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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Employment and Economic Development

Internal Control and Compliance Audit

July 1, 2007, through March 31, 2010

September 23, 2010 **Report 10-31**

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September 23, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dan McElroy, Commissioner
Department of Employment and Economic Development

This report presents the results of our selected-scope internal control and compliance audit of state-funded grants expended by the Department of Employment and Economic Development for the period July 1, 2007, through March 31, 2010. We emphasize that this has not been a comprehensive audit of the Department of Employment and Economic Development.

We discussed the results of the audit with the department on September 10, 2010. The audit was conducted by Brad White, CPA, CISA, CFE (Audit Manager) and Joan Haskin, CPA, CISA (Auditor-in-Charge), assisted by auditors Tyler Billig, Tracia Polden, and Blake Schwagel.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Employment and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 23, 2010.

We received the full cooperation of the Department of Employment and Economic Development's staff while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Employment and Economic Development's internal controls were generally adequate to ensure that it safeguarded state grant funds, accurately paid grantees in accordance with the appropriation laws and grant agreements, produced reliable financial data, and complied with finance-related legal requirements. For the items tested, the department generally complied with grant contracts, finance-related legal provisions, and its own internal policies. However, the department had some weaknesses in its internal controls and noncompliance with certain finance-related legal requirements.

Key Findings

- The Department of Employment and Economic Development did not adequately identify, analyze, and document its internal controls related to its grant expenditures. (Finding 1, page 7)

- The Department of Employment and Economic Development did not ensure that a state-funded flood relief grant to the city of Rushford resulted in low interest loans only to businesses directly and adversely affected by the 2007 flood, as required by state law. (Finding 2, page 8)

- The Department of Employment and Economic Development reimbursed some grantees for costs incurred before or after the time period specified in the grant agreement. (Finding 3, page 9)

- The Department of Employment and Economic Development did not adequately monitor some grant financial activities. (Finding 4, page 10)

Audit Objectives and Scope

Objectives
- Internal Controls
- Legal Compliance

Period Audited
July 1, 2007, through March 31, 2010

Programs Audited
- State Grant Expenditures

Department of Employment and Economic Development

Agency Overview

The Department of Employment and Economic Development was created in July 2003 with the merger of the former Department of Trade and Economic Development and the former Department of Economic Security. Governor Tim Pawlenty appointed Dan McElroy as the department's commissioner in January 2007.

The Department of Employment and Economic Development is the state's principal economic development agency, with programs promoting business recruitment, expansion, and retention; workforce development; international trade; and community development. The department's mission is to support the economic success of individuals, businesses, and communities by improving opportunities for growth. The department's three major functions are to (1) support business creation, expansion, relocation, and retention in Minnesota, (2) stabilize and stimulate the economy in times of downturn through unemployment benefit payments, and (3) support the workforce development and training needs of Minnesota's businesses, workers, and communities.

The department manages several workforce development and economic development grants that are funded from state and federal sources. Legislative appropriations authorize department grant programs and individual grants from the state's General Fund, Special Revenue Fund, Workforce Development Fund, and the Capital Projects Fund. Workforce development funds are made available from a surcharge added to the unemployment tax rate paid by companies and used for retraining and other employment-related programs. Capital projects funds are generated from general obligation bond sales and used to finance statewide capital projects, including department grants for major projects such as the Duluth Convention and Entertainment Center and the Minneapolis Shubert Theater.

The department's grant expenditures (excluding federal grants[1]) totaled over $400 million during the audit scope. Table 1 summarizes state grant expenditures of the Department of Employment and Economic Development for the period July 1, 2007, through March 31, 2010.

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[1] The Office of the Legislative Auditor annually examines federal grants considered to be major for the State of Minnesota's statewide single audit. The results of that work were reported in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, for fiscal year 2009, issued March 25, 2010, and in the Office of the Legislative Auditor, Financial Audit Division, Report 10-10, *Department of Employment and Economic Development*, issued March 18, 2010.

