



Susan Montee, JD, CPA
Missouri State Auditor

ECONOMIC DEVELOPMENT

Missouri Technology Corporation

November 2010
Report No. 2010-148



auditor.mo.gov



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Missouri State Auditor

YELLOW SHEET

Findings in the audit of the Missouri Technology Corporation

Conflicts of Interest	<p>The Missouri Technology Corporation (MTC) did not have a conflict of interest policy requiring full public disclosure of actual and potential conflicts of interest until June 2009. Some MTC board members also served simultaneously on the boards of other non-profit entities receiving funding from the MTC. In addition, a board member submitted a report to the Executive Committee voicing concerns relating to conflicts of interest in the Missouri Venture Partners (MVP) program. The report included various instances of alleged conflicts of interest for the former Executive Director, former General Counsel, and a former Department of Economic Development (DED) official who frequently served as the DED representative on the MTC Board. The conflict of interest policy and related procedures adopted by the MTC in June 2009 (about 2 months after the board member's report) does not explicitly require interested parties with potential conflicts of interest to recuse themselves from participating in related board actions or decisions.</p>
DED Agreements	<p>The MTC and the DED did not enter into cooperative agreements related to support provided to the MTC for fiscal years 2009 and 2008. In addition, the cooperative agreement for fiscal year 2010 was not signed until February 2010, nearly 8 months after the start of the fiscal year and after we requested a copy of the agreement. In total, the DED cost for the support provided to the MTC was \$434,312 during the 3 fiscal years ended June 30, 2009. The DED continued to pay the salary and fringe benefit costs of the MTC executive director in fiscal years 2010 and 2009 after the appropriation authorizing the payments was eliminated in April 2009. The DED provides a part-time administrative employee to the MTC, but does not require the employee to track the actual time spent working on MTC business. As a result, the amounts billed by the DED and reimbursed by the MTC are based upon estimates made by the employee.</p>
Missouri Venture Partners Program	<p>The MTC issued payments for consulting services and reimbursed travel expenses without ensuring required progress reports had been submitted. Neither the Request for Proposal (RFP) nor the contract with the consulting firm required potential investments to be utilized within the state. In addition, the MTC did not ensure the consulting firm was registered to conduct business in the state. Also, MTC reimbursements for travel related expenses of the MVP consulting firm appeared excessive and exceeded those allowed by the contract terms, and extravagant group meals were claimed and reimbursed without itemized receipts. In addition, the primary goal of the program, to secure \$15 million in investments for the seed and early stage venture capital fund, was not accomplished.</p>
Selection of General Counsel	<p>The selection of the former general counsel firm in October 2007 was not conducted in accordance with the criteria stated in the RFP. The MTC paid</p>



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over \$960,000 for legal services billed by the former general counsel firm from October 2007 through December 2009.

Administrative Costs and Fees

Report No. 2010-87, *Lewis and Clark Discovery Initiative (LCDI)*, issued in July 2010, noted the MTC imposed a 7 percent administrative fee on LCDI monies received from the state without sufficiently documenting how the fee was determined or whether the amount of the fee was reasonable and necessary. In addition to the administrative fee, the MTC collected over \$250,000 in interest from the LCDI funds as of June 30, 2009, and the DED also provided administrative support to the MTC. In addition, our current audit of the MTC identified additional administrative funding received from other state funded programs.

The MTC has achieved only limited success regarding the LCDI program to date. The purpose of the LCDI funding as stated in the appropriation bill was to attract and retain high technology companies and commercialize existing research conducted in Missouri. The MTC has been unable to make significant progress in funding the legislatively mandated LCDI programs, and as a result, the primary goal of the LCDI program, the attraction and retention of high technology companies and commercialization of existing research being conducted in Missouri, has not yet been met. The audit recommends the legislature closely evaluate program results before appropriating significant funding to the MTC in the future.

Other Issues

The report also addressed concerns regarding MTC's closed session minutes, investment policy, and accounting controls and procedures.

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Honorable Jeremiah W. (Jay) Nixon, Governor
and
David Kerr, Director
Department of Economic Development
and
Members of the Board of Directors
and
Jason Hall, Executive Director
Missouri Technology Corporation
Jefferson City, Missouri

In fulfillment of our statutory duties outlined in Chapters 29 and 348, RSMo, we have audited the Missouri Technology Corporation. The scope of our audit included, but was not necessarily limited to the years ended June 30, 2009, 2008, and 2007. The objectives of our audit were to:

1. Evaluate the corporation's internal controls over significant management and financial functions.
2. Evaluate the corporation's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the corporation, as well as certain external parties; and testing selected transactions. Certain information contained in the corporation's records was not provided to us based upon the corporation's legal interpretations. We could not audit certain information because of this limitation the corporation imposed on the scope of our audit.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance

significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

Except as discussed in the second paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the corporation's management and was not subjected to the procedures applied in our audit of the corporation.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Technology Corporation.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Dennis Lockwood, CPA
In-Charge Auditor:	Ryan Redel, CIA, CFE
Audit Staff:	Travis Owens, CFE

Missouri Technology Corporation

Management Advisory Report

State Auditor's Findings

1. Conflicts of Interest

The Missouri Technology Corporation (MTC) did not have a conflict of interest policy requiring full public disclosure of actual and potential conflicts of interest until June 2009. Several board members, the former Executive Director, and MTC's former General Counsel engaged in funding discussions and decisions when there was at least the appearance of a conflict of interest. In addition, the conflict of interest policy and related procedures adopted by the MTC in June 2009 do not explicitly require interested parties with potential conflicts of interest to recuse themselves from participating in related board actions or decisions.

1.1 Board member conflicts

Three members serving on the MTC Board of Directors also served simultaneously on the board of another non-profit entity receiving funding from the MTC. A vote occurring in October 2007 authorized funding totaling \$10,000 to the non-profit entity while two MTC board members served on the non-profit board. Another vote in April 2008 authorized funding up to \$324,700 to be provided to the non-profit entity while three MTC Board members served on the board of the non-profit. MTC minutes indicated both votes were unanimous. During the period between April 2007 and December 2009, the MTC disbursed over \$302,000 to the non-profit entity. MTC officials emphasized that Board members serve on this board voluntarily without compensation.

A MTC Board member also served as a chief executive officer and a member of the board of a non-profit entity that received funding of \$139,500 from the MTC. This member requested the funding in conjunction with another entity seeking funding from the MTC, and participated in the MTC Board's unanimous vote to have staff negotiate contract terms and to delegate approval of the terms to the Executive Committee. The Executive Committee unanimously approved the funding at a subsequent meeting. The Board member requesting the funding did not participate in the Executive Committee's subsequent vote to approve the funding.

1.2 MVP program conflicts

According to minutes of the Executive Committee, in April 2009 a Board member submitted a report to the committee voicing concerns relating to the Missouri Venture Partners (MVP) program. Upon our request, the MTC provided a heavily redacted copy of that report citing attorney client privilege as the reason the full report was not provided. The report included various instances of alleged conflicts of interest.

