



Office of Missouri State Auditor
Nicole Galloway, CPA

**Economic Development
Advancement Fund**

Report No. 2018-092
September 2018

auditor.mo.gov



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Economic Development Advancement Fund

Lack of Transparency and Oversight	The Department of Economic Development (DED) provided more than \$5.9 million from the Economic Development Advancement Fund (EDAF) during the 3 fiscal years ending June 30, 2017, to the Hawthorn Foundation (HF) for business recruitment and marketing services without adequate transparency and oversight. Detailed expenditure information for payments made by the HF and the Missouri Partnership with EDAF funding are not available to the public. In addition, the DED circumvented the General Assembly in fiscal year 2017 by ensuring the HF received funding despite having no appropriation authority to support the payments.
Evaluation of Contract Provisions	The DED does not perform an adequate evaluation of the HF contract to ensure the amount paid is an efficient and effective use of EDAF funds, or that the HF complies with all contract provisions. The DED has not performed a cost-benefit analysis to justify the outsourcing of business recruitment and marketing services or to determine if outsourcing such services to a third party is an effective and efficient use of taxpayer monies. The DED did not require the HF to fulfill the matching funding contract requirements in fiscal year 2017 and had no basis for the significant increases to the per-job performance incentive paid to the HF in that year. The DED does not have adequate controls in place to detect when new announced jobs reported by the HF and the Missouri Partnership are incomplete or inaccurate. Since the number of new announced jobs is used to determine the amount of performance incentive compensation paid to the HF, there is less assurance the amount paid in performance incentives is accurate.
Expenditures	The DED does not have controls in place to ensure payments made using EDAF funds are in compliance with state law.

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

*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.

Economic Development Advancement Fund

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NICOLE GALLOWAY, CPA **Missouri State Auditor**

Honorable Mike Parson, Governor
and
Members of the General Assembly
and
Robert B. Dixon, Director
Department of Economic Development
and
Carol Comer, Director
Missouri Department of Natural Resources
Jefferson City, Missouri

We have audited the Economic Development Advancement Fund in fulfillment of our duties under Chapter 29, RSMo. The Scope of our audit included, but was not necessarily limited to, the 3 years ended June 30, 2017. The objectives of our audit were to:

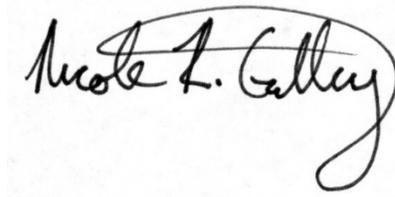
1. Evaluate internal controls over significant management and financial functions as they relate to the Economic Development Advancement Fund.
2. Evaluate compliance with certain legal provisions as they relate to the Economic Development Advancement Fund.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions, as they relate to the Economic Development Advancement Fund.

Citing past practices of not requiring vendors to provide source documentation, the Department of Economic Development did not permit us full access to the expenditures of the Hawthorn Foundation or the Missouri Partnership. As a result of this scope limitation, we could not audit certain information and could not evaluate the economy and efficiency of certain management practices and operations.

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.

For the areas audited, we identified (1) deficiencies in internal controls, (2) non-compliance 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 Economic Development Advancement Fund.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the word "Galloway".

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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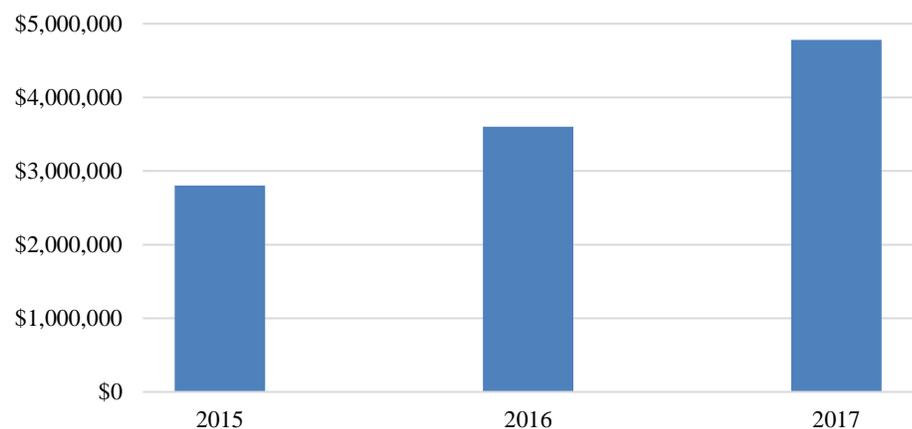
Economic Development Advancement Fund

Introduction

Background

The Economic Development Advancement Fund (EDAF) was established by Section 620.1900, RSMo. At least 50 percent of the fees and other monies deposited in the fund are to be appropriated for marketing, technical assistance, and training, contracts for specialized economic development services, and new initiatives and pilot programming to address economic trends.¹ The remaining monies may be appropriated toward the costs of staffing and operating expenses for the program activities of the Department of Economic Development (DED), and for accountability functions. State law authorizes the DED to charge a fee of up to 2.5 percent of the amount of certain tax credits issued by the department to the recipient of those tax credits.² The fee shall be paid by the recipient upon the issuance of the tax credits. However, no fee shall be charged for the tax credits issued under Section 135.460, Section 208.770, or Sections 32.100 to 32.125, RSMo, if issued for community services, crime prevention, education, job training, or physical revitalization. State law also authorizes fees or administrative charges from private activity bond allocations to be deposited in the EDAF.³ Figure 1 shows EDAF revenues for the 3 fiscal years ending June 30, 2017.⁴

Figure 1: EDAF revenue, fiscal years 2015 to 2017



Source: Prepared by the SAO using SAM II revenues.