Table 1
Grant Expenditures by Fund[1]
Disbursed in Fiscal Years 2008, 2009, and 2010
through March 31, 2010

Funding Source	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010 through March 31, 2010
General Fund[2]	$ 51,161,246	$ 26,218,806	$15,267,651
Workforce Development Fund	41,672,970	51,056,267	36,949,007
Capital Projects Fund[3]	36,538,272	40,071,736	72,822,041
Special Revenue Fund	3,029,703	13,940,609	14,820,645
Total	$132,402,191	$131,287,418	$139,859,344

[1]Department of Employment and Economic Development grants funded from the federal government and some less significant funding sources are not shown.

[2]General Fund grants declined from fiscal years 2008 through 2010 due to diminished appropriations during the state's budget shortfall.

[3]Capital Projects Fund grants increased due to the timing of the underlying construction projects involved.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our selected-scope audit of the Department of Employment and Economic Development included state-funded grant expenditures for the period from July 1, 2007, through March 31, 2010, and focused on the following questions:

- Were the department's internal controls adequate to ensure it safeguarded state grant funds, accurately paid grantees in accordance with authorized grant agreements, produced reliable financial data, and complied with finance-related legal requirements?

- For the items tested, did the department comply with grant agreements and finance-related legal provisions, as well as its own internal policies?

To meet the audit objectives, we gained an understanding of state grant policies and procedures established by the Department of Employment and Economic Development and by the Department of Administration's Office of Grants Management. We reviewed state laws that provided grant funding to the department along with specific requirements, such as a required financial match. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements set forth in the appropriation laws and related grant agreements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the agency's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[2] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The Department of Employment and Economic Development's internal controls were generally adequate to ensure that it safeguarded state grant funds, accurately paid grantees in accordance with the appropriation laws and grant agreements, produced reliable financial data, and complied with finance-related legal requirements. For the items tested, the department generally complied with grant contracts, finance-related legal provisions, and its own internal policies. However, the department had some weaknesses in its internal controls and noncompliance with certain finance-related legal requirements.

The following *Findings and Recommendations* further explain the department's internal control weaknesses and areas of noncompliance.

[2] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

Finding 1

The Department of Employment and Economic Development did not adequately identify, analyze, and document its internal controls related to its grant expenditures.

The department did not effectively assess its risks related to internal controls over grant spending and compliance with grant agreements. The department has an increased likelihood of control deficiencies, because it did not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures. State policy requires each agency head to identify, analyze, and manage business risks that impact the agency's ability to maintain its financial strength and the overall quality of its products and government services.[3]

The department had documented its risks and developed an internal controls structure over financial reporting and federal compliance. However, the department has not extended its risk assessment to other operation and compliance responsibilities, such as state grant expenditures.

A comprehensive control structure has the following key elements:

- Personnel are trained and knowledgeable about finance-related legal provisions and applicable policies and procedures.
- Management identifies risks associated with finance-related legal provisions and develops policies and procedures to effectively address the identified risks.
- Management continuously monitors the effectiveness of the controls, identifies weaknesses and breakdowns in controls, and takes corrective action.
- Management focuses on continual improvement to ensure an acceptable balance between controls and costs.

Findings 2 through 6 identify deficiencies in the department's internal control procedures for its grants and specific noncompliance with finance-related legal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it could have identified these deficiencies, assessed the degree of risk of these deficiencies, designed control procedures to address significant risks, and monitored whether controls were working as designed and effective in reducing

[3] Department of Management and Budget Policy 0102-01.

the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should regularly review, clearly document, and communicate to staff its risks, control activities, and internal control monitoring functions for state grants.*

Finding 2

The Department of Employment and Economic Development did not ensure that a state-funded flood relief grant to the city of Rushford resulted in low interest loans only to businesses directly and adversely affected by the 2007 flood, as required by state law.

In March 2008, the Office of the Legislative Auditor received a complaint concerning how the city of Rushford was administering a state flood relief grant. We conducted a preliminary review and received assurance that the Department of Employment and Economic Development would require the city to follow state law. We addressed the issue again during our current audit of the department.

A state flood relief program was authorized by legislation enacted during a special session of the Legislature in September 2007.[4] The special session was called principally to assist those who suffered damage from an August 2007 flood in southeast Minnesota caused by heavy rains. Among other things, the legislation appropriated $35 million to the Department of Employment and Economic Development "for grants to local units of government for locally administered grants or loan programs for businesses and nonprofit organizations directly and adversely affected by the flood." According to the legislation, "criteria and requirements [for the local programs] must be locally established with the approval of the commissioner." The city of Rushford received a $17.5 million grant from the Department of Employment and Economic Development for the city's flood relief program.

