Thomas A. Schweich

Missouri State Auditor

ECONOMIC DEVELOPMENT

Missouri Technology Corporation

July 2013

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CITIZENS SUMMARY

Findings in the audit of the Department of Economic Development, Missouri Technology Corporation

Administrative Costs and Fees	The Missouri Technology Corporation (MTC) does not maintain detailed timesheets or other documentation to support its allocation of administrative costs, and some actual allocations were not consistent with the established allocation percentages provided by MTC officials. As such, individual funds may not be shouldering their fair share of administrative costs. In addition, the MTC does not adequately track administrative cost fund balances. At our request, the MTC created reports to identify activity and balances by fund, and administrative cost funds for two programs had negative balances as of June 30, 2012. The audit also noted administrative subsidies provided by the Department of Economic Development (DED) are not reported in the MTC financial information presented to the Board and the public, making it difficult for the MTC Board and the DED to effectively monitor administrative costs and preventing transparency. The DED provided the MTC with a $369,122 administrative subsidy for the 3 years ended June 30, 2012.
Accounting Controls and Oversight	Budget and financial documents presented to the Board do not contain sufficient detail to adequately monitor the various funds administered. The Board does not receive the revenues, expenses and fund balances of the various individual programs and administrative funds. Instead, the annual Operating Plans provided to the Board contain aggregated information and also lack beginning and projected ending balances and prior year actual amounts. Similarly, quarterly Treasury Reports provided to the Board lack information on individual program balances. Audit staff discovered the MTC made multiple misclassification errors when instructing its outside accounting firm regarding revenue and expenditure transactions. The MTC also does not adequately oversee accounting transactions processed by its outside accounting firm.
Notes Receivable	The MTC does not maintain prenumbered receipt slips or a summary control log of receipts, making it difficult to determine if monies received are deposited in a timely manner. The MTC does not adequately monitor notes receivable to ensure amounts due are timely collected and borrowers are complying with the terms of the promissory notes. At least 13 of 71 payments received between December 31, 2009 and June 13, 2012 were delinquent, and one company had not remitted any monthly payments on its loan for over a year. Another company missed its November 2011 payment, which was not made until July 2012 when audit staff inquired about the missing payment.
Meeting Minutes	Although Board members appear to be recusing themselves from discussions or votes for which they have a potential conflict of interest,

meeting minutes rarely disclose the nature of the potential conflict of interest.

In the areas audited, the overall performance of this entity was **Good**.*

American Recovery and Reinvestment Act (Federal Stimulus)

During the audit period, the Missouri Technology Corporation was awarded and expended $1,680,000 in Federal Stimulus monies, including a $180,000 grant through the Department of Natural Resources as part of the U.S. Department of Energy's State Energy Program for an Algae-Based Renewable Energy Study, and a $1,500,000 Federal Budget Stabilization-Medicaid Reimbursement Fund grant for the construction of the Missouri Plant Science Center in Mexico, Missouri.

*****The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

Missouri Technology Corporation
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THOMAS A. SCHWEICH
Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Mike Downing, Acting Director
Department of Economic Development
and
Members of the Board of Directors
and
William Anderson, Acting Executive Director
Missouri Technology Corporation
Jefferson City, Missouri

We have audited certain operations of the Missouri Technology Corporation, in fulfillment of our duties under Chapters 29 and 348, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2012, 2011, and 2010. 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 financial transactions.

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. 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 tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also 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.

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.

For the areas audited, we identified (1) deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Technology Corporation.

Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Douglas Porting, CPA, CFE
Audit Manager:	Robert Showers, CPA, CGAP
In-Charge Auditor:	Deborah Whitis, MBA, CPA, CIA
Audit Staff:	Colby Dollens

1. Administrative Costs and Fees

Procedures over administrative costs and fees could be improved. Administrative cost allocations are not supported by adequate documentation and do not always appear reasonable. In addition, administrative fund balances are not adequately tracked and some administrative costs subsidized by the Department of Economic Development (DED) are not reflected in financial reports. Prior audits have included concerns over the tracking of administrative costs.