¹ Section 620.1900.5, RSMo. All citations refer to provisions effective during the audit period. Section 620.1900, RSMo, was amended in August 2018.

² Section 620.1900.1, RSMo. Effective August 28, 2018, the fee is 4 percent for the Historical Structures Rehabilitation Tax Credits.

³ Section 620.1900.4, RSMo.

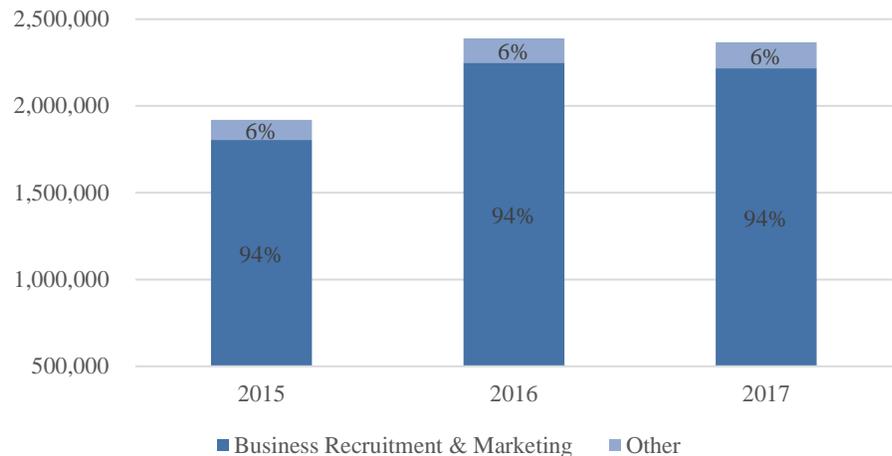
⁴ Fluctuations in revenues is mainly due to the fluctuations in number and amounts of tax credits issued by DED.



Economic Development Advancement Fund Introduction

Figure 2: EDAF expenditures,
fiscal years 2015 to 2017

Figure 2 depicts total expenditures by category,⁵ and the percentage of total expenditures for each expenditure type for the 3 fiscal years ending June 30, 2017.



Source: Prepared by SAO using SAM II expenditures.

Additional details on revenues and expenditures for these fiscal years are included in Appendixes A, B and C. As noted in Figure 2, 94 percent of the expenditures from the EDAF are for purposes of business recruitment and marketing, which primarily includes payments to a third-party vendor for marketing services. Approximately 86 percent of EDAF expenditures for the 3 years ended June 30, 2017 went to one vendor; the Hawthorn Foundation (HF).

Hawthorn Foundation

The DED entered into a contractual agreement with the HF for marketing services and financial support to enhance the business recruitment efforts of the state. The first contract with the foundation was executed in 2007 and has been renewed annually. The Office of Administration, Division of Purchasing and Materials Management has declared the HF a single feasible source provider. The HF was originally incorporated as a 501 (c) (6) not-for-profit (NFP) corporation under the Internal Revenue Code in May of 1981. The general purpose of the corporation included "the improvement of economic and business conditions within the State of Missouri, as well as the establishment and maintenance of the integrity of the state's commercial market." The DED director is an ex officio non-voting member of the HF Board of Directors.

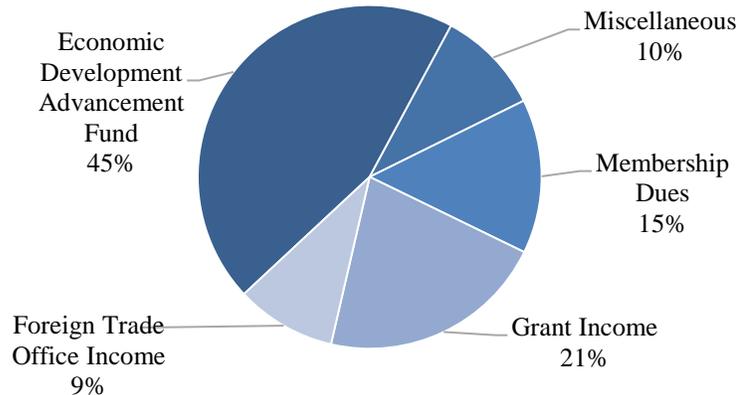
⁵ Other expenditures include payroll costs at the Department of Natural Resources for historic preservation administration personnel, DED expense and equipment, the Main Street Program, and unemployment benefits.