Former executive director

The report alleged the former Executive Director was seeking employment with the consulting firm while negotiations were in process for the potential fund management of the MVP program. The former Executive Director participated in the development of the request for proposals (RFP) for the MVP program and completed the initial screening and scoring of responses submitted to the MTC. The former Executive Director also approved the travel expense reimbursements discussed in MAR 3.4. According to the



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report, an officer of the consulting firm told another MTC Board member that employment discussions were held between the former Executive Director and another officer of his firm. The report also indicated that after the possible conflict of interest was brought to the attention of the Board Chairman, the former Executive Director was required to report his activities to the MTC Executive Committee and to recuse himself from further participation in the negotiations with the consulting firm. The Board appointed a new Executive Director on April 24, 2009.

General counsel

The report alleged the MTC former General Counsel was representing both the MTC and the consulting firm while negotiations over the terms of the MTC's potential investment in the MVP were ongoing. We requested documentation that the MTC had provided a waiver to the former General Counsel to allow representation of the consulting firm while also representing the MTC. We were provided a copy of a heavily redacted e-mail in which the former Executive Director responded, "No problem" to the former General Counsel's request, "If this waiver meets your approval, please send an affirmative reply to this e-mail." However, it is unclear if the Board was informed of the waiver.

At the April 2009 board meeting, the Board agreed to use separate counsel to represent the MTC in future negotiations with the consulting firm, authorized continuing negotiations with the consulting firm, and directed the Executive Committee to discuss a process for training board members on fiduciary responsibility. In response to the member's report, the Board Chairman issued a letter to the member indicating the decision to use separate counsel was made "out of an abundance of caution." However; between the time the waiver to the former General Counsel was approved by the former Executive Director and the time the Board decided to use separate counsel, the former General Counsel's firm had already billed the MTC about \$41,200 for charges related to the MVP program.

In addition to representing the MVP consulting firm, the former General Counsel also served as the General Counsel for two other entities receiving funding from the MTC. In total, these two entities received funding totaling \$448,595 from the MTC during the period December 2007 to November 2009.

Former board member

The report cited concerns regarding a former Department of Economic Development (DED) official who frequently served as the DED representative on the MTC Board. The report indicated this board member actively supported the selection of the consulting firm chosen to promote and manage the MVP program. Shortly after leaving the DED, the employer of the former board member was selected by the consulting firm as their Missouri based fund promoter with the former board member providing fund promotion duties. According to the final report provided by the



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consulting firm to the MTC, the former DED representative to the Board continued to participate in the promotion of the MVP Fund until about September 2009.

1.3 New policy

The conflict of interest policy and related procedures adopted by the MTC in June 2009 (about 2 months after the board member's report) does not explicitly require interested parties with potential conflicts of interest to recuse themselves from participating in related board actions or decisions.

The MTC conflict of interest policy requires each interested person, including any director, officer, manager, employee, counsel, key contractor or member of a committee with governing board delegated power, to annually sign a statement which discloses his or her interests that could give rise to a conflict. Board minutes subsequent to the adoption of the conflict of interest policy included instances in which board members abstained from voting on decisions due to actual or potential conflicts of interest.

To avoid actual conflicts of interest and the appearance of a conflict of interest, the Board members, any employee in a position with significant decision making capacity, and other interested parties should recuse themselves from participating in decisions or actions that involve a potential conflict of interest.

Recommendation

The MTC consider revising the conflict of interest policy to explicitly require Board members, any employee in a position with significant decision making capacity, and other interested parties to recuse themselves from participating in decisions or actions in which a conflict of interest or the appearance of a conflict of interest may exist.

Auditee's Response

MTC Board Adopts Robust Conflicts of Interest Policy

All of the material events described in this section arose, as the Auditor points out, prior to the confirmation of the current Executive Director on April 24, 2009. We appreciate the State Auditor for acknowledging the work of the Board and their swift action to lead MTC to adopt its first formal conflict of interest policy, a document identifying and describing the process by which MTC addresses even the appearances of a conflict of interest. This policy was adopted at the next Board meeting in June 2009. The State Auditor analyzed MTC records as recent as July 2010 and identified no instance of a Director or staff member engaging in a vote or discussion where even the appearance of a conflict of interest existed following the adoption of the conflict of interest policy. In fact, the State Auditor indicated that "[b]oard minutes subsequent to the adoption of the conflict of interest policy included instances in which board members abstained from voting on decisions due to actual or potential conflicts of interest."



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The State Auditor's only observation about this new policy is that it did not explicitly use the word "recusal." The MTC has modified its conflict of interest policy to address the friendly amendment suggested by the State Auditor. Accordingly, MTC's conflict of interest policy, as modified on October 25, 2010, now specifically uses the word "recusal" and other explicit language to address the State Auditor's suggestion.

Three Votes from 2007 and 2008

The conflict of interest policy that MTC adopted in June 2009 would have addressed the two instances from 2007 and 2008 that the State Auditor indicates involved at least the appearance of a conflict. In those instances, however, it is important to note that the MTC Board votes were unanimous and thus the awards were approved by a majority of the disinterested MTC directors who were aware of the other directors' relationships with the entities involved. The discussions and votes took place at open meetings and in the first instance the Board members at issue were volunteers on civic boards of the entities involved and who received no compensation for their service.

Furthermore, in the second identified instance, the funding at issue was directed to two very specific projects at the University of Missouri-St. Louis that were identified and discussed during the General Assembly's 2007 appropriation process. Those projects were developed by a coalition of prominent community leaders and organizations in St. Louis to advance a regional information technology entrepreneurship strategy. The appropriation language used by the General Assembly to memorialize those understandings was "St. Louis Information Technology Initiatives." The appropriation was made prior to the Board member affiliating with the non-profit entity as its part-time CEO. The submission was made on University of Missouri-St. Louis letterhead and he had apparently signed on to that document to formally request the funds already appropriated for the project by the Missouri General Assembly.

The Former MVP Program

The State Auditor also describes a document prepared by a former Board member related to the former Missouri Venture Partners ("MVP") program. It should be noted that when the matter was brought to the MTC Board's attention, it promptly initiated a thorough investigation of the issues raised by the former Board member in that document and followed up that inquiry with appropriate remedial action.

On April 13, 2009, MTC's Executive Committee met with the members of a two-person special committee charged with evaluating, developing, and negotiating a draft term sheet in connection with the potential venture capital fund project known as MVP. The two-person special committee included the former Board member at issue and one other Board member.



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According to the meeting minutes (which were furnished to the State Auditor), that two-member special committee did not reach an agreement on the key terms for the draft term sheet. It was at this meeting that the former Board member raised the issue of a possible conflict of interest. Presented in the form of a draft document which contained factual inaccuracies, the other Board member on the two-person special committee declined to sign onto the document or otherwise acknowledge it as part of the special committee's work.