The complaint we received in March 2008 noted that the city of Rushford's flood relief program went beyond what had been authorized in law by offering low interest loans to businesses that were not directly and adversely affected by the flood. In a letter dated April 2, 2008, we alerted the commissioner of the Department of Employment and Economic Development to the issue and requested that the department ensure that the city of Rushford administer its flood relief grant in compliance with state law. In his response dated April 3, 2008, the commissioner assured us that loans not authorized by the 2007 appropriations law would not be allowed by the department.

[4] *Laws of Minnesota* 2007, 1st Special Session, Chapter 2, Article 1, Section 8, Subd.2.

During our current audit, we followed up on the issue and examined the department's grant to the city of Rushford. We found that, contrary to the commissioner's letter, the department did not ensure that the city of Rushford provided loans only to businesses that had been "directly and adversely affected" by the flood. The city provided $1,848,039 to five businesses that suffered no direct or adverse effects from the flood.

Recommendation

- *The department should improve its oversight of grant funds to local units of governments to ensure compliance with state law.*

Finding 3

The Department of Employment and Economic Development reimbursed some grantees for costs incurred before or after the time period specified in the grant agreement.

The department's Business and Community Development Division reimbursed two grantees for costs incurred before and after the dates specified in the grant agreements, as follows:

- The department reimbursed one grantee over $878,000 (out of a $1 million grant) for costs incurred before the effective dates listed in the grant agreement. The agreement stated that the grantee would perform the grant activities during the period from July 1, 2008, through June 30, 2010, and that the grant could only be used for expenses incurred during this period. On August 7, 2008, the department reimbursed the grantee $1 million for costs incurred; however, the grantee incurred over $878,000 of those costs from July 2007 through June 30, 2008, before the start of the grant period.

- The department reimbursed another grantee $189,553 for costs incurred back to July 2009 even though the grant agreement stated that the grantee must not begin work until the agreement is fully executed; the department fully executed the grant agreement with the grantee on December 29, 2009. In addition, under an earlier grant agreement, the department reimbursed the grantee $112,626 for expenditures incurred after the contract end date of June 30, 2009. The grant agreement stated that it was in effect until June 30, 2009, or until all obligations were satisfactorily fulfilled, whichever occurred first.

Recommendation

- *The department should ensure that it reimburses grantees only for costs incurred during the period specified in the grant agreement.*

Finding 4

The Department of Employment and Economic Development did not adequately monitor some grant financial activities.

The department did not always adhere to the state's grant administration policy that requires agencies to monitor grantee compliance with statutory requirements and state grant provisions.[5] In addition, the department did not follow additional monitoring requirements established in its own internal grant policies.[6] Without monitoring, the department is less able to effectively assess the progress of grant projects and promptly respond to potential problems.

The department had weaknesses in the following grant monitoring areas:

Lack of match verification. The department did not obtain details to support and validate the fiscal year 2008 match amount reported by a grantee, Biobusiness Alliance of Minnesota, and had not questioned the grantee's preliminary match information for fiscal year 2010. The 2008 and 2010 grant agreements each required a minimum $500,000 cash match combined with in-kind contributions, such as donations of goods or services, to match, dollar for dollar, the 2008 grant amount of $1.75 million and the 2010 grant amount of $1 million. The grant agreement required the grantee to track and detail by volunteer the fair value of any in-kind contributions.

In its final report for fiscal year 2008, Biobusiness Alliance of Minnesota reported a cash match of $877,950 and an in-kind match of $880,492. However, it did not provide details supporting how the in-kind match was valued, and the department did not request additional information to support the amount. Preliminary match data provided by Biobusiness Alliance of Minnesota for the 2010 match provided some details about volunteer hours and in-kind rates, including a volunteer who provided 704 hours to the grantee, and some hourly rates as high as $440 per hour. The grantee did not provide any evidence, such as timesheets or work plans, to support the volunteer hours or to show how the hourly rates represented fair value for the services provided. The support for the 2008 match may include similar, possibly unreasonable, in-kind match amounts. The grantee's final 2010 match report is not due until February 2011.