Economic Development Advancement Fund Introduction

During the 3 fiscal years ending June 30, 2017, the HF received approximately 45 percent of its revenues from EDAF. Figure 3 depicts total HF revenues by category for that period.

Figure 3: Hawthorn Foundation revenues by category, fiscal years 2015 through 2017



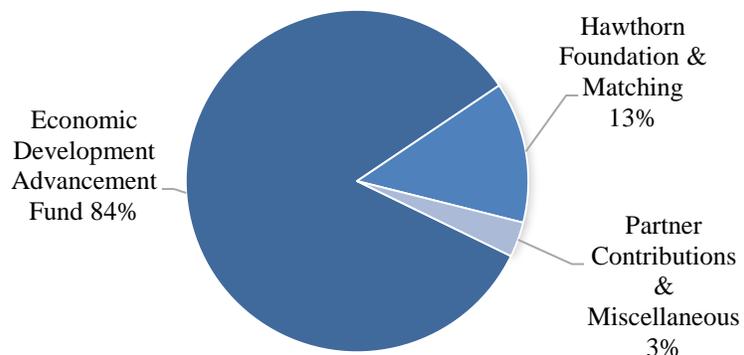
Source: Prepared by SAO using the quarterly income and expense reports submitted to the DED by the HF.

Missouri Partnership

The HF entered into a contractual agreement with its subsidiary, the Missouri Partnership (the Partnership), and passed through 100 percent of the EDAF funding received. The Partnership was created in 2007 to serve as the state's leading business recruitment and marketing organization. According to the Partnership's website, it is the most important "front wheel" in business recruitment for the HF. An independent board of directors governs the Partnership, with leadership coming from HF members.

The Partnership receives the vast majority of its funding from the EDAF. Figure 4 depicts the Partnership total revenues by category for the 3 fiscal years ending June 30, 2017.

Figure 4: Partnership revenue by source, fiscal years 2015 through 2017



Source: Prepared by the SAO using quarterly income and expense reports submitted to the DED by the Partnership.



Economic Development Advancement Fund Introduction

Scope and Methodology

Our methodology included reviewing written policies and procedures, and interviewing various DED and Department of Natural Resources personnel. We obtained an understanding of the applicable 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 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 violation of contract 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.

Due to the significance of the portion of EDAF funding going toward HF and Partnership activities, we reviewed the contractual agreement between the DED and the HF, as well as the agreement between the HF and the Partnership, to determine whether all contract terms were met during the audit period. In addition, we reviewed EDAF revenues and expenditures transactions to determine compliance with Section 620.1900, RSMo. We also verified compliance with the single feasible source requirements outlined in Section 34.044, RSMo.

In an effort to evaluate the appropriateness of EDAF expenditures as well as compliance with statutory requirements the SAO requested detailed information from the DED for the expenditures made by the Partnership. These requests were denied by the DED. According to DED personnel the department does not require the HF to provide such detail and declined to ask the vendor to provide it. According to DED personnel, while the DED Director is an ex officio non-voting member of the HF Board of Directors and receives high level cost reports, the DED Director does not have access to detailed Partnership expenditure information. Our ability to achieve the audit objective of evaluating the economy and efficiency of certain management practices and procedures was hindered by not having access to the requested detailed expenditure information.

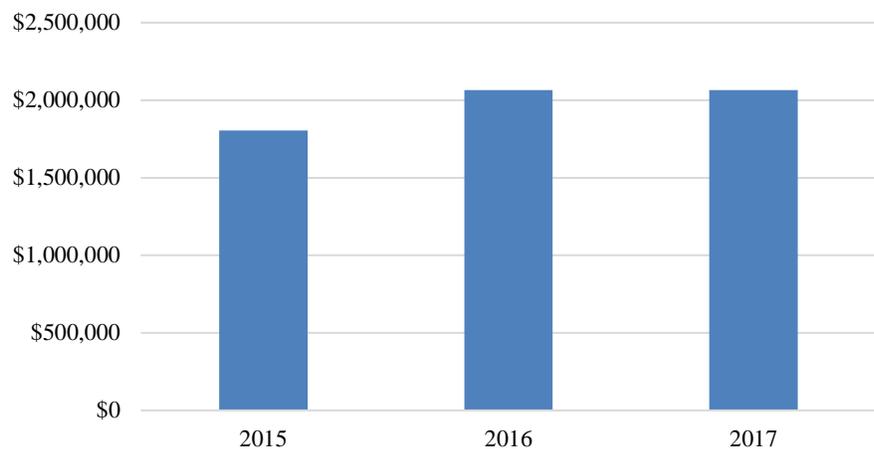
Economic Advancement Development Fund Management Advisory Report State Auditor's Findings

1. Lack of Transparency and Oversight

The Department of Economic Development (DED) provided more than \$5.9 million from the Economic Development Advancement Fund (EDAF), during the 3 fiscal years ending June 30, 2017, to the Hawthorn Foundation (HF) for business recruitment and marketing services without adequate transparency and oversight. In addition, the DED took steps to ensure the HF received funding in fiscal year 2018 without an initial appropriation, making the payments less transparent.