*The Chairman of the Board took **immediate** action to address the issues raised by the former Board member: First, as reflected in the April 13, 2009 minutes, he referred the matter to MTC's Audit Committee. Second, he contacted the General Counsel at DED the next day and asked her to assist the MTC Audit Committee in analyzing the issue, review the draft document prepared by the former Board member, and review the conduct of the two-person special committee. The General Counsel of DED worked long hours on short notice to assist the MTC Audit Committee and ultimately reported her findings to the MTC Audit Committee on April 22, 2009.*

On April 24, 2009, the full MTC Board held its previously scheduled meeting and discussed, among other business matters, the MVP program, including an in-person briefing from the DED General Counsel. At that meeting, the full MTC Board unanimously (including the former Board member who raised the issue in the first place) took two actions: First, out of an abundance of caution the Board decided, as the Auditor points out, to use separate counsel to represent MTC with respect to the former MVP program. Second, following the Audit Committee review and the full Board briefing on the matter, the full Board (again, including the former Board member who raised the issue) resumed working under its contract with its consultant on the MVP program. At that point, the conflict of interest matter had been promptly and thoroughly resolved through MTC's governance process.

The Former General Counsel

The State Auditor makes observations regarding the former General Counsel that may require clarification. The former General Counsel represented on a pro bono basis one non-profit civic organization that received an award from MTC. This pro bono representation was disclosed to MTC prior to the General Counsel's engagement, was well known by the Board, and the former General Counsel did not participate in the representation of the non-profit entity with respect to that award or any matter involving negotiations with MTC.

It should be noted that the former General Counsel did not serve as general counsel of another organization receiving MTC funding. There may have been a misinterpretation of the RFP response submitted by MTC's former General Counsel regarding its experience, which lists a prior



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representation of an entity that later received funding from MTC. However, that representation came to an end six years prior to MTC selecting the law firm as its General Counsel. There was no on-going representation of that entity at any time during the law firm's representation of MTC.

2. DED Agreements

The MTC and the DED failed to enter into cooperative agreements related to support provided by the DED for fiscal years 2008 and 2009. In addition, the agreement for fiscal year 2010 was not entered into until February 2010. The DED continued to pay the salary and fringe benefit costs of the MTC Executive Director in fiscal years 2010 and 2009 after the appropriation authorizing the payments was eliminated in April 2009. The amount the DED billed the MTC for personnel costs for an employee providing part-time administrative assistance was not supported by adequate documentation.

2.1 Cooperative agreement

The DED did not enter into cooperative agreements related to support provided to the MTC for fiscal years 2009 and 2008. In addition, the cooperative agreement for fiscal year 2010 was not signed until February 2010, nearly 8 months after the start of the fiscal year and after we requested a copy of the agreement. The DED paid expenses related to the MTC Executive Director's salary and benefits and other miscellaneous MTC expenses. In addition, the DED estimated the lease value of the space in the DED offices provided to the MTC was about \$6,900 per year. In total, the DED cost for the support provided to the MTC was \$434,312 during the 3 years ended June 30, 2009.

The MTC and the DED should ensure written agreements are in place for support provided to the MTC. Written agreements are necessary to identify the support to be provided, provide a means for both parties to monitor compliance with the contract terms, and protect both parties in the event of a dispute over the terms of the agreement.

2.2 DED appropriations

The DED continued to pay the salary and fringe benefit costs of the MTC Executive Director in fiscal years 2010 and 2009 after the appropriation authorizing the payments was eliminated in April 2009.

Prior to April 2009, the DED received an appropriation to pay a portion of MTC operating costs. The appropriation was eliminated due to budget cuts in April 2009. Beginning in April 2009, the related personnel costs totaling \$33,900 for the remainder of fiscal year 2009 were charged to an appropriation for the DED Marketing Unit. For fiscal year 2010, the DED charged the Executive Director's personnel costs, totaling nearly \$160,800 to seven different DED appropriations. The Executive Director did not appear to provide services to the related DED programs.



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Charging costs to DED appropriations for which no substantial services were provided appears to violate the intent of the appropriations.

2.3 Reimbursement to DED

The DED provides a part-time administrative employee to the MTC, but does not require the employee to track the actual time spent working on MTC business. As a result, the amounts billed by the DED and reimbursed by the MTC are based upon estimates made by the employee. For the 3 years ended June 30, 2009, the MTC reimbursed the DED about \$54,400 for personnel costs of the DED employee providing part time administrative assistance to the MTC. To better ensure the reimbursement is accurately calculated, the DED should ensure the cost of providing services to the MTC is supported by an employee timesheet.

Recommendations

- 2.1 The MTC and the DED ensure written agreements are in place for support provided by the DED to the MTC.
- 2.2 The DED ensure personnel costs charged to appropriations are in accordance with the intent of the appropriations.
- 2.3 The DED ensure the cost of providing services to the MTC is supported by an employee timesheet.

Auditee's Response

- 2.1 *The Department agrees and has a signed agreement with MTC that specifies the support to be provided. Prior to that agreement, DED and MTC had in place a written agreement governing the transfer of funds to MTC, which included mutual obligations such as cooperation and coordination for the use of MTC funds.*
- 2.2 *The Department wishes to clarify facts regarding the findings of the State Auditor in 2.2. The Department hired a Special Assistant Professional who serves as a member of the senior management team of the Missouri Department of Economic Development and who also staffs the Missouri Technology Corporation board as Executive Director.*
- 2.3 *The Department has a signed agreement with the MTC that outlines specific administrative support services to be provided to the MTC and specifies the amount of compensation the MTC will provide the Department for those services.*

3. Missouri Venture Partners Program

MTC issued payments for consulting services and reimbursed travel expenses without ensuring required progress reports had been submitted. The MTC did not ensure potential investments be utilized within the state, as required by the state law; did not ensure the consulting firm was registered with the Secretary of State; and reimbursed the MVP consulting firm for excessive travel expenses. In addition, the primary goal of the



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program, to secure \$15 million in investments for the seed and early stage venture capital fund, was not accomplished.

The MTC allocated \$3 million of the \$15 million Lewis and Clark Discovery Initiative (LCDI) funding to be invested in the MVP program. The purpose of the MVP program is to establish a Missouri technology start-up and commercialization venture group to seed, expedite, and make more robust the growth of new technology companies in Missouri.

In April 2008, the MTC issued an RFP for a promoter and fund manager for the MVP Program. The promotion phase required the firm to recruit, within a year, additional investors and/or co-investment funds totaling \$15 million. The MTC paid the MVP Program consulting firm \$232,000 for its efforts. However, the consulting firm was not able to secure investments from investors. As a result, the MTC is still holding approximately \$2,768,000 (92 percent) of MVP Program funds.

MTC officials indicated the consulting firm initiated alternative plans in December 2009 for establishment of a venture capital fund with a targeted fund size of \$50 million. That fund would have a much wider investment strategy, and in February 2010, the MTC agreed to a non-binding term sheet with the consulting firm regarding an investment of \$3 million into the newly proposed venture capital fund; however, no investments had been made as of July 2010.