1.1 Cost allocations

The Missouri Technology Corporation (MTC) does not maintain detailed timesheets or other documentation to support administrative costs allocated to the various programs administered. MTC officials indicated administrative cost allocations are based on an estimation of efforts spent. For fiscal year 2010, and a portion of fiscal year 2011, MTC officials estimated 75 percent of administrative expenses associated with payroll were allocable to the Lewis and Clark Discovery Initiative (LCDI) administrative fund and the remaining 25 percent were allocable to the Life Sciences Research Trust (LSRT) administrative fund. For the remainder of fiscal 2011, and all of fiscal 2012, MTC officials estimated 85 percent of payroll expenses and other general expenses such as telecommunications and accounting services were allocable to the State Small Business Credit Initiative (SSBCI) administrative fund and the remaining 15 percent were allocable to either the LCDI or MTC general administrative funds. MTC officials provided no evidence to support the allocation percentages. Administrative expenses include salaries, office space, information technology, accounting services, and overall administrative support provided to the MTC by the DED.

In addition, we noted some actual administrative cost allocations were inconsistent with the established allocation percentages provided by MTC officials, with no basis provided for the inconsistencies, and not all allocations appeared reasonable.

- A $4,516 disbursement on March 5, 2012, for accounting services was allocated as $1,067 (23.6 percent) to the SSBCI administrative fund and $3,449 (76.4 percent) to the MTC general administrative fund instead of the estimated basis of 85 percent to SSBCI and 15 percent to the MTC general administrative fund. Other programs such as the LCDI, Missouri Technology Investment (MoTIF), Bioscience Entrepreneurial Training (BET), Research Alliance of Missouri (RAM), and LSRT, appeared to benefit from the accounting services but were not included in the allocation.

- A $25,000 disbursement on May 1, 2012, for the Executive Director's salary reimbursement to the DED was allocated as 100 percent to the MoTIF program. While using MoTIF funds for this administrative purpose is allowed by state law, it appears the

Executive Director likely spent time working on other programs to which some of the cost could have been directly charged.

- Our scan of the accounting records indicates all fiscal year 2010 reimbursements to the DED for departmental administrative pool billings were allocated as 100 percent to the MTC general administrative fund instead of the established basis of 75 percent to LCDI administrative fund and 25 percent to LSRT administrative fund.

- The reimbursement of $32,066 to the DED for the salary of the Director of Operations in fiscal year 2011 was allocated as 100 percent to the LSRT administrative fund. This allocation appears unreasonable since it is unlikely the Director of Operations devoted 100 percent of her time to the LSRT program.

General Cost Principles for State Governments and Non-Profit Organizations (2 CFR Parts 225 and 230 Appendix A) provide basic considerations affecting the allowability of costs. One of these factors is that the costs must be adequately documented. In addition, good management practices dictate administrative costs should be supported by adequate documentation including detailed timesheets for employees.

1.2 Administrative fund balances

Administrative cost fund balances are not adequately tracked. At our request, the MTC created reports to separately identify the administrative income, expenditures, and ending balances for all of the administrative cost funds. As shown in the table below, administrative cost funds for two programs had negative balances as of June 30, 2012. As a result, the MTC utilized funds restricted for other purposes to cover these cash shortages.

Program/Fund	Beginning Balance July 1, 2009	Revenues	Expenses	Ending Balance June 30, 2012
LCDI	$629,206	0	393,369	235,837
LSRT	104,019	261,221	323,444	41,796
LET	0	35,000	1,056	33,944
SSBCI	0	306,532	372,543	(66,011)
MoTIF	0	99,000	99,000	0
RAM	28,064	0	10,940	17,124
MTC General	(38,582)	228,166	309,689	(120,105)
Total	$722,707	929,919	1,510,041	142,585

Properly accounting for administrative costs associated with each program is necessary to ensure restricted program funds are used for intended purposes.

1.3 DED administrative subsidies

Administrative subsidies from the DED to the MTC are not captured or reported in MTC financial information presented to the Board and the public. During the 3 years ended June 30, 2012, the DED incurred direct administrative expenses totaling $571,807 for salary, benefits, travel expenses, office space, and utilities attributable to the MTC, and was reimbursed a total of $202,685 by the MTC. The result is a total administrative subsidy of $369,122 over the 3 year period.

