidding process. In addition, MTI identified and resolved potential conflicts of interest brought to its attention by its employees.

MTI receives professional and technical contract services from various vendors. MTI's written procedures for the procurement of contract services base the action required on the dollar value of the contract, as specified below.

- Services or goods less than $1,000 require no formal selection process.
- Services or goods between $1,000 and $3,000 require three verbal quotes written on the purchase order (P.O.) slip.
- Services greater than $3,000 require competitive bidding documentation.

Figure 3-1 illustrates the breakdown of the $2,452,915 spent on contractual services during the audit period, into the above components.

Figure 3-1
Contract Dollars
FY 93-95



Source: Statewide Accounting System Managers Financial Report as of the close.

MTI empowers its 15 directors with the responsibility for procuring contract services. A budget limits the amount of funds each director can spend. MTI's accounting section makes payments to vendors for contract services after receiving invoices with authorized signatures. At the end of every month, the directors receive a report of all expenditures charged to their account.

Our audit of contracts focused on answering the following question:

- Did MTI award contracts in accordance with its policies and procedures, including its competitive bidding process?

During our review of contracts, however, we noted a possible conflict of interest situation involving a board member and expanded our review of contracts to include the following additional questions:

- Does MTI have a process to identify and resolve potential conflicts of interest of its staff?
- Are board members identifying potential conflicts of interest when applicable?

To answer these questions, we reviewed MTI's contract policies and procedures manual; interviewed MTI staff; reviewed contracts of the five highest paid vendors; and reviewed invoices, purchase orders, and competitive bidding documentation. In addition, we reviewed Statements of Economic Interests filed with the Ethical Practices Board, Minn. Stat. Section 1160.03, Subd. 8, MTI's by-laws, and MTI's employee conflict of interest policy.

We concluded that MTI is awarding contracts in accordance with its policies and procedures, including its competitive bidding process. In addition, MTI identified and resolved potential conflicts of interest brought to its attention by its employees. Although we observed one instance where a board member owned stock in a company that subsequently provided services to MTI and received a small cost share agreement, no conflict of interest resulted. However, MTI policy provides that, "An employee may not own or be employed by any business that has a joint venture, partnership, or other relationship with MTI." MTI may want to clarify its expectations of its board relating to ownership interests of board members in companies it does business with.

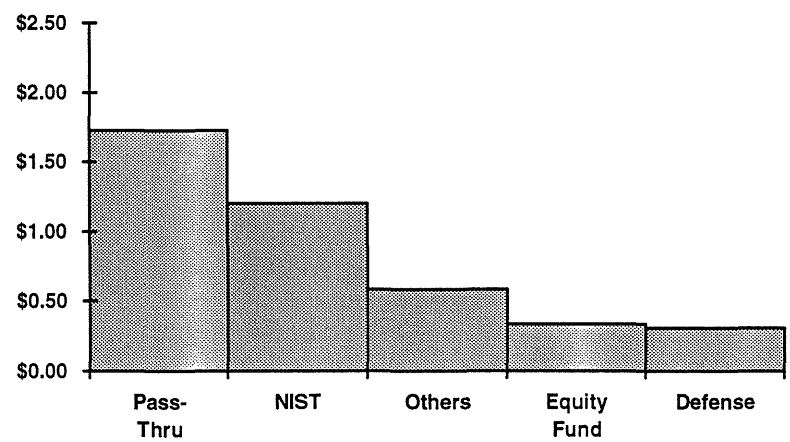
Chapter 4. Grants

Chapter Conclusions

MTI supported grant awards with written contracts or stock purchase agreements. However, MTI's Seed Capital (Equity) Fund investments in metro area based companies exceed the 20 percent limitation specified in Minn. Stat. Section 1160.122.

MTI currently disburses funds from three major programs: (1) the Manufacturing Technology Center [through a partnership with the National Institute of Standards and Technology (NIST)], (2) The Minnesota Consortium for Defense Conversion, and (3) the Seed Capital (Equity) Fund. Pass-through grants also make up a large portion of MTI's grant funding. Figure 4-1 illustrates the funding disbursed by program in fiscal year 1995.