3.1 Promotion contract terms The consulting firm was required to provide written progress reports every 60 days during the agreement period and a final report within 60 days of the expiration of the agreement. Although the firm did not submit the first two required reports, the MTC issued payments totaling \$100,000 for consulting services and reimbursed travel expenses of nearly \$16,000 prior to the receipt of a report in March 2009. Subsequent reports were submitted from 7 to 51 days after the due dates, and MTC appropriately withheld related payments until the required reports were submitted.

To properly monitor the status of the MVP program and ensure vendors are in compliance with contract terms, the MTC should ensure progress reports are received prior to issuing payments.

3.2 Investment in Missouri not a requirement Neither the RFP issued by the MTC nor the contract with the consulting firm required potential investments to be utilized within the state. House Bill 17, First Regular Session, 94th General Assembly (2007), limited the use of the funds received by the MTC to, ". . . the attraction and retention of high technology companies and the commercialization of existing research being conducted in Missouri."



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The MTC should ensure final investment agreements require all funds to be used for the attraction and retention of high technology companies and the commercialization of existing research to be conducted in Missouri.

3.3 Business registration

The MTC did not ensure the consulting firm was registered to conduct business in the state. Under Section 351.572, RSMo, "A foreign corporation may not transact business in this state until it obtains a certificate of authority from the secretary of state." The Business Services Division of the Secretary of State's office indicated the MVP consulting firm had never registered with the state to conduct business in Missouri. The MTC should ensure all entities with which they conduct business have a certificate of authority to transact business in the state.

3.4 Contractor travel expenses

MTC reimbursements for travel related expenses of the MVP consulting firm appeared excessive and exceeded those allowed by the contract terms. The contract limited reimbursement to reasonable and necessary business travel and required prior approval of any individual expense in excess of \$2,000. Although MTC staff questioned the propriety of the charges, the former Executive Director approved the payments even though the costs did not comply with the contract terms. We reviewed \$9,520 of \$32,271 in travel expenses reimbursed to the consulting firm.

- The executive chairman of the consulting firm flew first class from San Diego, California, where the entity is headquartered, to St. Louis, Missouri at a cost of \$2,016. MTC staff questioned this cost since it exceeded the \$2,000 limit for an individual expense. In his reply to the staff member approving the expense, the former Executive Director indicated he did not have a problem with (the executive director of the consulting firm) flying first class. State and federal travel regulations limit air fare to economy class. An economy class ticket for this flight would have cost about \$480. In addition, costs reimbursed included airport parking fees of \$70 for 3 days prior to the date the flight departed San Diego.
- Vehicle rental fees and fuel costs totaling \$856 were reimbursed by the MTC for a car rented in Memphis, Tennessee by the executive chairman of the consulting firm 4 days before the official made the flight from San Diego and business began in St. Louis, Missouri. No documentation was available to support whether official MTC business was conducted.
- An official of the consulting firm incurred an additional airfare charge of \$610 by upgrading tickets from economy class and changing the return flight so the flight arrived 45 minutes earlier than the original flight. This same official also changed the return flight on another trip



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so the flight arrived 4 1/2 hours earlier at a cost of \$678. There was no documentation showing the business necessity for these flight changes.

- Hotel charges included in-room movies totaling \$45 incurred by one company official.
- In six instances totaling \$262, the hotel rates for stays by the two consulting firm officials exceeded the applicable CONUS rate by \$14 to \$40 per night.
- Extravagant group meals were claimed and reimbursed without itemized receipts. One meal totaled \$553, averaging \$79 per person; another meal cost \$474, averaging \$68 per person; and another meal cost \$314, averaging \$63 per person. Each of these meals was reimbursed without detailed receipts. The cost per person attending each of the meals exceeded the full daily CONUS per diem rate for meals. Further documentation shows MTC staff requested a statement from the recipient ensuring the meal charges did not contain any charges for alcoholic beverages, as MTC policy prohibits reimbursements for alcoholic beverages; however, no further documentation was provided.

We requested a listing of persons attending these meals, and in addition to the two consulting firm officials, the former Executive Director of the MTC and the former DED representative on the MTC Board attended each meal. Others in attendance at the various meals included the MTC former General Counsel, the MTC Deputy Director, an MTC board member, and four other persons whose attendance may have been related to MTC business.

The MTC should ensure travel reimbursements to contractors are limited to those that are reasonable, necessary, comply with contract terms, and supported by adequate documentation.

Recommendations

The MTC Board:

- 3.1 Ensure vendors are in compliance with contract terms prior to issuing payments.
- 3.2 Ensure future contracts require funds invested by the MTC to be used for research conducted within the state.
- 3.3 Ensure entities with which the MTC conducts business are properly registered to conduct business in the state.



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Auditee's Response

3.4 Ensure travel reimbursements to contractors are limited to those that are reasonable, necessary, comply with contract terms, and supported by adequate documentation.

3.1 *MTC concurs with the State Auditor that vendor compliance with contract terms should be verified prior to issuing payments. The issues underlying this finding occurred prior to April 2009. In fact, the State Auditor confirmed that "MTC appropriately withheld related payments until the required reports were submitted" after that date. Furthermore, notwithstanding that the State Auditor analyzed records stretching into July 2010, the State Auditor did not identify any instance in which a payment was made on the MVP project or any other project in which a vendor did not comply with contract terms.*

3.2 *MTC believes that MTC's potential investment in the former MVP program did require investments to be made within the State of Missouri. It was required by state law as pointed out by the State Auditor. Furthermore, it was clearly set forth in the request for proposals. The cover of the RFP stated that "[t]he purpose of the Missouri Venture Partners Program is the establishment of a Missouri, technology start-up and commercialization venture group to seed, expedite and make more robust the growth of new technology companies in Missouri" and the post-award administration section stated that the selected fund manager "will be required to ensure that all funds are expended according to statutory guidance." The resulting consulting services contract required the consultant to comply with Missouri law and "to help Missouri fill a void of seed capital to invest in high growth technology companies." The non-binding term sheet to which MTC agreed required that a minimum of \$6 million of the fund would be required to be invested in Missouri even though MTC was only contemplating a \$3 million investment in the Fund. Further details would have been documented in fund formation and closing documents if the fund had in fact been created. In the end, however, the MVP program did not go forward in part because investors from around the world did not want these narrow geographic restraints imposed on the fund.*

3.3 *MTC notes that the express terms of the consulting agreement at issue required the contractor to comply with **all** applicable provisions of Missouri law. The Missouri law requiring entities domiciled in other jurisdictions to qualify to do business in Missouri states that "[t]he following activities, among others, do not constitute transacting business within the meaning of subsection 1 [the language cited by the State Auditor]" and lists exceptions. Furthermore, the Missouri Secretary of State's guidance on whether*



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*a foreign business is "transacting business" expressly notes that "[t]here is no statutory standard or bright-line rule to apply to determine if an entity must register." In this project, MTC required Finistere to comply with **all** Missouri law to "ensure the consulting firm was registered" if such a registration was required under Missouri law.*

- 3.4 *MTC concurs with the State Auditor that travel reimbursements to contractors should be reasonable, necessary, comply with contract terms, and supported by adequate documentation. All of the reimbursements identified by the State Auditor occurred prior to April 24, 2009. The State Auditor analyzed records stretching into July 2010 and did not identify any inappropriate reimbursement issued after that date.*

4. Selection of General Counsel

The selection of the former general counsel firm in October 2007 was not conducted in accordance with the criteria stated in the RFP, and as a result, the selection process did not comply with state purchasing regulations. The MTC paid over \$960,000 for legal services billed by the former general counsel firm from October 2007 through December 2009.

