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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

**FINANCIAL AUDIT DIVISION REPORT**

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**Department of  
Commerce**

**Federal Compliance Audit**

**Year Ended June 30, 2014**

**March 20, 2015**

**Report 15-05**

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## Financial Audit Division

The 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 has a staff of forty 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.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission.

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
<b>Adequate</b>	<b>The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Generally Adequate</b>	<b>With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Not Adequate</b>	<b>The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.</b>

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 20, 2015

Representative Sondra Erickson, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mike Rothman, Commissioner  
Department of Commerce

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Commerce during fiscal year 2014. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Commerce.

We discussed the results of the audit with the department's staff on March 11, 2015. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Director), Jordan Bjonfald, CPA (Auditor-in-Charge), and assisted by auditor Jennyfer Hildre.

We received the full cooperation of the Department of Commerce'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 Commerce generally complied with and had internal controls to ensure compliance with certain legal requirements applicable to the Low-Income Home Energy Assistance program, a major federal program for fiscal year 2014. However, the department had internal control weaknesses that resulted in noncompliance with federal requirements, as noted in the repeat finding presented in this report.<sup>1</sup>

## Finding

- The Department of Commerce did not comply with certain federal reporting requirements for the Low-Income Home Energy Assistance program. This is a repeat finding. ([Finding 1, page 5](#))

## Audit Scope

Our scope included the Low-Income Home Energy Assistance program (CFDA<sup>2</sup> 93.568), which was a major federal program for the State of Minnesota. The program's fiscal year 2014 expenditures totaled approximately \$119 million.

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<sup>1</sup> Office of the Legislative Auditor's Financial Audit Division Report 14-08, [Department of Commerce](#), issued March 21, 2014.

<sup>2</sup> The Catalog of Federal Domestic Assistance is a unique number assigned by the federal government to identify its programs.

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# Department of Commerce

## Federal Program Overview

The Department of Commerce administered one federal program that we considered a major federal program for the State of Minnesota, subject to audit under the federal Single Audit Act.<sup>3</sup> During fiscal year 2014, the department expended approximately \$119 million for the Low-Income Home Energy Assistance program (CFDA 93.568).<sup>4</sup>

The Low-Income Home Energy Assistance program provides financial assistance to eligible low-income households to pay home heating costs and conserve energy, and provides funding to local service providers to administer the program. The department used 32 service providers<sup>5</sup> (counties, tribal governments, community action programs, and nonprofit organizations) throughout the state to verify household eligibility. The department paid heating assistance for eligible households directly to utility companies.

**Other Audits** – In September 2014, the department terminated its grant agreement with Community Action of Minneapolis to administer the Low-Income Home Energy Assistance Program. The contract termination resulted from concerns raised in an audit conducted by another state department about how the entity had used money received through a different grant.<sup>6</sup> Subsequent to the termination of the Low-Income Home Energy Assistance Program grant agreement, Community Action of Minneapolis was dissolved and put into receivership. As of March 2015, our office is conducting a preliminary assessment of the sufficiency of the department's corrective actions with Community Action of Minneapolis to determine whether any additional review is necessary.

With respect to the Low-Income Home Energy Assistance Program, we do not at this time believe the concerns about Community Action of Minneapolis pose a high risk of noncompliance with federal requirements for the Low-Income Home

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<sup>3</sup> We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the U.S. Office of Management and Budget *Circular A-133* as a program or cluster of programs whose expenditures for fiscal year 2014 exceeded \$30 million.

<sup>4</sup> Federal Grant Awards #G-13B1MNLIEA, #G-14B1MNLIEA, and #G-1401MNLIE4.

<sup>5</sup> Subsequent to fiscal year 2014, the department terminated Community Action Minneapolis as a service provider reducing the number to 31 service providers.

<sup>6</sup> Department of Human Services, Internal Audit Report #14-006-N, *Community Action Minneapolis*, Review of Community Services Block Grant and Minnesota Community Action Grant.

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Energy Assistance program because heating assistance payments for eligible households were made directly from the department to the energy providers, and did not flow through Community Action of Minneapolis.

## Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Commerce complied with federal program requirements for fiscal year 2014. This audit is part of our broader federal single audit to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.<sup>7</sup> In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*, dated March 2014.

## Conclusion

The Department of Commerce generally complied with and had adequate internal controls to ensure compliance with certain legal requirements applicable to the Low-Income Home Energy Assistance program, a major federal program for fiscal year 2014; however, the department had internal control weaknesses that resulted in noncompliance with federal requirements, as noted in the following *Findings and Recommendations* section.

We will report this weakness to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about internal control and compliance weaknesses.

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<sup>7</sup> The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 12, 2014, on the State of Minnesota's basic financial statements for the year ended June 30, 2014. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 15-02, *Internal Controls Over Statewide Financial Reporting*, issued February 19, 2015.)

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## Finding and Recommendation

**The Department of Commerce did not comply with certain federal reporting requirements for the Low-Income Home Energy Assistance program. This is a repeat finding.<sup>8</sup>**

### Finding 1

The department had weaknesses in its financial reporting process that resulted in untimely and incomplete reporting to the federal government. The department had the following problems.