Figure 4-1
Breakdown of Grant Funding by Program
Fiscal Year 1995
(In Millions)



Footnote: Data for fiscal years 1993 and 1994 does not significantly vary.

Source: Statewide Accounting Manager's Financial Report as of the close.

The Seed Capitol (Equity) Fund's purpose is to encourage the start-up and development of small businesses in rural Minnesota. After careful screening, MTI invests cash in companies it selects in return for an ownership interest. Equity investments from the private sector must accompany MTI's investment. Businesses eligible for investment include small technology-based companies, small manufacturing firms, and value-added processors of natural resources or agricultural products.

Minnesota Technology, Incorporated

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

Table 4-1
Pass Through Funding By Recipient
Fiscal Years 1993-1995

	FY93	FY94	FY95
Mn Tech Corridor Corp.	$ 50,000	$ 50,000	$ 50,000
Mn Inventors Congress	71,025	71,000	71,000
Mn Cold Weather		75,000	75,000
Mn Council For Quality	88,000	88,000	88,000
Mn Project Innovation	493,640	494,000	494,800
Mn Project Outreach	947,000	947,000	(*)
Natural Resources Research Inst.	947,000	947,000	947,000
Total	$2,596,665	$2,672,000	$1,725,000

(*) Mn Project Outreach Corp. was abolished and merged with MTI in laws of 1993, Chapter 363, effective July 1, 1994.

Federally funded programs, such as NIST and Defense Conversion, receive audit coverage from MTI's external auditor (see Chapter 1) under the OMB Circular A-133 Single Audit. Therefore, we did not review these programs. MTI provides grant funding through several smaller programs, such as the Minnesota Cooperative Office Program and the Waste Management Program. These programs are shown in the "Other" category in Figure 4-1. Approved by the MTI board, these programs provide funding for various projects that fit with MTI's concept of "partnership agreements" in encouraging development of small business.

Our review focused on grants paid out of the Seed Capital (Equity) Fund and the "Other" category shown in Figure 4-1.

- Did MTI have adequate supporting documentation for its grant awards?

- Did MTI comply with the finance-related legal provisions within Minn. Stat. Section 1160.122?

To answer these questions, we interviewed project managers, documented the application process, and reviewed eligibility criteria, written contracts, stock purchase agreements, equity investments, and Minn. Stat. Section 1160.122. We also documented our understanding of the control structure.

We concluded that MTI supported grant awards with written contracts or stock purchase agreements. However, MTI's Seed Capital (Equity) Fund's investment in seven-county metropolitan area based companies exceeds the 20 percent limitation specified in Minn. Stat. Section 1160.122, as further discussed in Finding 4.

4. MTI investments in the metropolitan area exceeded 20 percent of total investments made from the Seed Capital (Equity) Fund.

Currently, MTI invests 58 percent of the seed capital funds in metropolitan area based companies. With total investments of $2,498,380, only 42 percent, or $1,041,500, is invested in companies outside of the seven-county metropolitan area.

Minn. Stat. Section 1160.122, Subd. 1, provides that:

> Total investments by the Seed Capital Fund in the seven-county metropolitan area based companies must not exceed 20 percent of the total amount invested.

The MTI board of directors capitalized the Seed Capital Fund with $7 million in funding from various programs. Currently, the fund balance has approximately $8 million in it due to unrealized gains on investments made by MTI. Thus, of the $7 million originally available to the Seed Capital Fund, approximately $4,500,000 remains available for investment.

MTI interprets state legislation to apply to the "total amount of capital available for investing" as opposed to the "total amount invested." With $7 million available for investment, this interpretation sets a ceiling of $1.4 million for urban investments (20 percent of $7 million). Since current urban investments of $1,456,880 are at the ceiling of $1.4 million, MTI believes it currently complies with the 20 percent limitation. However, the statute specifies no more than 20 percent of the total amount invested.