The MTC issued an RFP for general counsel services in July 2007. There were five groups of criteria, each assigned a maximum point value, upon which the selection was to be based:

1. Expertise, experience and resources, 35 points.
2. Fees and costs, 25 points.
3. Primary contact, 20 points.
4. Conflict of interest, 10 points.
5. Overall responsiveness, 10 points.

Nine firms responded to the RFP and the former Executive Director conducted the scoring of the responses and presented the results to the Board. However, the Board then decided to use only the experience and primary contact criteria as the basis for selecting firms to be interviewed prior to the final selection. The Board authorized the Executive Committee to conduct interviews of four firms. Based on the interview process, the Executive Committee selected the general counsel in October 2007 without further Board approval.

The firm ultimately selected ranked second when original factors were considered and third when only the experience and primary contact criteria were considered.

Although the MTC has not established a written procurement policy, MTC and DED officials told us the MTC, while not required to by state



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law, generally follows DED and state procurement policies. Section 34.042.3, RSMo, requires contracts to be awarded to the lowest and best offeror as determined by the evaluation criteria established in the request for proposal. In addition, 1 CSR 40-1.050 (7)(H) provides ". . . in addition to cost, subjective judgment may be utilized in the evaluation of bids/proposals provided that the method is published in the solicitation documentation."

Recommendations

The MTC Board consider criteria established in the RFP when evaluating professional service proposals in the future.

Auditee's Response

MTC appreciates the State Auditor's advice and insights related to bid matters. The Board agrees that while MTC is not obligated to follow state purchasing regulations that it should adhere to the requests for proposals (RFPs) that it does issue. The General Counsel selection process described above in the State Auditor's finding occurred in 2007. Since that time, the MTC Board authorized and issued an RFP in 2010 for the current General Counsel contract. The State Auditor reviewed all materials related to the 2010 General Counsel selection process and made no findings respecting the 2010 process or outcome.

5. Closed Session Minutes

The MTC does not maintain detailed minutes for closed session meetings of the Board or committees of the MTC. The MTC indicated the results of all votes made in closed session are reported in the open session in the manner required by state law. However, since detailed minutes of closed session are not maintained, we were unable to determine if the MTC reported all closed session votes as required. From July 1, 2006, to June 30, 2009, at least 15 closed sessions of the Board, the Executive Committee, and the Audit Committee were held. In addition, since detailed minutes of closed sessions are not maintained, we were unable to determine discussions held in closed session were limited to the topics allowed under Section 610.021, RSMo, and were limited to the topics as stated in the motion to move into closed session.

Section 610.020.7, RSMo, requires a journal or minutes to be taken and retained for all open and closed meetings including, but not limited to, a record of any votes taken. Section 610.022, RSMo, provides that governing bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. The MTC should maintain a record or journal of closed sessions to ensure compliance with the statutory requirements.

Recommendation

The MTC Board maintain detailed minutes of closed sessions to document matters discussed and decisions made in closed meetings.



Auditee's Response

MTC thanks the State Auditor for her thorough review of MTC minutes over many years and appreciates that no instances or appearances of MTC violating the Missouri Open Records Law were identified. MTC takes pride that it maintains detailed minutes that contain far more information than is required by Missouri law. MTC does enter into closed session when prudent under the circumstances, but only if permitted by Missouri law based on the advice of legal counsel. In many instances, legal counsel is even present during the closed session discussion to provide an additional level of assurance that Board members do not discuss any subject matter inappropriate for the specific closed session.

6. Investment Policy

The MTC has not established a written policy for investments. The purpose of an investment policy is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification mandate, risk tolerance, safekeeping and custodial procedures, and reporting requirements for the investment of cash funds. Such a policy may establish criteria to determine when the investment of cash deposits should be considered, assign responsibility for monitoring collateral, address procedures for overseeing and securing deposits in reserve accounts, document procedures for bidding bank depositories, and establish policies and procedures specific to individual investment decisions. The Missouri State Treasurer's Office has developed a model investment policy¹ for public entities.

MTC monies are currently held in an overnight repurchase account at a local bank. An overnight repurchase account allows customers to have liquidity and earn interest. The MTC bank account balance was \$11,750,048 as of June 30, 2009. During the 3 years ended June 30, 2009, the MTC earned interest totaling about \$248,000 on the repurchase account.

During that same period, the Federal Reserve 1 month certificate of deposit (CD) rate outperformed the MTC's bank weighted average rate of return in 34 out of the 36 months. We obtained the monthly average account balance and the weighted average interest rates as stated on the MTC bank statements. We then calculated the interest that would have been earned on the average account balance if the MTC had retained 10 percent of the average balance in the account and had purchased 1 month CDs at the applicable federal reserve rate with 90 percent of the available balance. If the MTC had used this very conservative investment methodology, the MTC would have earned an additional \$156,600 over the same period. To maintain liquidity, a series of CDs with varying maturity dates within the month could have been purchased. The MTC bank account had a minimum

¹ Model Investment Policy, Missouri State Treasurer's Office, <<http://www.treasurer.mo.gov/link/ModelInvestmentPolicy.pdf>>. Accessed September 1, 2010.



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balance in excess of \$10 million from February 2008 through February 2010. It appears MTC could have purchased longer term CDs or similar investments that would have provided even higher returns.

The MTC should establish a written cash management and investment policy to maximize investment yields while maintaining liquidity and safety.

Recommendation

The MTC Board establish a written investment policy to maximize investment earnings while maintaining liquidity and safety.

Auditee's Response

MTC appreciates the State Auditor's recommendation. While it believes it has managed its cash investments prudently, on October 25, 2010, MTC's Board adopted a short-term investment policy modeled after the State Treasurer's suggested policy. MTC is in the process of implementing the policy and will pursue conservative investments that protect the security of the corporation's funds while earning interest on those funds consistent with MTC's risk profile.

7. Accounting Controls and Procedures

The MTC did not receive or review copies of the monthly bank statements or bank reconciliations. Financial information provided to the Board did not include adequate detail. The MTC did not always comply with policies requiring dual signatures for all checks over \$1,000.