While MTC functions are clearly within the mission of the DED, the corporation is a separate legal entity. Not including significant administrative expenses on MTC financial reports misrepresents the corporation's financial activity and costs of operation. Ensuring all administrative costs are reflected in the corporation's financial reports would allow the MTC Board and the DED to more effectively monitor administrative costs, and would provide more transparency in the administrative costs of the corporation.

Recommendations

The MTC:

1.1 Ensure amounts for salary, office space, and other administrative services provided by the DED are supported by adequate documentation, including employee timesheets, and clearly specified in the agreement between the DED and the MTC.

1.2 Monitor administrative funds balances to prevent deficit spending and to ensure restricted funds are used for intended purposes.

1.3 Ensure all costs to administer MTC programs are reflected in financial reports.

Auditee's Response

The MTC Board of Directors provided the following written response:

1.1 MTC agrees that procedures to more clearly outline administrative cost allocations can always be considered. However, MTC strongly disagrees that its administrative cost allocations have been unreasonable. MTC strives to directly allocate administrative costs to the programs they support when such costs are clearly identifiable. When administrative costs support multiple programs, those costs are allocated based on allocation methodologies approved by the MTC Board as a part of MTC's annual operating plan. It is also important to note that MTC has received irregular injections of funding at irregular intervals. This funding approach creates challenges with respect to strategically implementing programs and planning for their ongoing administrative costs. The MTC Board has worked diligently to expend funds conservatively over time to ensure that it can fund MTC's ongoing obligations for its programs.

*MTC also strongly disagrees with Auditor's conclusion that the allocation of the Executive Director's salary in Fiscal Year 2012 was unreasonable. Section 7.020 of House Bill 7, a copy of which has been provided to the SAO, appropriates funds to the Department of Economic Development for the Missouri Technology Corporation, for "**administration** **and** for science and technology development" (emphasis added). This audit finding appears to be based on a misunderstanding by the SAO regarding MTC's funding source. Specifically, MoTIF is not a pool of funds allocated for a particular program. The salary of the Executive Director clearly is an allowable administrative cost paid from an appropriation for administrative costs. In addition to being entirely consistent with the applicable statute, it is a budget decision agreed to by DED under its general agreement with MTC and approved by the MTC Board.*

DED employees providing support to MTC pursuant to the DED's written agreements with MTC record their time using the TMS timekeeping system. DED and MTC agreed to a fixed-cost contract for these services as the most efficient method. In addition, MTC reimburses DED for indirect costs pursuant to the cost allocation plan as do other agencies of the DED.

1.2 MTC appreciates the Auditor's advice on improvements for tracking administrative fund balances. All administrative costs incurred were appropriate expenditures that support the statutory mission of the MTC. MTC staff will continue to work with its outside accounting firm, Williams Keepers, LLC, to identify reporting tools to continue improving its administrative fund account tracking.

1.3 MTC appreciates the Auditor's recommendation to ensure that all costs to administer MTC programs are reflected in its financial reports. The MTC Board believes that its monitoring of administrative costs is effective; however, MTC is committed to continual improvement. MTC will work with DED to identify ways to improve reporting the costs related to operating MTC programs. As noted in the audit report, MTC functions are clearly within the mission of DED.

Auditor Comment

1.1 The audit report describes several instances where administrative costs were charged to administrative cost pools or program funds at rates other than the established allocation percentages, with no documentation to support the deviation. Regarding the MoTIF administrative funding, the audit report recognizes that the administrative dollars in question are not limited to MoTIF activity, but questions whether a portion of the Executive Director's salary could have been directly charged to other cost pools. By electing to use general administrative cost pools for administrative expenses that could be charged directly to other programs, the MTC risks having to inappropriately charge restricted funds for unrelated costs if general administrative funds are depleted in future periods.

2. Accounting Controls and Oversight

MTC budgets and financial information provided to the Board do not contain sufficient detail to properly monitor program funds. In addition, numerous accounting errors were noted during our audit of the MTC. The MTC received approximately $17.7 million and disbursed approximately $18.6 million during the 3 years ended June 30, 2012.