Recommendation

- *MTI should limit investments in metropolitan area businesses to 20 percent of total investments made from the Seed Capital (Equity) Fund, as specified in Minn. Stat. Section 1160.122, Subd. 1, or seek legislative changes to support its interpretation of the statutes.*

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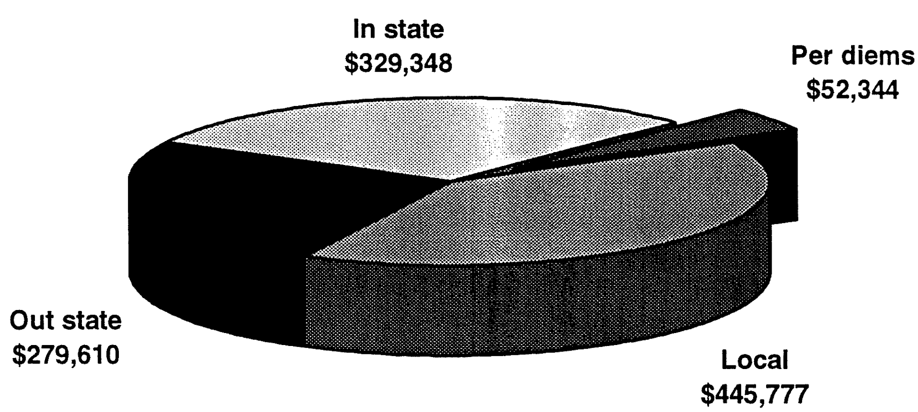
Chapter 5. Travel Reimbursements

Chapter Conclusions

MTI has a travel policy that is reasonable and similar to the state of Minnesota's travel policy. MTI reimburses its employees in compliance with its travel policy, however, travel reimbursement requests did not always demonstrate a deduction for commuter miles. Per diem payments to board members were proper.

To conduct its business throughout the state, MTI employees must travel extensively. In addition, as part of a federal network of manufacturing technology centers, MTI personnel also travel to other states' centers and to NIST's headquarters in Maryland. MTI maintains a written policy to reimburse authorized employee travel. MTI's policy defines board members as employees for purpose of travel reimbursements, and provides a $55 per diem. Figure 5-1 provides a breakdown of employee travel reimbursements and board member per diems.

Figure 5-1
Employee Travel Reimbursements
FY 93-95



Source: Statewide Accounting System Manager's Financial Report as of the close.

Our review of travel reimbursements focused on answering the following questions:

- Did MTI have a reasonable employee travel policy?
- Was MTI reimbursing employees in compliance with its travel policy?
- Were per diem payments to board members proper?

To answer these questions, we interviewed staff, documented the reimbursement process and reviewed MTI's written policies. We compared MTI's travel policy to the state's travel policy, and tested payments to staff and board members. We also compared all board member attendance records from the board minutes to board member reimbursements.

We concluded that MTI has a travel policy that is reasonable and similar to the state of Minnesota's travel policy. MTI reimbursed its employees in compliance with its travel policy, however, travel reimbursement requests did not always demonstrate a deduction for commuter miles as further explained in Finding 5. Per diem payments to board members were proper.

5. Some MTI employees did not deduct commuter miles from travel reimbursement requests.

Some MTI employees did not deduct normal commuter miles on mileage reimbursements. MTI policy defines commuter miles as the mileage between the employees residence and their base office. The policy requires employees to deduct the normal commuter miles when traveling to an alternate work location.

Currently, MTI is using two different expense reports: the standard state expense report and MTI's own version of an expense report. Unlike the state's version, MTI's expense report does not accommodate deducting standard commuter mileage from the actual miles driven. The use and format of two expense reports may contribute to a lack of policy compliance.

MTI should enforce its current reimbursement policy by requiring employees to itemize their deduction of standard commuter mileage when appropriate. MTI could accomplish this by either using the state's expense report exclusively or adjusting its own form to accommodate standard commuter mileage deductions. Without uniform enforcement of the current travel policy, employees in some regions may receive overpayments.