Figure 1.1 shows the funding received by the HF from the EDAF during the 3 fiscal years ending June 30, 2017. This money was subsequently passed through to the Missouri Partnership (Partnership).

Figure 1.1: EDAF disbursements to the HF, fiscal years 2015 to 2017



Source: Prepared by the State Auditor's Office (SAO) using the SAM II data.

1.1 Expenditure information not available to the public or to the DED

Expenditure information for disbursements made by the HF and the Partnership with funding from the EDAF is not available to the public. While the Partnership publishes an annual summary of expenses on its website, such information is not maintained and made available to the public by the DED, and the contract with the HF does not allow the DED or the public access to detailed expenditure information.

The Partnership creates a budget of revenues and expenditures with the funding source noted by category. Those budgets are provided to the Partnership Board for review. The DED Director is a non-voting member on both the HF and the Partnership Boards. The DED provided us these budgets for the period audited; however, the budgets are not typically maintained by the DED and are not made public.

We obtained the quarterly income and expense reports submitted by the HF and the Partnership to the DED for the 3 years ended June 30, 2017. According to those reports, the Partnership spent in excess of \$4.3 million on payroll and performance incentive payments (approximately 60 percent of

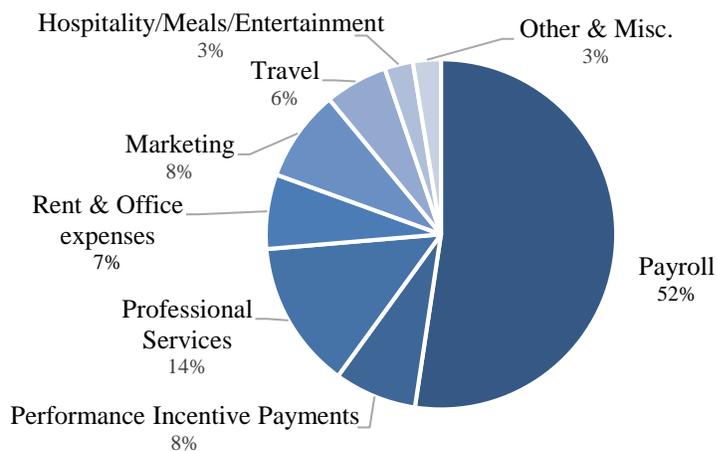


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Partnership expenditures). However, no itemized salary information was provided or is available to the public. According to discussions with a DED official, outsourcing these services allows higher salaries to be paid to marketing employees than they could be paid if they were employees of the DED.

Figure 1.2 depicts the Partnership's total expenditures by category for 3 fiscal years ending June 30, 2017. See Appendix D for additional information related to Partnership expenditures.

Figure 1.2: Partnership expenditures, fiscal years 2015 through 2017



Source: Prepared by SAO using the quarterly income and expense reports prepared by the Partnership.

No oversight of procurement provisions

As part of the contract with the DED, the HF agrees to exercise "due diligence in procurement of any goods or services acquired with state funds provided under the agreement." DED personnel cannot monitor the HF's performance because the department does not have access to the detailed expenditure information.

Auditor's access denied

During the audit, we requested detailed expenditure information supporting the amounts reported by the Partnership in its financial reports. Our request was denied. DED officials responded:

DED will not compel our vendor to provide source documentation for each of the expenditures included in the financial documents produced under this audit. As a contract for service, we have never been compelled to ask any other vendor to produce that level of detail. The quarterly reports and annual audits for both Hawthorn and the Missouri Partnership are available for review.

Additional transparency of Partnership expenditures would provide the DED and the public assurance the EDAF provided funding was spent appropriately



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and in accordance with state law and the contract provisions between the DED and the HF.

Conclusion

The DED essentially serves as the Partnership's only client and the expenditures and salaries paid by the Partnership are paid for with almost entirely state funds. The nature of the services being provided by the Partnership require additional transparency and oversight. By outsourcing important agency functions, such as those provided by the Partnership, transparency of public funds is easily reduced. Improved transparency and access to contractor expenditure records would help reduce the risk that state funds provided under the agreement are disbursed without due diligence or not in accordance with state statute. Additionally, without obtaining and properly reviewing adequate supporting documentation, the DED cannot determine the validity and propriety of the payments.

1.2 Hawthorn Foundation contract continued with no appropriation authority, reducing transparency

The DED circumvented the General Assembly by ensuring the HF received funding despite having no appropriation authority to support the payments. In addition, these payments occurred in a manner that reduced transparency to the public.

The agreement between the DED and the HF for the year ending June 30, 2018, required the Missouri Development Finance Board (MDFB), instead of the DED, to make the majority of the payments to the HF. The MDFB is not required to have appropriation authority to make disbursements.