2.1 Budgets and monitoring

Budget and financial documents presented to the Board do not contain sufficient detail to adequately monitor the various funds administered. As indicated in MAR finding number 1, the MTC does not adequately track administrative fund activity and, similarly, does not adequately track the activity of the various program funds. As a result, the revenues, expenses and fund balances of the various programs and administrative funds are not provided to the Board. While the fiscal year 2011 and 2012 Operating Plans provided to the Board include a consolidated program budget and consolidated administrative budget, the projected administrative expenditures encompass all funding sources and do not separately identify expenditures specific to each funding source. In addition, these budgets lack beginning and projected ending balances and prior year actual amounts.

Quarterly Treasury Reports provided to the Board throughout the year also contain consolidated program information and do not contain information on individual program balances. Without detailed budget to actual reports by fund, the Board cannot adequately monitor the funds administered to ensure funds are being used for their intended purpose.

A complete and well planned budget can serve as a useful management tool by establishing specific cost expectations for each area and providing a means to effectively monitor actual costs.

2.2 Accounting misclassifications

Procedures are not adequate to ensure revenues and expenditures are properly classified in the accounting system. MTC personnel provide instructions to an outside accounting firm regarding the classification of transactions in the accounting system. Our review noted multiple classification errors. For example, $1.5 million in ARRA monies for the Missouri Plant Science Center (MPSC) were incorrectly recorded on the Income Statement as administrative income instead of program income during the 2 years ended June 30, 2011. Because these monies were classified to the MTC general administrative fund rather than creating a separate fund for the MPSC, the corresponding disbursement of these monies was also classified as an administrative expense, resulting in a significant overstatement of administrative activity. In addition, our review of the MoTIF fund identified $99,000 in administrative income improperly recorded as program income and $99,000 of administrative expenses improperly recorded as program expenses for costs associated with the Executive Director's salary reimbursement to the DED during the 2 years ended June 30, 2012. We also noted $32,066 for wage expenses were incorrectly recorded as consulting fees during the year ended June 30, 2011.

Accurate accounting records are necessary for MTC officials and the Board to monitor the status of the programs they are charged with implementing, and are essential to effectively evaluate program performance.

2.3 Accounting oversight

Procedures to oversee accounting transactions processed by an outside accounting firm are not adequate. Our review of the check register identified 16 incorrectly recorded checks where the sequential check number posted to the check register was off by one digit from the actual check number. In addition, another 24 checks were issued out of sequence and 26 of 40 checks voided during the audit period were not recorded. In addition, none of the voided checks were mutilated and retained.

Adequate oversight includes ensuring the accuracy of the accounting records prepared by the accounting firm. Without thoroughly reviewing the accounting records, there is less assurance all transactions are accounted for properly and financial reports are accurately presented.

Recommendations

The MTC:

2.1 Prepare a detailed budget for program and administrative funding needs, including beginning and projected ending balances, and budgeted revenues and expenses for each fund. In addition, the MTC should implement procedures to monitor budget-to-actual costs and present this information to the Board throughout the year.

2.2&
2.3 Establish procedures to monitor the accuracy of financial records and ensure records are complete and accurate. Procedures should include accounting for the numerical sequence of checks and properly defacing and retaining voided checks.

Auditee's Response

2.1 MTC appreciates the Auditor's advice for improving budgeting and monitoring procedures. As a part of MTC's ongoing efforts to strengthen its governance, MTC has significantly increased the amount of detailed financial information provided to the MTC Board and instituted a practice of adopting an annual operating plan, which includes both administrative and programmatic budgets for the funding made available to MTC. The MTC Board receives a

Treasurer's Report prior to each regular quarterly Board meeting that includes financial statements (balance sheet as of the most recent month-end and profit and loss statement), a quarterly transaction report, an outstanding checks report, a report of administrative expenses comparing actual amounts to the corresponding amounts in the operating budget approved by the MTC Board, and an investment portfolio report. In addition to the quarterly Treasurer's Report, the MTC Board also receives a monthly financial report which includes financial statements (balance sheet as of the most recent month-end and year-to-date profit and loss statement), monthly transaction report, monthly outstanding check report, a report of administrative expenses comparing actual amounts to the corresponding amounts in the operating budget approved by the MTC Board and a monthly loan exception report. MTC staff will continue to seek ways to improve the financial information regularly provided to the Board to further strengthen oversight.

