

Management Letter

**Department of Trade and
Economic Development
Fiscal Year Ended June 30, 2002**



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Trade and Economic Development

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

| | |
|------------------------|----------------------------|
| Claudia Gudvangen, CPA | Deputy Legislative Auditor |
| Brad White, CPA, CISA | Audit Manager |
| Ken Vandermeer, CPA | Auditor-in-Charge |
| Scott Tjomsland, CPA | Team Leader |
| Dave Massaglia | Auditor |
| Irene Hass | Auditor |

Exit Conference

We discussed the finding and recommendation with the following representatives of the Department of Trade and Economic Development at an exit conference on February 20, 2003:

| | |
|----------------|--|
| Elaine Bliss | Deputy Commissioner |
| Judy Kislenger | Accounting Manager |
| Paul Moe | Director, MN Dislocated Worker Program |
| Gail Sather | Rapid Response Team Coordinator |
| Joe Jacobson | Program Monitor |

Report Summary

Key Finding and Recommendation

- The department did not review or monitor subrecipient audits of the Workforce Investment Act (WIA)-Dislocated Worker program and ensure that prompt corrective action was taken on any audit issues raised. Without a review, the department has not fulfilled its oversight responsibility for this federal program (Finding 1, page 3).

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of work in individual agencies is limited. During the fiscal year 2002 audit, our work at the Department of Trade and Economic Development focused on financial activities of the Agriculture and Economic Development Board and two federal programs administered by the department. The department's response to our recommendations is included in the report.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Matt Kramer, Commissioner
Department of Trade and Economic Development

We have performed certain audit procedures at the Department of Trade and Economic Development as part of our audit of the financial statements of the State of Minnesota for the year ended June 30, 2002. We also have audited certain federal financial assistance programs administered by the Department of Trade and Economic Development as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. We emphasize that this has not been a comprehensive audit of the Department of Trade and Economic Development.

Table 1 identifies the financial activities within the Department of Trade and Economic Development that were material to the state's financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2002, were free of material misstatement.

Table 1
Programs Material to the State's Financial Statements
Fiscal Year 2002
(in thousands)

| <u>Balance Sheet Accounts</u> | <u>Amount</u> |
|---|---------------|
| Agricultural and Economic Development Board | |
| - Cash and Investments | \$34,498 |
| - Business Loans Receivable | \$24,827 |
| - Bonds Payable | \$35,930 |

Source: *State of Minnesota Comprehensive Annual Financial Report* for fiscal year 2002.

The Department of Trade and Economic Development also manages and reports the proprietary fund financial activities of the Public Facilities Authority. These financial activities are audited by a certified public accounting firm and reported as a component unit in the State of Minnesota's financial statements.

Department of Trade and Economic Development

Table 2 identifies the State of Minnesota's major federal programs administered by the Department of Trade and Economic Development. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of requirements that are applicable to each of its major federal programs.

Table 2
Major Federal Programs Administered by the
Department of Trade and Economic Development
Fiscal Year 2002
(in thousands)

| <u>CFDA #</u> | <u>Program Name</u> | <u>Federal</u> |
|---------------|--|----------------|
| 14.228 | Community Development Block Grant | \$33,280 |
| 17.260 | Workforce Investment Act-Dislocated Worker | \$10,143 |

Source: *State of Minnesota Financial and Compliance Report on Federally Assisted Programs* for fiscal year 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our December 6, 2002, report included an unqualified opinion on the State of Minnesota's general purpose financial statements for fiscal year 2002. In accordance with *Government Auditing Standards*, we also issued our report, dated December 6, 2002, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified the following weakness in internal control over federal compliance at the Department of Trade and Economic Development.

1. The department did not monitor WIA-Dislocated Worker subrecipient audits and ensure its subrecipients took prompt corrective action on any audit issues raised.

The Department of Trade and Economic Development did not review subrecipient audit reports of the Workforce Investment Act (WIA)-Dislocated Worker (CFDA #17.260) program and follow up to resolve audit findings related to the federal program. OMB Circular A-133 requires states to ensure that subrecipients take appropriate and timely corrective action in response to audit findings. Without a review, the department has not fulfilled its oversight responsibility for this federal program.

Department of Trade and Economic Development

The WIA-Dislocated Worker program transferred from the Department of Economic Security to the Department of Trade and Economic Development in July 2000. We found that subrecipient audit reports were filed with the Department of Economic Security since many of the same entities that received WIA-Dislocated Worker funding also received other federal pass-through funding. However, the Department of Economic Security told us they do not focus on WIA-Dislocated Worker results since that program transferred to the Department of Trade and Economic Development.

Of greater concern could be any subrecipients not currently receiving any other federal funding through the Department of Economic Security and, as a result, no one obtained or reviewed the subrecipient audit reports. The Department of Trade and Economic Development did not request copies of individual audit reports of subrecipients with audit findings related to its federal programs. The department also did not contact subrecipients to follow-up and resolve audit findings. Instead, the department relied on follow-up procedures performed by independent auditors of subrecipient organizations to ensure findings were corrected. This practice may result in untimely resolution of audit findings.

Recommendation

- *The Department of Trade and Economic Development should review and follow-up on any audit findings to ensure subrecipients appropriately resolve report issues in a timely manner.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Trade and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 6, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 6, 2003

Report Signed On: February 28, 2003

Department of Trade and Economic Development

Status of Prior Audit Issues As of January 6, 2003

Fiscal Year 2001 Statewide/Single Audit

We examined the department's activities and programs material to the *State of Minnesota's Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2001. The purpose of the audit was to render an opinion on the State of Minnesota's financial statements for fiscal year 2001. We issued an unqualified opinion on the *State of Minnesota's Comprehensive Annual Financial Report* for the year ended June 30, 2001. We identified one financial statement finding pertaining to the accounting of the Rural Challenge Grant loan program. As a result, the Department of Trade and Economic Development changed its accounting for the loan program, and we consider this finding resolved.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

February 27, 2003

Mr. James Nobles
Legislative Auditor
140 Centennial Building; 658 Cedar Street
St. Paul, MN. 55155

Re: Response to OLA's Draft Audit of the Department of Trade and Economic
Development

Dear Mr. Nobles:

Thank you for the opportunity to discuss your draft audit report for the year ended June 30, 2002. I appreciate the opportunity to respond for inclusion in the final management letter. The following response will address the finding and recommendation of the report.

- 1. The department did not monitor WIA-Dislocated Worker subrecipient audits and ensure its subrecipients took prompt corrective action on any audit issue raised.**

Recommendation: The Department of Trade and Economic Development should review and follow-up on any audit findings to ensure subrecipients appropriately resolve report issues in a timely manner.

Agency Response: On October 24, 2002, Commissioners from the Department of Trade and Economic Development and the Department of Economic Security signed a Memorandum of Understanding outlining various duties that the Department of Economic Security will provide in support of the Dislocated Worker Program for FY2003. The subrecipient audit monitoring and resolution function is included in these duties.

In addition, the Dislocated Worker Program Monitors will work in conjunction with the Department of Economic Security in review of subrecipient audits for the period of July 1, 2001 through June 30, 2002.

If you have additional questions, please call Elaine Bliss at (651) 297-3184.

Sincerely,

/s/ Matt Kramer

Matt Kramer
Commissioner