Initial appropriations did not include funding for the HF

The appropriations bill passed by the General Assembly and approved by the Governor on June 30, 2017, did not contain funding for the HF contract. As a result, the DED could not make payments to the HF out of the agency's appropriation. To ensure the HF continued to receive state funding, the contract between the DED and the HF for fiscal year 2018 required the MDFB to pay the HF up to \$1.8 million of the \$2 million contract. Payments were made quarterly by the MDFB to the HF totaling \$1.8 million for the year ending June 30, 2018. On April 5, 2018, the Governor signed a supplemental appropriation bill with funding to allow DED to pay for the HF contract. The DED used this appropriation authority to reimburse the MDFB the \$1.8 million paid during the fiscal year to the HF.

The MDFB is an entity within the DED⁶ that primarily exists to structure and participate in the financing of Missouri business and public infrastructure, and is a component unit of the State of Missouri for financial reporting.⁷ It is unclear how the HF contract relates to the MDFB's mission.

⁶ Section 100.265, RSMo.

⁷ MDFB's Comprehensive Annual Financial Report for the 2 years ending June 30, 2017.



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Payments are less transparent to the public

Payments made by the MDFB are not recorded in SAM II and are not listed on the Missouri Accountability Portal.⁸ As a result, the \$1.8 million paid to the HF during the year ended June 30, 2018, is not disclosed to the public as it would have been if the DED paid the HF directly.⁹ In prior years, the HF is listed in the state's accounting system as a vendor and is shown receiving the full amount of the contract from the DED.

Ensuring payments made to vendors for state contracts is presented in a transparent manner is in the best interest of the EDAF and the public.

Recommendations

We recommend the DED:

- 1.1 Increase oversight and transparency of EDAF expenditures and obtain, and make available to the public, detailed expenditure supporting documentation from the Partnership.
- 1.2 Ensure payments made to vendors for state contracts are transparent.

Auditee's Response

The DED provided written responses. See Appendix E.

2. Evaluation of Contract Provisions

DED officials do not perform an adequate evaluation of the HF contract to ensure the amount paid is an efficient and effective use of EDAF monies, or that the HF complies with all contract provisions. They also could not provide a documented basis for the increase in cost per new announced job paid to HF and do not verify the number of new announced jobs.

2.1 No cost-benefit analysis

The DED has not performed a cost-benefit analysis to justify the outsourcing of business recruitment and marketing services or to determine if outsourcing such services to a third party is an effective and efficient use of taxpayer monies.

The DED entered into a contractual agreement with the HF to provide business recruitment, marketing services, and financial support. The DED currently has a business expansion and retention team comprised of state employees, and DED officials said business recruitment and marketing activities were performed internally prior to outsourcing those activities to the HF. DED officials indicated the HF has produced better results than what the department previously achieved. However, DED officials have not established performance goals for the HF or performed a cost-benefit analysis to support this determination.

⁸ The Missouri Accountability Portal provides information on state agency purchases and program disbursements and is accessible by the public at <https://mapyourtaxes.mo.gov/>.

⁹ MDFB expenditures are outside the scope of this audit, therefore we did not make inquiries to the MDFB regarding the source of the payments made to HF.



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Office of Management and Budget Circular A-76 states whenever commercial sector performance of a federal government operated commercial activity is permissible, a comparison of the cost of contracting and the cost of in-house performance shall be performed. Applying that standard to the DED's contract with the HF would require the agency to regularly perform a cost-benefit analysis of the costs of outsourcing marketing services. Completing such an analysis would help ensure payments to the HF for the services provided are in the best interest of taxpayers.

2.2 Contract non-compliance

The DED did not require the HF to fulfill the matching funding contract requirement. The contract requires the HF to spend at least \$300,000 over the course of each state fiscal year for the purposes outlined in the agreement. Our review of the quarterly income and expense reports identified that the HF only provided \$200,000 of the required \$300,000 match during the fiscal year ending June 30, 2017.

DED officials indicated that the HF could not meet the matching requirement that fiscal year, because the foundation did not generate enough revenues from sources other than the EDAF. The contract with the HF does not specify any recourse to be taken by the agency in the event the matching requirement is not met. No action has been taken by the DED to address this noncompliance. Based on our review of the fiscal year 2018 contract with the HF, no additional matching funding was required that year to make up the difference. In addition, the private sector matching requirement of the HF contract is listed by the DED as part of the rationale for awarding the contract as a single feasible source provider and not through a competitive selection process. The HF's failure to provide the required match diminishes the appropriateness of awarding the contract through a sole source designation.

2.3 No basis for contractual increases in performance incentive paid

The DED had no basis for the significant increases to the per-job performance incentive paid to the HF in fiscal year 2017. The contracted incentive increased from an average of \$340 per job in the fiscal year 2016 contract, to an average of \$475 per job in the fiscal year 2017 contract, a 40 percent increase. DED officials stated this increase was not based on a formal trend analysis, rather the increase was based on the, "expertise of DED staff for incentivizing growth throughout the state."