2.2&
2.3 *MTC contracts with Williams Keepers, LLC to provide financial accounting and related services to MTC. Williams Keepers is a highly respected accounting firm in central Missouri with substantial experience assisting public bodies. While Williams Keepers has advised MTC that the process for destroying voided checks was entirely appropriate, MTC now requires Williams Keepers to return any voided check to MTC staff to confirm the check has been properly defaced and retained. Additionally, all voided checks are clearly recorded in the MTC's general ledger. MTC also notes that there have been no unauthorized disbursements based on the previous practice used for destroying voided checks. MTC will continue to work with Williams Keepers to further improve the way MTC's finances are classified, recorded, tracked and presented.*

Auditor Comment

2.1 While MTC officials have improved the information provided to the Board since the prior audit, information provided pertaining to program and administrative fund balances remains aggregated, and would be more beneficial if individual program and administrative fund balances are included.

3. Notes Receivable

Controls and procedures over payments collected on promissory notes receivable could be improved. In addition, the MTC does not adequately monitor past due promissory notes and does not assess penalties due as required by promissory notes. Notes receivable on approved projects of the LCDI and SSBCI programs totaled $6.7 million as of June 30, 2012.

3.1 Receipts and deposits

Neither prenumbered receipt slips nor a summary control log of receipts is maintained to document the date of each payment received. Rather, payments received are recorded on subsidiary ledgers maintained for each loan and only the check date is recorded. As a result, it is difficult to determine if receipts are deposited in a timely manner. Utilizing the recorded check date and allowing 2 days for mail delivery, our review estimates 29 of the 71 receipts reviewed, or 38 percent, were not deposited within 5 days of receipt. Under these assumptions, the time elapsed from receipt to deposit on these 29 receipts ranged from 6 to 34 calendar days.

Failure to implement adequate receipting and depositing procedures increases the risk that loss or misuse of monies received will go undetected.

3.2 Monitoring

MTC procedures are not sufficient to adequately monitor notes receivable and ensure timely collection of amounts due and compliance with the terms of the promissory notes. At least 13 of the 71 payments received during the period from December 31, 2009, to June 13, 2012, appear to have been delinquent and at least 12 payments from one company remained outstanding as of October 15, 2012.

As noted above, the MTC does not record the date payments are received. However, by utilizing the recorded check date and allowing 2 days for mail delivery, we estimated at least 13 of the 71 payments reviewed were greater than 15 days delinquent when received. Furthermore, four of these payments were more than 31 days past due. If the actual receipt date is closer to the actual deposit date, the period of delinquency is even longer.

As of October 15, 2012, one company had not remitted a payment on its loan since August 15, 2011, even though the original promissory note was amended in April 2011 due to difficulties making the original loan payments. In addition, the August 15, 2011, payment received was for the monthly payment due June 30, 2011. MTC notified the company on September 26, 2011, that interest was accruing at the past due rate. MTC also required the company to provide weekly status updates, furnish financial statements for the quarter ending June 30, 2011, and obtain ownership of and install collateral in the Missouri facility. Although weekly status updates and the June 30, 2011, unaudited financial statements were furnished to the MTC, there was no documentation of whether the collateral was acquired and installed in Missouri or if more recent financial statements were requested by the MTC or provided by the company.

Our review identified another company missed its November 2011 payment. While MTC officials notified the company of the past due payment in December 2011, payment was not made until July 2012 when we inquired about the missed payment.

In addition, no late payment penalties were assessed on past due payments of any projects as stipulated in the promissory notes. The promissory notes indicate if a borrower fails to make any payment within 15 days after the date such payment is due, the borrower shall pay on demand to MTC a late charge equal to 5 percent of the amount of such overdue payment.

Procedures to monitor and follow-up on past due promissory notes are necessary to ensure payment is received. Failure to monitor unpaid amounts may result in lost revenue and program funds.

Recommendations

The MTC:

3.1 Issue prenumbered receipt slips or maintain a summary log of all payments received, noting the receipt date, and reconcile with deposit records to ensure receipts are deposited in a timely manner.

3.2 Establish procedures to monitor and timely follow up on past due payments, including enforcing late payment fees in accordance with promissory notes.

Auditee's Response

The MTC Board of Directors provided the following written response:

3.1 MTC appreciates the Auditor's advice for improved tracking of loan payments and deposits. MTC staff has taken several steps to improve loan payment tracking. Check dates and receipt dates for each loan payment are now recorded in MTC's loan payment tracking log. MTC has also made an electronic payment option available to borrowers to encourage timely payments in an efficient, business-friendly manner.