[5] Department of Administration, Office of Grants Management, Operating Policy and Procedure 08-10.
[6] Department of Employment and Economic Development Policy 508.

The department also did not confirm that the Minnesota Alliance of Boys and Girls Clubs met the $250,000 match required in law for its fiscal year 2008 grant.[7] In addition, the grantee did not report its match on the monthly financial reports submitted to the department for fiscal years 2009 and 2010. Previous financial reports had a line item to identify the match amount; however, the department revised the report format in 2009 and did not include a line for the grantee to report match amounts. The lack of reporting match amounts weakened department monitoring to ensure the grantee complied with the match requirements. Department staff asserted to us that the Minnesota Alliance of Boys and Girls Clubs had substantial funding from nonstate sources, and there was no question that they could meet the required match.

Lack of financial reconciliation. The department did not perform, at least once during the grant period, a financial reconciliation for 15 of 25 grants tested that exceeded $50,000, as required by state policy.[8] A financial reconciliation involves a comparison of a grantee's request for payment for a given period with supporting documentation for that request, such as invoices and payroll records.

Lack of sufficient review of financial reports. The department did not effectively monitor grants totaling $1.375 million annually to the State Council of the Opportunity Industrialization Centers, a private, nonprofit organization. The department had not sufficiently reviewed documentation submitted by the council to identify that its financial status reports had mathematical errors, and its cash request reports had inaccurate cash-on-hand balances, allowing it to receive cash in excess of expenditures incurred. In addition, the department's grant agreement with the organization only provided general administrative cost and compensation requirements but did not specify types of allowable or prohibited administrative costs. We requested and received more specific records directly from the council and identified some transactions that may not comply with the purpose of the grant. We referred these items to our Investigations Unit for further review. Had the department more closely monitored this grant, it could have promptly identified and challenged these questionable items.

Lack of onsite visits. The department did not conduct or document any onsite monitoring visits of grantees receiving Extended Employment Program grants totaling $31.7 million from July 1, 2007 to March 31, 2010, Minnesota Job Skills Partnership Program grants totaling $22.6 million from July 1, 2007 to March 31, 2010, and for four grantees receiving grants in excess of $250,000. For five other grants, the department stated that it did perform site visits but had no documentation of the site visits to show what was examined. The state's policy requires at least one monitoring visit per grant period on all grants over $50,000 and at least annual monitoring visits on grants over $250,000. The department's

[7] *Laws of Minnesota* 2007, Ch. 135, Art. 1, Subd. 3(w) provided a $1,000,000 grant and required a 25 percent match.
[8] Department of Administration, Office of Grants Management Policy 08-10.

own policy has more stringent requirements for site visits, but department staff did not always follow them.[9] Onsite visits can provide effective oversight and assurance that the grantee complied with the provisions of the grant contract. Various divisions in the department had different expectations of programmatic versus financial areas of focus during site visits, and there were no formal escalation procedures if site visits identified problems, such as missing records or inappropriate transactions.

Lack of required grantee financial audits. The department did not always follow its policy to require certain grantees to have financial audits. The department's policy requires that all grantees receiving over $100,000 must be audited by the Office of the State Auditor or by an independent certified public accountant. However, 11 of 32 grantees we tested did not submit an audit to the department.[10]

Lack of documentation for advance payment. The department paid Biobusiness Alliance of Minnesota $400,000 on November 26, 2008, five weeks before the January 1, 2009, payment date stated in the grant agreement. While the terms of the agreement allowed accelerated payments, it also required documentation and approval for the advance payment. Other than an overdue invoice to the grantee from a vendor for $40,000 of services provided, the department was unable to provide us with any further documentation of the need for the advance payment or formal approval by department management for this $400,000 advance payment.

Recommendations

- *The department should adhere to state and department grant policies and laws by reviewing financial reports, verifying required match amounts, conducting site visits, requiring audits, and conducting financial reconciliations throughout the life of the grant.*

- *The department should improve monitoring by better defining expectations for site visits and establishing formal escalation procedures if monitoring results reveal problems.*

- *The department should maintain documentation authorizing and explaining why it made payments earlier than the payment schedule in the grant agreement.*

[9] Department of Employment and Economic Development Policy 508 requires the preparation and execution of an annual monitoring plan that includes at least one annual on-site visit to all grantees with annual dollar volume over $100,000 and to 25 percent of all grantees with an annual dollar volume between $10,000 and $100,000.
[10] Department of Employment and Economic Development Policy 509.