7.1 Monthly bank reconciliations

Prior to January 2010, monthly bank statements and bank reconciliations were not received or reviewed by the MTC. MTC officials indicated they relied upon the accounting firm to perform those functions. The accounting firm utilized by the MTC maintains the accounting records, and prepares the bank reconciliations and the checks for signature by designated MTC officials.

The review of monthly bank statements and bank reconciliations is necessary to ensure accounting records are in agreement with bank records and to help detect errors on a timely basis. If the bank reconciliation is prepared by a third party, the statements and reconciliations should be reviewed to ensure accuracy and to identify any discrepancies. Effective January 2010, MTC staff indicated they began obtaining and reviewing monthly bank statements and bank reconciliations.

7.2 Treasurer's report

The MTC Board is provided a treasurer's report at each Board meeting; however, the information provided does not include adequate detail.

At each Board meeting, the Board is provided a treasurer's report that consists of a balance sheet, income statement, and a year-to-date administrative budget to actual income and expenditure report. However,



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the Board is not provided a detailed report of the revenue and expenditure transactions. The MTC averaged about ten transactions per month. MTC officials indicated documentation supporting the payments has been provided to the Board members who sign the checks since April 2009. In addition, for some Board meetings in 2010, the Board was provided additional information regarding significant transactions.

Good business and governance practices dictate that Board members be provided detailed financial information to ensure financial transactions are properly authorized and recorded, and comply with established policies or contractual provisions.

7.3 Dual signatures

The MTC did not always comply with policies requiring dual signatures on checks exceeding \$1,000.

Four checks, totaling \$8,173, issued in August and September 2008, were signed only by the former Executive Director. The payments were for professional services, conference registrations fees, accounting services, and an employee's travel expense reimbursement. Dual signatures are an important internal control and provide additional assurance checks are only issued for authorized disbursements.

Recommendations

The MTC Board:

- 7.1 Ensure monthly bank statements and bank reconciliations are reviewed by MTC officials.
- 7.2 Require, review, and approve detailed listings of receipts and disbursements.
- 7.3 Comply with policies requiring two signatures for checks exceeding \$1,000.

Auditee's Response

- 7.1 MTC appreciates the State Auditor and her staff for their advice on how to enhance MTC's accounting controls and procedures. In this instance, MTC adopted the State Auditor's recommendation in January 2010, which was less than one month after the entrance interview for this audit.

MTC contracts with Williams Keepers, LLC, a highly respected accounting firm in central Missouri with substantial experience assisting public bodies, to provide financial accounting and related services to MTC. Those services include reviewing monthly bank statements and reconciling those statements. It is thus Williams Keepers, LLC's obligation to bring any concerns or irregularities to MTC's attention. With MTC's 3-person staff and economic development responsibilities, it is plain that MTC must outsource



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some functions to qualified professionals. Nonetheless, as an additional precaution, MTC began to review monthly statements and reconciliations starting in January 2010.

- 7.2 MTC thanks the State Auditor and her staff for their advice on how to improve MTC's accounting controls and procedures. As the State Auditor expressly acknowledges, the current MTC Executive Director identified the limited financial information provided to the Board of Directors and worked to immediately increase the quantity and quality of such information. The State Auditor expressly points out above that detailed information supporting payments has been provided since April 2009 and that additional detail was provided in 2010. MTC officials met with officials from the Missouri Development Finance Board to observe financial controls and procedures. Prior to even receiving the first draft of this audit report, MTC adopted a new financial reporting system which is also used by the Missouri Development Finance Board.

The former Executive Director apparently followed the financial reporting practices of MTC that were in place prior to the LCDI appropriations to MTC. While this may or may not have been sufficient during a time when the MTC did not have significant financial resources under its control, clearly the LCDI investment necessitated providing the Board with additional financial information.

- 7.3 MTC strongly believes that a dual-signature requirement provides an important financial check and balance. The State Auditor's work for this audit stretched into July 2010 and identified no instances of a violation of this policy under the current Executive Director. Rather, the State Auditor identified four checks issued in August and September 2008 that were signed only by the former Executive Director. Although the dual signature policy was not followed for these transactions, MTC verified that all payments in these instances were proper and appropriate.

8. Administrative Costs and Fees

Report No. 2010-87, *Lewis and Clark Discovery Initiative*, issued in July 2010, raised concerns regarding the imposition of an administrative fee and the need for the amount of administrative funds reserved considering the support provided by the DED. Our current audit of the MTC identified additional administrative funding available from other state funded programs. Program results from Lewis and Clark Discovery Initiative (LCDI) monies have been limited and need to be closely monitored by the legislature before significant state funding is appropriated in the future.

8.1 Previous findings

Our LCDI report noted the MTC imposed a 7 percent administrative fee on LCDI monies received from the state without sufficiently documenting how



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the fee was determined or whether the amount of the fee was reasonable and necessary. In addition to the administrative fee, the MTC has collected over \$250,000 in interest from the LCDI funds as of June 30, 2009, and the DED provided approximately \$363,000 in administrative support to the MTC during the 2 years ended June 30, 2009.

The report recommended the MTC review the continued need for the amount of administrative funds reserved, reimburse the DED for state subsidies received, and utilize any remaining excess reserve amounts for direct program expenses.

In addition to the administrative support provided by the DED, the LCDI 7 percent reserve, and interest earnings, the MTC also receives administrative funding from other state funded programs.

Other programs

The MTC received funding from the Life Sciences Research Trust in fiscal years 2009 and 2008 totaling \$268,000 and \$269,110, respectively. By statute, administrative costs for Life Sciences Research are limited to 2 percent of the total appropriation. The Life Sciences Research Board (LSRB) program was established in 2008. Based upon the 2009 LSRB administrative budget, reimbursements to the MTC equal expenses to administer the LSRB program. However, MTC does not track direct personnel costs by program and therefore LSRB reported expenses are based upon estimates.

The MTC also was authorized \$2.5 million through a fiscal year 2010 DED appropriation, House Bill 22, First Regular Session of the 95th General Assembly (2009), from the Federal Budget Stabilization Fund for use in planning, design, renovation, equipment purchase, and construction of a plant sciences research facility (MPSC) in Mexico, Missouri. The original funding agreement between the DED and MTC allowed the MTC to retain \$75,000 (3 percent) from this appropriation. However, the project capital contribution agreements allowed MTC to retain a total of \$350,000 (14 percent) from the appropriation, primarily due to higher than expected legal costs for the development of the operating and capital contribution agreements, formation of the limited liability company, and the related real estate transactions, totaling \$325,000. As a result, only about \$2.15 million will be available to fund the project.

For state fiscal year 2011, House Bill 2007, Second Regular Session of the 95th General Assembly (2010), the MTC was appropriated funding totaling \$1.7 million for administration and science and technology development, including, but not limited to the innovation centers, the Missouri Manufacturing Extension Partnership, and the Missouri Federal and State Technology Partnership (MOFAST) and \$500,000 for creation of an entrepreneurship training program. As of June 30, 2010, the MTC has not



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determined the administrative fees or other charges that will be assessed on these new funding sources.