3.2 MTC agrees in part and disagrees in part with this finding. With respect to enforcing late payment fees, MTC views late payment fees as a last resort for materially non-compliant companies after other efforts have been exhausted. MTC is a non-profit corporation whose mission is to support early-stage small businesses. Many times these companies are staff-constrained and payment systems are not fully developed or affordable. MTC uses best efforts to resolve payment delinquencies in a way that will facilitate the company's growth and not compromise its efforts to successfully commercialize its technologies. A more aggressive approach to late payment fees is inconsistent with MTC's economic development mission to assist small businesses.

MTC agrees that loan payment tracking and compliance always can be improved. MTC staff is now preparing a monthly exception report that more quickly identifies late or missed payments and *other outstanding contractual obligations of its loan portfolio. These reports are used to bring borrowers back into compliance and are also included in MTC's monthly financial report to the Board. Additionally, MTC is implementing a loan tracking software solution to electronically track loan payments and obligations in a more systematic way that allows existing staff resources to be used more efficiently.*

4. Meeting Minutes

Open meeting minutes do not always disclose the potential conflict of interest for board members recusing themselves from participating in discussions or voting on decisions.

Board members appear to be properly recusing themselves from discussions or votes on decisions in which they have potential conflicts, as required by current policy, however, meeting minutes rarely disclose the nature of the potential conflict of interest. Our review of the MTC Board's fiscal year 2012 minutes identified 18 recusals by Board members; however, the nature of the conflict was not disclosed in the minutes for any of these recusals. In addition, an instance was noted in which one Board member did not recuse himself, but did disclose a potential conflict of interest in the minutes. There was no documentation in the minutes of any action taken by the Board to determine if an actual conflict existed.

As required by statute, the MTC Board includes a significant number of individuals with interests or representation in the technology industry. While such involvement provides industry insights and can be beneficial, it also results in the potential for conflicts of interest. Disclosing the nature of any conflicts resulting in recusals from discussions or votes would increase the transparency of the Board and its decisions.

Recommendation

The MTC Board should revise the conflict of interest policy to require disclosure of the nature of potential conflicts of interest in the meeting minutes.

Auditee's Response

The MTC Board of Directors provided the following response:

MTC appreciates the Auditor's advice for continued improvement of its best-in-class conflicts of interest policy. The MTC Board employs a very conservative conflicts of interest policy to address actual and even perceived conflicts of interest that may arise in the course of executing its economic development mission. Auditors identified one instance where a Board member disclosed a potential conflict of interest but did not recuse from the discussion and voted on the matter. This specific disclosure was made out of an abundance of conservatism given the very proactive efforts the MTC undertakes to prevent conflicts of interest or even the appearance of a conflict. The MTC Board determined that, under the circumstances, the *disclosed relationship did not rise to the level which required a recusal of the Board member pursuant to Article III, Section 2 of MTC's Conflicts of Interest Policy.*

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 include one full time Acting Executive Director paid by MTC funds, as well as a Director of Operations and a Senior Associate, who are full time Department of Economic Development (DED) employees working on MTC related tasks part of the time. The MTC reimburses the DED a pro rata share of the costs related to these two employees.

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 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 was directed to the MTC for various programs designed to improve commercialization of Missouri technologies. As of June 30, 2012, LCDI disbursements totaled approximately $8.8 million, which included $8 million for programs (equity investments, grants, and loans) and $800,000 for administrative expenses.

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 25,000 square-foot facility opened its doors and welcomed its managing tenant, Soy Labs LLC, in the spring of 2011.

In September 2010, the State Small Business Credit Initiative (SSBCI) was created by Congress upon passage of the Small Business Job Act of 2010. The SSBCI provides federal funds to strengthen state programs that support lending to small businesses and small manufacturers. In 2011, the state of Missouri was awarded almost $27 million through this initiative from the U.S. Treasury that will be disbursed over a 7-year period, of which $16.9 million will be passed through the DED to the MTC for the Innovation, Development and Entrepreneurial Advancement program. The MTC received approximately $11.5 million in SSBCI funding through June 30, 2012.