Finding 5

The Department of Employment and Economic Development did not have clear authority to withhold nearly $300,000 from certain appropriations to pay for grant monitoring costs.

The department withheld a portion of certain grant appropriations from the Workforce Development Fund to three youth organizations to provide funds to the department to administer and monitor the grants. The department used these funds to pay for payroll and operating costs for the department's staff that conducted the youth program monitoring.

The department told us they negotiated with each grantee to determine the amount of grant funds retained by the department for administrative and monitoring purposes. Some grantees did not agree to allow the department to retain some of the grant, while others did. The department did not have any written agreements with the grantees to document the terms of the arrangements. Funds withheld, recapped in Table 2, ranged from 2 percent to 5.88 percent of the grant amounts for each fiscal year.

Table 2
Recap of Grant Funds Withheld by the Department for Grant Administration and Monitoring

Grantee	Fiscal Year	Total Amount Appropriated	Amounts Withheld
Minnesota Alliance of Boys and Girls Clubs	2008	$1,000,000	$20,000
	2009	$1,000,000	$20,000
	2010	$ 750,000	$20,000
City of Saint Paul, for Summer Youth Employment	2008	$ 600,000	$30,000
	2009	$ 600,000	$30,000
	2010	$ 558,000	$27,900
City of Minneapolis, for Summer Youth Employment	2008	$1,000,000	$50,000
	2009	$1,000,000	$50,000
	2010	$ 900,000	$50,000

Source: Auditor created from 2007 and 2009 Session Laws.

The appropriation law that allocated money to these entities did not allow or prohibit the department from retaining a portion of the appropriation for administrative and monitoring purposes. Use of the grant for administrative costs reduces the amount directly available to the entities for the programs the Legislature specifically funded. Without explicit language authorizing the administrative use of this money, the department's use of funding for administrative costs may be inappropriate.

Recommendation

- *The department should seek legal authorization to use a portion of legislatively-appropriated youth program funding for department monitoring purposes.*

Finding 6

The Department of Employment and Economic Development did not accurately record the liability date for some grant transactions in the state's accounting system.

The department did not always record the correct liability date for some grant expenditures. The department often used the date they paid a transaction as the liability date rather than the date the state was obligated to pay the grantee, such as when the grantee incurred the costs or when the department approved the payment. For example, expenditure transactions for the Extended Employment Program, totaling $31,689,875 from July 1, 2007, through March 31, 2010, were all recorded with obligation dates that were the same as the date entered into the state's accounting system. State policy requires agencies to properly record the obligation date so that the state's accounting system can accurately accrue year-end liabilities for the state's financial statements.[11] The recording for grant programs is important since grants can have substantial activity overlapping fiscal year-end, and miscoding could cause a portion of the expenditures to be reflected in the wrong fiscal year.

In addition, the department did not correctly record obligation dates for two payments where grant invoices crossed fiscal years. The department should have split the payments and recorded them in two fiscal years. As a result, the department understated expenditures for fiscal year 2009 by $378,569, because it recorded the entire expense in fiscal year 2010. Similarly, it understated fiscal year 2008 grant expenditures by $878,365 and recorded those as fiscal year 2009 obligations.

Recommendation

- *The department should ensure that it correctly codes obligation dates for grant transactions in the state's accounting system.*

[11] Department of Management and Budget Policy 0901-01.

Department of Employment and Economic Development

September 21, 2010

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations as a result of the audit of state-funded grants administered by the Department of Employment and Economic Development (DEED) for the period from July 1, 2007 through March 31, 2010.

Audit Finding 1: The department did not adequately identify, analyze, and document its internal controls related to its grant expenditures.

Recommendation:

- *The department should regularly review, clearly document, and communicate to staff its risks, control activities, and internal control monitoring functions for state grants.*

Response: The department agrees with the finding and the recommendation. As noted in the audit report, the department has completed a risk assessment and documented the related controls for financial reporting and federal compliance. The department is in the process of completing a risk assessment and documenting related controls and monitoring processes for other major operating cycles, including grants. Cindy Farrell, Chief Financial Officer, will oversee completion of these activities by December 31, 2010.

