



Thomas A. Schweich
Missouri State Auditor

FOLLOW-UP REPORT ON
AUDIT FINDINGS

ECONOMIC
DEVELOPMENT

Division of Business and
Community Services

April 2013

Report No. 2013-031



<http://auditor.mo.gov>

Economic Development
Division of Business and Community Services
Follow-Up Report on Audit Findings - Table of Contents

State Auditor's Letter

2

Status of Findings*

1.1	Due Diligence Procedures - Mamtek USA.....	3
1.3	Due Diligence Procedures- Other Projects.....	3

* Includes selected findings



THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Chris Pieper, Acting Director
Department of Economic Development
and
Sallie Hemenway, Director
Division of Business and Community Services
Jefferson City, Missouri

We have conducted follow-up work on certain audit report findings contained in Report No. 2012-117, *Department of Economic Development, Division of Business and Community Services*, issued in September 2012, pursuant to the Auditor's Follow-Up Team to Effect Recommendations (AFTER) program. The objectives of the AFTER program are to:

1. Identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the division about the follow-up review on those findings.
2. Identify and provide status information for each recommendation reviewed. The status of each recommendation reviewed will be one of the following:
 - Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

Our methodology included working with the division, prior to completion of the audit report, to develop a timeline for the implementation of corrective action related to the audit recommendations. As part of the AFTER work conducted, we requested the department provide a written status as to the selected recommendation. We received and reviewed the department's written responses related to that recommendation. This report is a summary of the results of this follow-up work, which was substantially completed during February 2013.

A handwritten signature in black ink that reads "Thomas A. Schweich".

Thomas A. Schweich
State Auditor

Economic Development

Division of Business and Community Services

Follow-Up Report on Prior Audit Findings - Status of Findings

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|-----------------------------|--|
| 1. Due Diligence Procedures | The Department of Economic Development (DED) Division of Business and Community Services (BCS), as well as other parties involved in the Mamtek USA project, failed to perform adequate due diligence on the start-up company, its officials, and information provided by the company. Also, BCS due diligence procedures performed for other projects were not always adequate, properly documented, or performed in a timely manner. |
| 1.1 Mamtek USA | The BCS, and the city of Moberly along with other entities involved in issuing industrial development bonds, did not ensure due diligence procedures were adequately designed, performed, and documented to protect the interests of all parties. |
| 1.3 Other projects | The BCS due diligence procedures performed for other projects were not always adequate, properly documented, or performed in a timely manner. |

Recommendation	The BCS ensure the diligence procedures are properly designed, performed in a timely manner, and adequately documented. In addition, the BCS should continue to evaluate their due diligence procedures, adopting new procedures that may provide additional assurance regarding the feasibility of startup company proposals.
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Status	<p>Implemented</p> <p>The BCS indicated it has committed to seeing that this recommendation has been and will continue to be implemented in that the BCS has ensured and continues to ensure that its due diligence procedures are properly designed, performed in a timely manner, adequately documented, and appropriate. In addition, the BCS has evaluated and will continue to evaluate its due diligence procedures to provide additional assurance regarding the feasibility of startup company proposals.</p> <p>As noted in the original audit, the BCS adopted uniform written due diligence procedures for all programs in February 2011. The BCS has since revised those written procedures to strengthen overall due diligence. As recommended by the audit, the BCS indicated it has considered the additional procedures recommended in the audit, especially for startup company projects which inherently involve more risk, and whether such companies are applying for loans or for any other discretionary program.</p> <p>Among other things, the BCS indicated it requires third-party verification of financial information and performs background checks for start-up companies. The BCS indicated it assesses the financial commitment of owners and the validity and reasonableness of revenue and cost projections for start-up companies. The BCS indicated it has added to its Dun & Bradstreet subscription by purchasing access to international business financial and performance data, and the BCS indicated it utilizes its foreign offices and staff to evaluate international operations. Program application</p>
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Economic Development
Division of Business and Community Services
Follow-up Report on Prior Audit Findings - Status of Findings

certifications authorize the BCS access to any source of information for the purposes of verifying company information.

The BCS indicated it will continue these and other efforts as part of its ongoing efforts to ensure that its due diligence procedures are properly designed, performed in a timely manner, adequately documented, and appropriate.