The MTC Board of Directors is composed of 15 members:

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

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, 2012 were:

Appointed Board members	Term Expires October 1,
Joseph G. Bannister, Chairman	2012
Daniel P. Mehan, Vice-Chairman	2014
Dr. Jim Baker, Secretary-Treasurer	2013
Elizabeth Canuteson	2015
Victoria A. Gonzalez	2012
Gary Kemp	2013
David Kerr	2012
Donn Rubin	2014
Gregory A. Steinhoff	2012
Michael D. Welte	2013
Vacant (1)	

(1) Dr. Anthony Harris resigned on August 24, 2011

Standing Board members
Jason Hall, Delegate for the Department of Economic Development Director
Dr. Michael F. Nichols, Delegate for the President, University of Missouri
Rob Schaaf, State Senate
Thomas Long, House of Representatives

Ex-Officio Board members
Colonel Charles A. Williams, Fort Leonard Wood
Raymond Tait, Ph.D., Research Alliance of Missouri Chair
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, 2012 were:

Raymond Tait, Ph.D., Chair
Allen Kunkel, Vice Chair
Nasser Arshadi, Ph.D., Treasurer
Maria DiStefano, Ph.D.
Rob Duncan, Ph.D.
Alan Glaros, Ph.D.
Karla Rober
Jane C. Johnson
Evan Kharasch, M.D., Ph.D.
Cindy Kiel
Ted R. Knous, Ph.D.
Krishna Krishnamurthy, Ph.D.
Michael F. Nichols, Ph.D.
Victoria Steel, Ph.D.
Vacant

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

According to management, the MTC was awarded the following American Recovery and Reinvestment Act of 2009 funding during the 3 years ended June 30, 2012:

A $180,000 grant was provided through the DED from the Department of Natural Resources (DNR) as part of the U.S. Department of Energy's State Energy Program for an Algae-Based Renewable Energy Study. During the 2 years ended June 30, 2012, $180,000 was received and expended.

A $1,500,000 grant was provided through the DED from the Federal Budget Stabilization - Medicaid Reimbursement Fund for construction of the Missouri Plant Science Center located at Mexico, Missouri. During the 3 years ended June 30, 2012, $1,500,000 was received and expended.

A summary of the MTC's financial activity, as reflected in the MTC's compiled financial statements, is presented in the following appendixes.

Appendix A

Missouri Technology Corporation
Comparative Balance Sheet

		June 30, 2012	2011	2010
Assets				
Current Assets				
Cash	$	9,216,418	8,896,732	10,234,947
Certificates of Deposit		1,718,379	0	0
Total Cash		10,934,797	8,896,732	10,234,947
Other Current Assets				
Notes Receivable		6,716,314	1,496,037	772,111
Total Other Current Assets		6,716,314	1,496,037	772,111
Total Current Assets		17,651,111	10,392,769	11,007,058
Fixed Assets				
Office Equipment		15,280	15,280	15,280
Accumulated Depreciation		(14,371)	(13,766)	(13,161)
Net Fixed Assets		909	1,514	2,119
Other Assets				
Investments		6,438,002	3,037,965	1,914,468
Total Other Assets		6,438,002	3,037,965	1,914,468
Total Assets	$	24,090,022	13,432,248	12,923,645
Liabilities and Equity				
Current Liabilities				
Payroll Liabilities	$	0	0	900
Contractual Committed Funds		59,648	59,648	320,957
Total Current Liabilities		59,648	59,648	321,857
Equity				
Retained Earnings		13,372,600	12,601,788	13,678,326
Net Income		10,657,774	770,812	(1,076,538)
Total Equity		24,030,374	13,372,600	12,601,788
Total Liabilities and Equity	$	24,090,022	13,432,248	12,923,645

Source: Missouri Technology Corporation's compiled financial statements

Appendix B

Missouri Technology Corporation
Comparative Statement of Revenues and Expenses - Modified Cash Basis