8.2 LCDI results

The MTC has achieved only limited success regarding the LCDI program to date. House Bill 17, First Regular Session, 94th General Assembly (2007) authorized \$15 million in LCDI funding and MTC received the funding between November 2007 and June 2008.

The purpose of the LCDI funding as stated in the appropriation bill was to attract and retain high technology companies and commercialize existing research conducted in Missouri. The legislation authorized funding, ranging from \$50,000 to \$3,350,000, for 15 projects. The MTC has been unable to make significant progress in funding the legislatively mandated LCDI programs, and as a result, the primary goal of the LCDI program, the attraction and retention of high technology companies and commercialization of existing research being conducted in Missouri, has not yet been met. As of December 31, 2009, over 2 years since MTC received the initial LCDI funding, the MTC had distributed about \$3.3 million (22 percent) of the LCDI funds.

The current MTC Executive Director indicated various issues hindered progress in attaining the goals of the LCDI program, and resulted in substantial balances of unspent LCDI funds. These issues included:

- Funding programs for long-term strategic projects requiring substantial up-front due diligence, negotiation, and a commitment in principal to fund projects well before the funds would be released.
- Funding projects with uncertain outcomes beyond MTC's direct control.
- The MTC being unable to pursue and fund alternative projects until the outcome of the original projects is known.
- The inability to quantify the real economic impact of entrepreneurial programs for a period of time after the funds are deployed and require a long-term commitment to tracking outcomes.

While the MTC does not allocate administrative expenses to the various programs within its accounting records, since the initial receipt of LCDI monies, the MTC has reserved \$1,050,000 for administrative expenses, spent about \$635,000 for legal expenses (in addition to the \$325,000 related to the MPSC project discussed above), and paid consulting fees and related



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travel expenses totaling \$232,000 from the MVP program that so far has not produced tangible results.

Prior to the LCDI funding, the MTC had not typically received extensive funding from the state. During the 5 years ending June 30, 2007, the state funding averaged only \$259,000. However, in more recent years the legislature has provided significant funding to the MTC including \$15 million for the LCDI and the \$2.5 million for the MPSC. In addition, the legislature considered implementing a dedicated funding stream to fund programs operated by the MTC through the Missouri Science and Innovation Act in the 2010 legislative session.

Given the limited success the MTC has achieved thus far relating to the LCDI and the significant administrative and legal expenses incurred, the legislature should closely evaluate results before authorizing significant state funding to the MTC in the future.

Recommendations

- 8.1 The MTC review the continued need for the amount of administrative funds reserved, reimburse the DED for state support received, and utilize any remaining excess reserve amounts for direct program expenses.
- 8.2 The legislature closely evaluate program results before appropriating significant state funding to the MTC in the future.

Auditee's Response

- 8.1 MTC appreciates the State Auditor's suggestion that MTC review the need for the amount of administrative funds reserved. In fact, this is what MTC has always done. Further information respecting these issues is outlined in great detail in the audit of the Lewis and Clark Discovery Initiative (July 2010, Report No. 2010-87) concluded just a few months ago. MTC explained to the State Auditor at that time that the MTC Board unanimously established a 7% reserve in the face of launching 15 new and unique technology-based economic development initiatives. It is important to note that technology-based economic development projects can involve complicated transactions that require appropriate legal review and other due diligence prior to disbursing funds. In some cases, these initiatives require that MTC commit funds in principle for a substantial period to support efforts of Missourians to secure highly competitive projects (e.g., a major research laboratory). Of course, in these situations funding cannot be committed to another project until the outcome of these competitive situations is known. Failure to follow a prudent process with taxpayer funds would be irresponsible and the MTC Board believes that the record is replete with evidence that MTC strongly values its responsibility as a steward of taxpayer dollars. And because MTC did not impose any administrative fee on LCDI funds, but rather established a mere



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accounting reserve to insure that it had appropriate funds for the implementation and oversight of these new initiatives any unused administrative funds would of course be used for the programs.

The State Auditor makes reference to the Missouri Plant Science Center project in Mexico, Missouri. There may have been a misinterpretation of the complex documents underlying this exciting, but complex high-tech job-creating initiative. All of the funds appropriated or received by MTC for this project have been used for direct project expenses that were expressly authorized by the Missouri General Assembly. No administrative fee was imposed on these funds. MTC's current Board Chair has volunteered approximately 1,000 hours on this project alone since MTC became involved with it.

- 8.2 MTC began implementing 15 new programs with no existing infrastructure and staff of less than two FTEs. MTC agrees that the results of these initiatives should be evaluated by the General Assembly as should be the case with any investment made with taxpayer funds. However, MTC suggests that such an evaluation of the success of any program may not be possible in a 2-year period of time. MTC has already produced many outstanding accomplishments through the LCDI. For example, the modest investment of around \$1 million in the Missouri Technology Incentive Program alone has helped secure nearly \$20 million in early capital for Missouri-based businesses that are commercializing technologies, an amount greater than the entire LCDI appropriation to MTC. However, tracking the true economic impact of investments in innovation and entrepreneurship requires a focused long-term tracking system. MTC has taken steps to track the outcomes of its funded projects for a 10-year period of time, which is consistent with much larger scale programs used in other states.

Missouri Technology Corporation

Organization and Statistical Information

The Missouri Technology Corporation (MTC) was authorized by Section 348.251, RSMo, in 1994 to replace the Missouri Business Modernization and Technology Corporation. The MTC was organized and held its first board meeting on November 14, 1994, and its Articles of Incorporation were filed with the Secretary of State on January 10, 1995. The MTC is a not-for-profit corporation.

The purposes of the MTC are to contribute to the strengthening of the economy of the state through development of science and technology, to promote the modernization of Missouri businesses by supporting the transfer of science, technology, and quality improvement methods to the workplace and to enhance the productivity and modernization of Missouri businesses by providing leadership in the establishment of methods of technology application, technology commercialization, and technology development. MTC staff includes one full time Executive Director who is an employee of the DED and a Budget and Planning Manager, who is also a full time DED employee and works on MTC related tasks part of the time. The MTC reimburses the DED a pro rata share of the costs related to this employee. The MTC employs one full time Deputy Director paid by MTC funds.

In 1999, the Governor and General Assembly appropriated \$2 million to the MTC for a state investment in a new technology park located at Fort Leonard Wood, Missouri. The University of Missouri matched the state's investment with \$2 million of its own funds and took on the role of managing partner.

In May of 2007, the Lewis and Clark Discovery Initiative (LCDI) was signed into law to provide Missouri's colleges and universities with funding for facility and infrastructure improvements. An appropriation of \$15 million dollars was directed to the MTC for various programs designed to improve commercialization of Missouri technologies.

In 2008, the MTC, at the request of the Missouri Life Sciences Research Board, began providing administrative services to that board. The MTC reviews activity and funding reports of ten Missouri Innovation Centers and works with the University of Missouri and the Missouri Federal and State Technology program. In 2009, the MTC, through a DED appropriation, was designated to receive \$2.5 million for the planning, design, renovation, equipment purchase and construction of the Missouri Plant Science Center in Mexico, Missouri.