Recommendation

- *MTI should ensure employees deduct the normal commuter miles on travel reimbursements to alternate work locations.*

Chapter 6. Fixed Asset Inventory

Chapter Conclusions

MTI's inventory controls are inadequate. MTI improved controls since the prior audit over new computer purchases. However, inventory lists are not up-to-date, asset activities are not recorded, and spot checks are not performed.

MTI maintains three asset inventory listings for: 1) assets purchased with federal funds; 2) assets purchased that are computer related; and 3) all other assets used for business purposes. Both clients and employees of MTI use the assets. For instance, MTI purchased computer work-stations to perform research or to use as a training device. This equipment was also made available to clients who came on site to see certain technology demonstrated. Many employees use laptop computers to move easily from one location to another. On average, MTI purchases approximately $293,466 in fixed assets each year.

MTI has developed written policies and procedures governing the purchase of assets by employees. However, these policies do not address the control of assets at the various regional offices, nor do they discuss the control of assets at an employee's place of residence. In addition, MTI presumes regional office supervisors, and each employee's supervisor is aware of the need to control assets after purchasing an asset. MTI currently uses the asset listings as a schedule to record the depreciation of the asset from the purchase date.

Our review of fixed asset inventory expenditures focused on answering the following question:

- Were MTI inventory controls adequate?

In order to answer this question, we interviewed staff, reviewed MTI policies and procedures, and evaluated existing inventory lists.

We concluded that MTI's inventory controls were inadequate as explained further in Finding 6.

6. Inventory controls are inadequate.

Fixed asset inventory lists are not current or up-to-date. MTI does not have a process to record asset activity other than the initial purchase. In addition, the inventory coordinator does not perform spot checks to verify the existence of assets.

MTI assigns asset numbers to all computer purchases over $500. Although MTI does not tag any other assets, they do record the assets on an inventory list. However, MTI has not updated the list of noncomputer inventory items since 1993. MTI updates the computer asset listing when purchasing assets, but does not record asset movements. For instance, employees do not report retired, scrapped, or traded assets uniformly to the inventory coordinator.

Controls over assets improve when agencies record assets over an established dollar amount on an inventory list. However, employees must report movements of any type promptly to the inventory coordinator. MTI has several regional locations as well as numerous employees that work out of their homes. Without proper controls, assets may become lost or stolen.

Recommendation

- *MTI should improve controls over fixed asset inventory by:*

  A. *completing a physical inventory;*
  B. *affixing asset numbers according to MTI policy;*
  C. *establishing a form to promptly report asset activity and record this activity on the asset list; and*
  D. *performing periodic spot checks.*

Minnesota Technology
Partnerships for Competitiveness

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November 26, 1996

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to your audit report on Minnesota Technology for fiscal years 1993-95.

At the outset, I would like to express my appreciation for your staff's constructive approach to the audit. We found this experience to be helpful in that it offered an objective affirmation on systems that are working well, as well as a perspective on the couple of areas where we have opportunities for improvement.

The following comments offer some additional context, plans for improvement, or an outline of the steps we have already taken to address your staff's recommendations.

Chapter 2. Payroll

Payroll Account.
Because our employees are not state employees, Minnesota Technology maintains a bank account at National City Bank for payroll purposes. Prior to this audit period, miscellaneous revenues, such as event fees, were deposited in this account. As the account was to be used for payroll rather than a revenue depository, the funds were drawn down, to the point where the balance is now approximately $28,000. Since these funds could be said to represent miscellaneous revenues rather than a source of payroll funds, the balance will be deposited into our Department of Finance account. As we discussed with your staff, a smaller sum of $5,000 will be redeposited in the payroll account, to cover such occasional expenses as a final check to a departing employee.

As the funds in this account were drawn down, $35,540 in expenditures were not processed through the state appropriation account, although they were documented through manual checks and supporting authorization documentation. To the extent those expenditures are not reflected in the state appropriation account, that information will be provided to the state.