		Year Ended June 30		
		2012	2011	2010
Income				
Administrative Income	$	306,531	1,172,904	588,308
Program Income		13,207,859	2,189,000	0
Miscellaneous Income		106	93	54
Total Income		13,514,496	3,361,997	588,362
Expense				
Administrative Services		2,340	2,716	2,064
Bank Service Charge		36	36	36
Conference Expense		0	17,757	510
Depreciation		605	605	1,762
Dues and Subscriptions		0	15	545
Fees		10	0	0
Insurance		8,044	8,806	9,604
License and Permits		0	0	15
Meetings		835	210	901
Miscellaneous		0	0	70
Office Supplies		249	316	682
Payroll Expense		0	0	(18)
Payroll Tax		6,502	6,502	6,502
Postage and Delivery		1,455	1,895	2,425
Printing and Reproduction		1,458	3,948	1,132
Professional Fees				
Accounting		21,410	61,408	19,224
Consulting		0	32,066	132,750
Legal Fees		307,978	127,547	270,797
Program Expense		2,491,180	2,332,838	1,124,794
Rent		63	0	0
Retirement Expense		495	0	0
Supplies		30	191	0
Telecommunications		3,779	4,195	7,673
Travel and Entertainment		7,071	7,141	18,747
Wages		116,771	85,985	116,237
Total Expense		2,970,311	2,694,177	1,716,452
Net Operating Income		10,544,185	667,820	(1,128,090)
Other Income				
Interest Income - Administrative		113,462	35,815	51,552
Interest Income - Program		0	19,944	0
Other Income		0	158	0
Program Reimbursement		127	0	0
Unrealized Gain(Loss)		0	47,075	0
Net Income	$	10,657,774	770,812	(1,076,538)

Source: Missouri Technology Corporation's compiled financial statements

Appendix C

Missouri Technology Corporation
Notes Receivable

Name of Recipient	Funding Source		Balance as of June 30, 2012
AndroJek, Inc.	LCDI	$	125,000
Apse, LLC	SSBCI		50,000
CardiaLen, Inc.	SSBCI		250,000
Cars 'N' Kids, Inc.	LCDI		15,000
Cervimark, LLC	LCDI		50,000
Confluence Life Sciences, Inc.	LCDI		75,000
Confluence Life Sciences, Inc.	SSBCI		250,000
Dermelle, LLC	SSBCI		100,000
Electrochaea, LLC	SSBCI		240,000
Emerald Automotive, LLC	SSBCI		2,000,000
GremIn, LLC	SSBCI		100,000
Innovaprep, LLC	LCDI		399,664
Katalyst Surgical, LLC	LCDI		431,214
Kypha, Inc.	LCDI		225,000
Leinco Technologies, Inc.	LCDI		278,712
PetScreen, Inc.	LCDI		246,757
Pulse Therapeutics, Inc.	LCDI		11,067
Spogen Biotech, Inc.	SSBCI		90,000
Sustainable Community Development, LLC	LCDI		480,000
SyMyCo, Inc.	LCDI		250,000
Traxxsson, LLC	LCDI		75,000
Vasculox, Inc.	LCDI		73,900
VirRx, Inc.	LCDI		50,000
Verto Medical Solutions, LLC	SSBCI		750,000
Xtend Energy, LLC	SSBCI		100,000
		$	6,716,314

LCDI - Lewis and Clark Discovery Initiative
SSBCI - State Small Business Credit Initiative

Source: Missouri Technology Corporation's Detailed Balance Sheet

Appendix D

Missouri Technology Corporation
Equity Investments

Name of Recipient	Funding Source		Balance as of June 30, 2012
AndroJek, Inc.	SSBCI	$	200,000
Global Velocity, Inc.	SSBCI		749,999
ImmunoPhotonics, Inc.	LCDI		69,000
ImmunoPhotonics, Inc.	SSBCI		205,809
Jbara Software, Inc.	SSBCI		50,000
Kereos, Inc.	SSBCI		250,000
Kiosite, LLC	SSBCI		335,000
LockerDome, LLC	SSBCI		199,997
Media Convergence Group, Inc.	LCDI		187,500
Missouri Plant Science Center	ARRA		1,500,000
Pulse Therapeutics, Inc.	LCDI		197,075
Pulse Therapeutics, Inc.	SSBCI		1,000,000
UM/FLW Technology Park	State Appropriation in 1999		1,493,622
		$	6,438,002

ARRA - American Recovery and Reinvestment Act
LCDI - Lewis and Clark Discovery Initiative
SSBCI - State Small Business Credit Initiative

Source: Missouri Technology Corporation's Detailed Balance Sheet