Audit Finding 2: The department did not ensure that a state-funded flood relief grant to the city of Rushford resulted in low interest loans only to businesses directly and adversely affected by the 2007 flood.

Recommendation:

- *The department should improve its oversight of grant funds to local units of government to ensure compliance with state law.*

Response: The department partially agrees with the finding and recommendation. Although DEED recognized and initially implemented important oversight provisions for the Minnesota Investment Fund awards to the city of Rushford, there were legislative concerns voiced during a special hearing in October of 2007 that the department's process was slow and too "top down." DEED responded to these concerns by modifying the process which reduced the time needed to deliver funds while maintaining the approval process for local spending plans. The local governments became responsible for administering the funding and making all loan decisions once the department approved the spending plan. DEED believes this was a unique situation and no additional action will be taken on this finding.

Audit Finding 3: The department reimbursed some grantees for costs incurred before or after the start of the grant period.

Recommendation:

- *The department should ensure that it reimburses grantees only for costs incurred during the period specified in the grant agreement.*

Response: The department agrees with the finding and recommendation. The department is working on standardizing its grant agreement and amendment documents. Guidance will be provided to grant managers that will emphasize ensuring that the language reflected in the grant agreements more accurately reflects the expected period of performance and cost reimbursement. Cindy Farrell, Chief Financial Officer, will oversee completion of these activities by December 31, 2010.

Audit Finding 4: The department did not adequately monitor some grant financial activities.

Recommendations:

- *The department should adhere to state and department grant policies and laws by reviewing financial reports, verifying required match amounts, conducting site visits, requiring audits, and conducting financial reconciliations throughout the life of the grant.*
- *The department should improve monitoring by better defining expectations for site visits and establishing formal escalation procedures if monitoring results reveal problems.*
- *The department should maintain documentation authorizing and explaining why it made payments earlier than the payment schedule in the grant agreement.*

Response: The department agrees with the finding and recommendation. DEED recognizes that it must revise its internal policies and practices to conform to state grant policies. Within the past few months, a group of grant administrators was formed to begin to address various issues surrounding grants management. Objectives of this group will include the following:

1. Update DEED's grant policies to reflect Department of Administration's policies regarding grantee monitoring and financial documentation requirements.
2. Establish best practices and procedures for DEED grant administrators to follow regarding audits, site monitoring, financial reconciliation, match verification and reviewing of financial reports.
3. Identify programs within the agency that are experiencing difficulty in meeting grantee monitoring and financial reconciliation requirements and propose solutions to address the deficiencies.

Cindy Farrell, Chief Financial Officer, will oversee the completion of these activities by June 30, 2011.

Audit Finding 5: The department did not have clear authority to withhold nearly $300,000 from certain appropriations to pay for grant monitoring costs.

Recommendation:

- *The department should seek legal authorization to use a portion of legislatively appropriated youth program funding for department monitoring purposes.*

Response: The department agrees with the finding and the recommendation. The department was directed by the 2010 Legislature to develop a consistent and equitable method of assessing recipients for the costs of its monitoring activities. DEED will be submitting its recommendation to the 2011 Legislature. Bonnie Elsey, Workforce Development Division Director, will oversee implementation of the recommendation by June 30, 2011.

Audit Finding 6: The department did not accurately record the liability date for some grant transactions in the state's accounting system.

Recommendation: The department should ensure that it correctly codes obligation dates for grant transactions in the state's accounting system.

Response: The department agrees with the finding and recommendation. The majority of the transactions coded incorrectly occurred during the fiscal year and therefore would not have impacted the financial statements. However, the department believes that consistency in entry of liability dates throughout the year will reduce the chance of errors in the future. In May and June of 2010, DEED reinforced with its accounts payable staff the importance of using the correct liability date when entering transactions in MAPS. The department considers this issue resolved and no additional action will be taken on this finding.

If you have any questions or need additional information please contact Cindy Farrell at 651-259-7085 or Cindy.Farrell@state.mn.us.

Sincerely,

Dan McElroy

Dan McElroy
Commissioner