- The department submitted its Federal Financial Report (SF-425) 40 days late. The September 30, 2014, report was due on December 31, 2014; however, the department transmitted the report on February 9, 2015. While the report contained accurate financial information, the federal government required the report to be transmitted within 90 days. Timely reporting to the federal government is essential in fulfilling the state's responsibility in managing the federal grant.
- The Department of Commerce did not comply with federal reporting requirements of the Federal Funding Accountability and Transparency Act<sup>9</sup> for the Low-Income Home Energy Assistance program. In response to a prior audit finding, the Department of Commerce established a process to report subaward<sup>10</sup> information as required by the federal government. However, the department did not report subaward information for three service providers that received over \$25,000 during fiscal year 2014 for the Low-Income Home Energy Assistance program (CFDA 93.568). Federal reporting requirements state that the department *"must report each action that obligates \$25,000 or more in federal funds ...for a subaward to an entity...no later than the month following the month in which the obligation was made."*<sup>11</sup> In total, the department

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<sup>8</sup> Office of the Legislative Auditor's Financial Audit Division Report 14-08, *Department of Commerce*, issued March 21, 2014, Finding 1.

<sup>9</sup> The Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) requires the federal Office of Management and Budget to maintain a single, searchable website (<http://www.usaspending.gov/>) that contains information on all federal recipient spending awards.

<sup>10</sup> A subaward is a grant to an entity (a local unit of government, private nonprofit, or Indian tribe) by the state to accomplish the purpose for which the state received this federal grant.

<sup>11</sup> Title 2, Code of Federal Regulations, Part 170, Appendix A.

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provided the three service providers with \$410,000 from the Low-Income Home Energy Assistance program.

Department staff told us they did not report the subaward information for the three service providers because they did not have the service providers' Data Universal Numbering System (DUNS) numbers. The federal government requires the state to obtain DUNS numbers before it passes federal money through to those organizations.<sup>12</sup> Specifically, federal regulations indicate:

*"If you are authorized to make subawards under this award, you:*

- 1. Must notify potential subrecipients that no entity...may receive a subaward from you unless the entity has provided its DUNS number to you.*
- 2. May not make a subaward to an entity unless the entity has provided its DUNS number to you."*<sup>13</sup>

Because the department did not comply with federal transparency reporting requirements, the federal website did not have complete financial information about certain service providers that received funding from the state's Low-Income Home Energy Assistance program.

#### *Recommendation*

- *The Department of Commerce should comply with federal reporting requirements by:*
  - *transmitting the Federal Financial Report (SF-425) by the required federal due date; and*
  - *obtaining DUNS numbers from all entities that receive pass-through grants and report subawards, as required by the Federal Funding Accountability and Transparency Act.*

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<sup>12</sup> Office of Management and Budget guidance specifies that a prime awardee must report information and location of the subaward recipient, the date of the subaward, the subawardee's nine-digit Data Universal Numbering System (DUNS) number, the amount of federal funds awarded, including modifications, authorized date of the subaward agreement, date the information was submitted, and an assigned subaward identification number.

<sup>13</sup> Title 2, Code of Federal Regulations, Part 25, Appendix A.

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March 17, 2015

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building, Room 140  
658 Cedar Street  
St. Paul, MN 55155-1603

Dear Mr. Nobles:

I would like to thank the Office of Legislative Auditor and your financial audit team for reviewing the Minnesota Department of Commerce's administration of the Low Income Home Energy Assistance Program for fiscal year 2014. Your team provided a professional review of the Department's general compliance requirements related to federal assistance and provided valuable recommendations based on the review. I welcome the opportunity to take positive action on those recommendations.

As Commerce Commissioner, I am committed to continuous improvement especially in the area of effective internal controls. This audit will assist the Department's efforts to further strengthen its Energy Assistance Program and financial management.

Specific responses to the audit findings follow.

**Finding #1:**

The Department of Commerce did not comply with certain federal reporting requirements for the Low-Income Home Energy Assistance Program. This is a repeat finding.

**Recommendations:**

- *The Department of Commerce should comply with federal reporting requirements by:*
  - *Transmitting the Federal Financial Report (SF-425) by the required federal due date; and*
  - *Obtaining DUNS numbers from all entities that receive pass-through grants and report sub-awards, as required by the Federal Funding Accountability and Transparency Act.*

**Response:**

The Commerce Department has already developed an internal calendar that contains all federal reporting dates and deadlines. This calendar provides lead time and a notification process to ensure that future federal reporting due dates are met.

James R. Nobles  
March 17, 2015  
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The Department has made strong efforts in the past year to correct this finding by obtaining sub-award information from our service providers, which is done for all service providers that have received DUNS numbers. In the past year, the Department has significantly decreased the number of service providers out of compliance with only three remaining. The sub-award amounts were not reported for the three service providers because they have not provided DUNS numbers. The Department will suspend funding, after sufficient notice, for these providers until a DUNS number is received.

**Staff Responsible for implementation:** Tim Jahnke  
**Expected date of completion:** Completed

Thank you again for the work of you and your staff to identify opportunities for improvement within Commerce. We are committed to taking appropriate action to further strengthen our programs and internal controls.

Sincerely,

A handwritten signature in cursive script that reads "Mike Rothman".

Mike Rothman  
*Commerce Commissioner*