We concur with the observation that the bank statement reconciliation and the check writing functions for the payroll account should be split between two people. The responsibilities were merged when we had accounting staff turnover in 1995. Now that the new staff members are fully trained in their responsibilities, the functions will be split out again.

Timesheets.
Attentiveness to both employee and supervisory signatures on timesheets has vastly improved since the prior audit period. A small handful of timesheets were noted as not having signatures. While all timesheets are to be signed, this handful should be viewed in the context of over 4,000 timesheets submitted during the audit period. We will continue our attentiveness to the requirement that all timesheets have the employee's and supervisor's signatures.

ADP contract.
Minnesota Technology's payroll services are supplied through a well-known and respected provider, ADP. They have told us that they do not enter into written contracts with the thousands of clients nationwide who purchase their services. We will, however, send ADP a letter documenting the set of services which ADP provides to Minnesota Technology, along with the fees involved. In addition, the letter will request a minimum of 60 days' notice of any change in service or fees. To the extent that there is any doubt as to our agreement as to the level of service or stability of fees, the letter will serve to clarify the parties' understandings.

Chapter 3. Contracts

While we have not identified a situation where a board member's ownership interest in a company has created a conflict of interest, we will develop a process, through Economic Interest Statements, to identify and disseminate to staff the names of those companies which our board members have some ownership interest in. In the event that such a company requests an "application service" or financial investment, staff can then bring the request to the attention of the president or the board, so the disclosure can be acknowledged, with the board member abstaining from any discussion.

Chapter 4. Grants

As noted in the Legislative Auditor's report, our Equity Fund is governed by a statute which places a limitation on the amount of investments we can make in the metro area. The philosophy behind this limitation is one we fully support: use the fund primarily to stimulate equity investment in rural Minnesota. Our interpretation of the statute is one which carries out the intent of the statute in a way which also allows us to prudently manage the Fund.

The Equity Fund Investment Committee and Minnesota Technology's Board of Directors interpret the legislation's limitation to apply to the total amount of capital available for investing when *fully invested*. With $7 million available for investment, this interpretation sets a ceiling of $1.4 million for urban investments (20% of the total available for investment when fully invested).

This interpretation allows more prudent financial management of the fund's portfolio. By focusing on the amount available for investment, rather than the amount currently invested, fund management has some latitude to make decisions which are in the best interests of the companies it is there to assist. For example, if 20% of invested funds are in urban companies, under a strict interpretation of the statute, the fund would not be able to liquidate a rural investment unless it could immediately replace that rural investment or liquidate an urban investment - options which are generally not practicable. The result, then, of making the warranted decision to liquidate that rural investment would be to throw the ratio out of balance. Thus, the Legislative Auditor's interpretation of the statute will force fund management to make poor decisions on handling its investments in Minnesota companies: we either don't exit investments that we should, or are forced to make investments that we shouldn't.

While this issue was not anticipated when the statute was drafted in 1991, the Legislative Auditor's comment has demonstrated the need to clarify the statute. We will be working with the Legislature in 1997 to develop language which preserves the policy intent while still allowing prudent management of the fund.

Chapter 5. Travel Reimbursements

We concur that our travel expense form does not sufficiently call out the need to deduct commuter mileage. A column will be added to the form to draw attention to this requirement, thereby more effectively assuring compliance with Minnesota Technology policies.

Chapter 6. Fixed Asset Inventory

We concur that, during the audit period, our fixed asset inventory controls were not adequate. In September 1996, however, a complete fixed asset inventory was performed. The inventory was compiled room by room, and future transfers between offices will be tracked and spot checks performed.

Again, let me say that your audit has been a productive experience for us. We appreciate the affirmations of sound processes and procedures, as well as the identification of opportunities for improvement. We are extremely proud of the integrity, professionalism and commitment of Minnesota Technology's employees and board members, and are pleased that your audit affirms these assessments.

Sincerely,

Patty Billings

Patty Billings
Managing Director