The DED paid the HF performance incentives totaling \$804,785, \$1,066,240, and \$966,240 during fiscal years 2015, 2016, and 2017; respectively. The contractual agreement between the DED and the HF states performance incentives will be paid based on the number of new jobs announced, by area, during the prior fiscal year. The contract sets the amount of the performance incentive and states the incentive will not change regardless of additional information that may subsequently become available.



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 Management Advisory Report - State Auditor's Findings

Table 2.3 shows that the per-job price used to determine the performance incentive for subsequent years increased for all areas during the 3 fiscal years ending June 30, 2017.

Table 2.3: Performance incentive paid per new announced job, fiscal years 2015 to 2017

	Year Ended June 30,		
	2015	2016	2017
Urban Area	\$255	\$270	\$425
Rural Area	\$355	\$375	\$500
Distressed Area	\$355	\$375	\$500

The significant increase in the per-job performance incentive rate in fiscal year 2017 corresponded with a significant drop in the number of jobs announced from fiscal year 2015 to fiscal year 2016 (see Table 2.4). Since the fiscal year 2017 incentive is based on jobs announced in fiscal year 2016, the significant increase in the fiscal year 2017 per-job rate was necessary to ensure the HF received a consistent amount of EDAF incentive funding even though fewer new jobs were announced.

When including performance incentives in a contract for services, incentives must correlate with results, and agencies should avoid rewarding contractors for simply meeting minimum standards of performance. The purpose of performance incentives in a service contract is to promote the effective implementation of the contract and to compensate the contractor accordingly when performance objectives are met. The DED bases the HF's incentive payment on past results and adjusts the rate in the current year contract to ensure the payments to the HF remain consistent. This contract methodology does not align performance with compensation, and therefore does not provide any additional incentive for the contractor to improve performance.

Establishing a per-job incentive rate amount that fairly compensates the contractor for performance, and consistently applying that rate over time, will help ensure performance is properly incentivized.

2.4 New jobs announced are not verified

The DED does not have adequate controls in place to detect when new announced jobs reported by the HF and the Partnership are incomplete or inaccurate. Since the number of new announced jobs is used to determine the amount of performance incentive compensation paid to the HF, there is less assurance the amount paid in performance incentives is accurate.

The HF uses three methods to report the number of new announced jobs to the DED. The HF files quarterly reports, annual reports, and tracks the number of new announced jobs on a software program (Blue Ocean) shared with the DED. However, DED personnel do not perform procedures to verify the information reported by the HF is accurate. We obtained and compared the number of new jobs announced from DED officials and from these three sources and identified large discrepancies between the various methods.



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Table 2.4 lists the number of new announced jobs reported by each source by year for the 3 years ended June 30, 2017.

Table 2.4: New announced jobs, fiscal years 2015 to 2017

Fiscal Year	Status Reports	Annual Report	Blue Ocean
2015	3,145	3,108	1,734
2016	1,489	1,431	1,082
2017	3,851	1,193	2,990

Tracking and verifying the accuracy of jobs announced will provide the DED with accurate information to establish future incentive payments and to effectively track the performance of the contractor.

Conclusion

The outsourcing of important agency functions, such as the business recruitment and marketing services provided by the HF, requires significant evaluation to ensure the expected services are being provided in an effective and efficient manner. By not properly ensuring the cost effectiveness of the contract, not properly incentivizing performance, not adequately verifying performance data, and not ensuring compliance with contract matching provisions the DED has less assurance the contract with the HF is an efficient and effective use of EDAF monies.

Recommendations

We recommend the DED:

- 2.1 Perform and maintain a cost-benefit analysis to determine the most cost effective method of obtaining marketing services.
- 2.2 Ensure all contractual terms are met through performing oversight and monitoring activities.
- 2.3 Prepare a cost study to determine the most reasonable performance incentive amount to be paid to the Hawthorn Foundation.
- 2.4 Formally verify the number of new announced jobs reported by the Hawthorn Foundation.

Auditee's Response

The DED provided written responses. See Appendix E.

3. Expenditures

The DED does not have controls in place to ensure payments made using EDAF funds are in compliance with state law. As a result, the DED approved payments for flights of Governor's Office personnel using the EDAF that were partially not related to economic development.

During the fiscal year ending June 30, 2016, the DED paid for all or part of 27 flight manifests at a cost of \$82,871, including costs not fully in compliance with state law. While flight records supporting each of the manifests paid by the DED indicated the flight purpose included economic



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development announcements or meetings, the flights also included additional purposes including announcements and meetings of other state agencies, disaster assessments and meetings, and attending national governors' meetings. It is unclear why the EDAF was used to pay for travel not related to economic development.

State law requires at least half of all fees and monies placed in the EDAF be appropriated for marketing, training, new initiatives, and other related areas for developing economic trends. The remaining monies in the fund are allowed to be used for the cost of staffing and operating expenses for the program activities and accountability functions of the DED.¹⁰

Recommendation

The DED should ensure expenditures approved by DED from the EDAF are for economic development purposes in compliance with state law.