The MTC board of directors is composed of 15 members:

- 1) The director of the Department of Economic Development or his designee;



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Organization and Statistical Information

- 2) The president of the University of Missouri system or his designee;
- 3) A member of the state senate appointed by the president pro tem of the senate;
- 4) A member of the house of representatives appointed by the speaker of the house;
- 5) Eleven members appointed by the governor, two of which shall be from the public sector and nine from the private sector who shall include, but shall not be limited to, individuals who represent technology-based businesses and industrial interests. The governor shall appoint one of the private sector members as chairman.

The members of the MTC Board of Directors as of June 30, 2009 were:

Appointed Board members	Term Expires October 1,
Joseph G. Bannister, Chairman	2012
Daniel P. Mehan, Vice-Chairman	2010
Frank Stokes, Secretary-Treasurer	2011
Dr. Jim Baker	2013
Daniel P. Devers	2011
Thomas E. Fisher (1)	2009
Dr. F. Nicholas Franano (2)	2009
Victoria A. Gonzalez	2012
Donn Rubin	2010
Gregory A. Steinhoff	2012
Edward J. Timm (3)	2009

(1) Dr. Anthony Harris was appointed to the board March 9, 2010.

(2) Garry Kemp was appointed to the board October 2, 2009.

(3) Michael D. Welte was appointed to the board October 2, 2009.

Standing Board members

Linda Martinez, Director, Department of Economic Development²

Dr. Michael F. Nichols, Delegate for the President, University of Missouri

John Griesheimer, State Senator

Steve Hobbs, House of Representative

Ex-Officio Board members

Colonel Charles A. Williams, Fort Leonard Wood

Krishna Krishnamurthy, Ph.D., Research Alliance of Missouri Chair

² David Kerr was appointed Director on October 29, 2009



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Nasser Arshadi, Ph.D., Research Alliance of Missouri Treasurer

In 2003 following a request by the governor and under a contractual agreement with the DED, the MTC established the Research Alliance of Missouri (RAM). The RAM is a cooperative effort of the DED, the MTC and many Missouri higher education institutions with active research and development programs. The mission of the RAM is to improve the well-being of Missourians through increased research productivity and technology innovation within Missouri universities; to promote economic development through increased collaborative efforts between the academic and business sectors; and to provide greater access of Missouri businesses to university-derived technologies. The primary goals of the RAM, according to the strategic plan, are to increase the number of multi-university research proposals and awards and to improve university/industry relationships. Universities in the state with at least \$10 million in research and development expenditures annually are eligible for membership. The RAM is structured as a board with a senior research official of each member university serving as members.

The members of the RAM board of directors as of June 30, 2009 were:

Krishna Krishnamurthy, Ph.D., Chair
Cindy Kiel, Vice Chair
Nasser Arshadi, Ph.D., Treasurer
Maria DiStefano, Ph.D.
Rob Duncan, Ph.D.
Alan Glaros, Ph.D.
Karla Goldstein
Marie Jennings
Jane C. Johnson
Allen Kunkel
William T. Morgan, Ph.D.
Michael F. Nichols, Ph.D.
Evan Kharasch, M.D., Ph.D.
Victoria Steel, Ph.D.
Raymond Tait, Ph.D.
Frank Veeman, Ed.D.

A summary of the MTC's financial activity is presented in the following appendixes.

Appendix A

Missouri Technology Corporation
Comparative Balance Sheet

		June 30,		
		2009	2008	2007
Assets				
Current Assets				
Cash	\$	11,831,723	13,944,015	65,922
Total Cash		<u>11,831,723</u>	<u>13,944,015</u>	<u>65,922</u>
Other Current Assets				
Notes Receivable		350,000	250,000	0
Total Other Current Assets		<u>350,000</u>	<u>250,000</u>	<u>0</u>
Total Current Assets		<u>12,181,723</u>	<u>14,194,015</u>	<u>65,922</u>
Fixed Assets				
Office Equipment		15,280	12,253	12,253
Accumulated Depreciation		(11,472)	(8,839)	(6,207)
Net Fixed Assets		<u>3,808</u>	<u>3,414</u>	<u>6,046</u>
Other Assets				
Investment UM/FLW Technology		1,493,622	1,493,622	1,493,622
Total Other Assets		<u>1,493,622</u>	<u>1,493,622</u>	<u>1,493,622</u>
Total Assets		<u><u>13,679,153</u></u>	<u><u>15,691,051</u></u>	<u><u>1,565,590</u></u>
Liabilities and Equity				
Current Liabilities				
Payroll Liabilities		900	1,347	0
Total Current Liabilities		<u>900</u>	<u>1,347</u>	<u>0</u>
Equity				
Retained Earnings		15,689,704	1,565,590	1,686,749
Net Income		(2,011,451)	14,124,114	(121,159)
Total Equity		<u>13,678,253</u>	<u>15,689,704</u>	<u>1,565,590</u>
Total Liabilities and Equity	\$	<u><u>13,679,153</u></u>	<u><u>15,691,051</u></u>	<u><u>1,565,590</u></u>

Source: Missouri Technology Corporation's compiled financial statements

Appendix B

Missouri Technology Corporation
Comparative Statement of Revenue & Expenses - Modified Cash Basis

	For the year ended June 30,		
	2009	2008	2007
Income			
Restricted	\$ 0	13,949,999	0
Unrestricted	268,000	1,319,110	0
Miscellaneous Income	0	132	590
Total Income	268,000	15,269,241	590
Expense			
Advertising	32	11,889	0
Automobile Expense	442	68	1,050
Conference Expense	21,645	455	40,488
Depreciation	2,633	2,633	2,439
Dues and Subscriptions	1,000	2,000	1,000
Fees	0	990	64
Insurance	4,692	2,275	0
License and Permits	0	20	25
Meetings	1,814	232	883
Miscellaneous	0	0	719
Office Supplies	1,040	593	161
Payroll Expense	0	12,661	0
Payroll Tax	8,865	2,336	0
Postage and Delivery	3,771	0	90
Printing and Reproduction	864	0	0
Professional Fees			
Accounting	20,769	7,675	11,452
Consulting	141,573	160,000	0
Legal Fees	322,905	263,823	0
Program Expense	1,724,329	764,813	0
Rent	0	0	1,180
Telephone	5,952	153	3,747
Travel and Entertainment			
Meals	219	120	0
Travel	20,271	10,307	1,157
Utilities	0	0	15
Wages	127,822	30,538	61,430
Total Expense	2,410,638	1,273,581	125,900
Net Operating Income	(2,142,638)	13,995,660	(125,310)
Other Income			
Interest Income	131,187	128,454	4,151
Net Income	\$ (2,011,451)	14,124,114	(121,159)

Source: Missouri Technology Corporation's compiled financial statements