Auditee's Response

The DED provided written responses. See Appendix E.

¹⁰ Section 620.1900, RSMo.



Appendix A
 Economic Development Advancement Fund
 Comparative Statements of Receipts, Disbursements, and Changes in Cash
 and Investments, 3 Years Ended June 30, 2017

	Year Ended June 30,		
	2017	2016	2015
Receipts	\$ 4,778,717	3,599,907	2,799,741
Disbursements	2,366,711	2,388,521	1,920,339
Receipts Over (Under) Disbursements	2,412,006	1,211,386	879,402
Transfers In	0	0	0
Transfers Out ¹	(73,145)	(68,479)	(73,222)
Receipts Over (Under) Disbursements and Transfers	2,338,861	1,142,907	806,180
Cash and Investments, July 1	2,347,103	1,204,196	398,016
Cash and Investments, June 30	\$ 4,685,964	2,347,103	1,204,196

¹ Transfers Out include payments for fringe benefits and the state's cost allocation plan.



Appendix B
 Economic Development Advancement Fund
 Comparative Statement of Expenditures (From Appropriations),
 5 Years Ended June 30, 2017

	Year Ended June 30,				
	2017	2016	2015	2014	2013
Salaries and wages ¹	\$ 97,366	87,958	85,718	801,286	1,762,364
Travel, in-state ²	152,427	185,516	2,148	5,114	42,751
Travel, out-of-state	897	0	93	1,288	7,667
Supplies	1,645	1,593	1,698	2,882	59,682
Professional development	2,502	1,469	909	1,239	54,917
Communication services and supplies	935	811	490	1,042	23,015
Professional services ³	2,068,216	2,066,929	1,805,203	1,848,497	1,997,245
Equipment:					
Computer	10	50	29	56	68,091
Office	0	518	94	0	4,830
Other	0	0	25	0	0
Building lease payments	0	0	0	0	300
Equipment rental and leases	0	0	0	0	300
Miscellaneous expenses	99	1,063	9,441	690	2,523
Program distributions	42,614	42,614	14,491	51,604	0
Total Expenditures	\$ <u>2,366,711</u>	<u>2,388,521</u>	<u>1,920,339</u>	<u>2,713,698</u>	<u>4,023,685</u>

¹ Expenditures were higher in 2013 and 2014 because the Economic Development Advancement Fund (EDAF) was used to pay some Department of Economic Development (DED) employee salaries. Starting in 2015, those costs were paid from the General Revenue Fund and only some Department of Natural Resources employee salaries were paid from the EDAF for purposes of the Historic Preservation Program.

² Travel in-state in 2017 and 2016 were higher due to expenditures associated with flights costs of the Governor. (see MAR 3).

³ Professional services are primarily payments to the Hawthorn Foundation.



Appendix C
 Economic Development Advancement Fund
 Comparative Statement of Appropriations and Expenditures,
 3 Years Ended June 30, 2017

	Year Ended June 30,					
	2017		2016		2015	
	Appropriation Authority	Expenditures	Appropriation Authority	Expenditures	Appropriation Authority	Expenditures
Personal Service	\$ 102,955	97,366	100,936	87,958	100,395	85,718
Expense and Equipment	10,853	10,144	10,853	7,714	10,853	5,984
Refunds ¹	1	0	866	865	9,361	9,361
Reimbursement to the Division of Employment Security benefit account	2,879	0	1,229	0	2,089	2,088
Business recruitment and marketing	2,250,000	2,216,587	2,250,000	2,249,370	2,250,000	1,804,785
Missouri Main Street Program	42,614	42,614	42,614	42,614	42,614	12,403
Total	\$ 2,409,302	2,366,711	2,406,498	2,388,521	2,415,312	1,920,339

¹ Starting in the year ending June 30, 2016, the appropriation for EDAF refunds is set at 1E in House Bill 7 for refunding any overpayment or erroneous payment of any amount that is credited to the EDAF.



Appendix D
Economic Development Advancement Fund
Missouri Partnership Expenditures,
3 Years Ended June 30, 2017

	Year Ended June 30,		
	2017	2016	2015
Payroll	\$ 1,406,028	1,256,116	1,100,383
Performance incentive payments	249,071	141,536	156,178
Professional services	399,248	321,367	261,064
Rent and office expenses	173,058	162,663	158,860
Marketing	361,523	139,720	106,639
Travel	157,882	126,462	132,041
Hospitality, meals and entertainment	37,355	78,522	72,315
Other and miscellaneous	79,389	58,868	46,657
	\$ <u>2,863,554</u>	<u>2,285,254</u>	<u>2,034,137</u>

Source: Annual reports submitted by the Missouri Partnership to the DED.



Appendix E
Economic Development Advancement Fund
Department of Economic Development Response

Michael L. Parson
Governor



Robert B. Dixon
Director

August 23, 2018

The Honorable Nicole R. Galloway, CPA
Missouri State Auditor
P.O. Box 809
Jefferson City, MO 65102

Dear Auditor Galloway:

We are providing this letter in response to the recommendations in the audit of the Economic Development Advancement Fund ("EDAF").

- 1.1 Increase oversight and transparency of EDAF expenditures and obtain, and make available to the public, detailed expenditure supporting documentation from the Partnership.

1.1 The Missouri Partnership and the Hawthorn Foundation are both audited annually by an independent third party accountancy firm. The independent auditor's annual report is publically available online for both entities. The Department of Economic Development ("DED") is working to amend the language in the contract with the Hawthorn Foundation to compel their independent auditor to include an audit of the detailed expenditures by fund source and to compel, by contract, the auditor of their contractor, the Missouri Partnership, to do the same.

- 1.2 Ensure payments made to vendors for state contracts are transparent.

1.2 DED's expenditure of EDAF funds for the FY2018 Hawthorn/Partnership contract was pursuant to duly-appropriated authority from the General Assembly and complied with all laws. DED followed the leadership of the Senate Appropriations Chairman and Committee members as they were quoted in Missouri publications (See St. Louis Public Radio, May 9, 2017 (updated May 15, 2017)) regarding their support of the funding for the Missouri Partnership by placing the funding in the Supplemental budget, which was approved by both the House Budget Committee and Senate Appropriations. DED worked with the Missouri Development Finance Board ("MDFB") to support the Missouri Partnership during the interim. The Amended and Restated Master Services Agreement between DED and MDFB is consistent with the statutory authority of the Board and was supported by a majority vote recorded in their minutes of the public June 20, 2017 meeting. The quarterly payments made by the MDFB for the services were included in

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Appendix E
Economic Development Advancement Fund
Department of Economic Development Response

The Honorable Nicole R. Galloway
August 23, 2018

their financial statements and reviewed by the Board at their monthly public meetings. The Supplemental budget appropriation was paid by DED to MDFB and was recorded in the state's SAM II accounting system. DED will continue to ensure payments to vendors for state contracts are transparent.

- 2.1 Perform and maintain a cost analysis to determine the most cost effective method of obtaining marketing services.

2.1 DED does not currently employ any business recruitment personnel within the Department; instead, all personnel in the Business Development Unit are tasked with growing and retaining existing businesses within the state. There is no duplication of duties or effort between Hawthorn/Missouri Partnership and DED personnel.

DED has revised the performance budget measures in all line items in House Bill 2007 including the line item for services related to business recruitment and marketing. The program is measured on the effectiveness: number of projects recruited to the state; average wage; and amount of capital investment and it is measured on efficiency: the business recruitment and marketing investment per new job created.

- 2.2 Ensure all contractual terms are met through performing oversight and monitoring activities.

2.2 DED is committed to ensuring the contractual terms of our vendor agreements are met. The Hawthorn Foundation, the Missouri Partnership, and DED staff are in consistent contact with each other throughout the performance of the contract. A contract compliance checklist is being developed by DED to fully document that all contractual terms are met in a given a fiscal year.

- 2.3 Prepare a cost study to determine the most reasonable performance incentive amount to be paid to the Hawthorn Foundation.

2.3 The performance of the contract will be measured in the future by cost per job as an efficiency measure and the outputs of number of projects, wages, and investment as effectiveness and budgets will be awarded accordingly.

- 2.4 Formally verify the number of new announced jobs reported by the Hawthorn Foundation.

2.4 DED will, in cooperation with the Missouri Partnership and the Hawthorn Foundation, develop a form for completion by the Missouri Partnership with certification by the Hawthorn Foundation which lists the company name, the date of announcement or other verification if the company chooses not to publically announce, the number of jobs, the location of those jobs, and supporting documentation such as newspaper clippings. The form will be submitted with the quarterly reports and will verify the jobs using internal DED records.



Appendix E
Economic Development Advancement Fund
Department of Economic Development Response

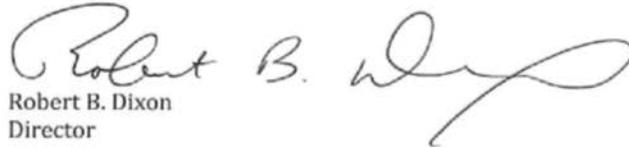
The Honorable Nicole R. Galloway
August 23, 2018

3.0 The DED should ensure expenditures approved by DED from the EDAF are for economic development purposes in compliance with state law.

3.0 DED will ensure expenditures are for economic development purposes and will only pay for a pro-rated portion of any travel expense if such activity occurs in the future.

If you have any questions regarding DED's responses, please contact myself at 751-4770 or Ms. Stacey Hirst at 526-7863.

Sincerely,


Robert B. Dixon
Director



Appendix E
Economic Development Advancement Fund
Department of Economic Development Response

Auditor's Comment

The DED's response to Recommendation 1.1 states the agency is working to amend the language in the contract to compel the Partnership's auditor to audit the detailed expenditures by fund source. However, including such language in the Hawthorn Foundation contract will not provide the public and the General Assembly access to detailed expenditure supporting information.