

**DEPARTMENT OF TRADE AND  
ECONOMIC DEVELOPMENT  
MANAGEMENT LETTER  
FISCAL YEAR 1987**

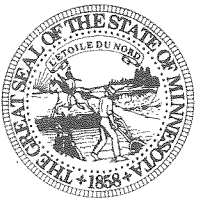
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**MARCH 1988**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. David Speer, Commissioner  
Department of Trade and Economic Development  
900 American Center Building  
150 East Kellogg Blvd.  
St. Paul, Minnesota 55101

Dear Commissioner Speer:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- the Community Development Block Grant Program (CFDA #14.228) included in the Single Audit scope; and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. The work conducted in your department is a part of our annual statewide audit and federal compliance audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1987. The federal government is ultimately responsible for determining resolution of Single Audit recommendations and the appropriate federal program agency will contact your agency to review your efforts toward corrective actions for 1987 and prior years. They will also notify you of their final resolution.

The current recommendation included in this letter is presented to assist you in resolving the audit finding and improving accounting procedures and controls. Progress on resolving this finding will be reviewed during our audit next year. Attached to your management letter is a summary of the progress on all audit findings developed during our 1986 statewide audit.

1. DTED is not following up on cross-cutting findings identified in subrecipient audit reports.

As provided by the Single Audit Act, state governments which provide \$25,000 or more of federal assistance to a subrecipient in a fiscal year must ensure that appropriate corrective action is taken when instances of noncompliance with federal laws and regulations are identified in subrecipient audit reports. The State Auditor receives copies of all subrecipient audit reports and reviews them for acceptability in accordance with the Act. Each state agency is responsible for resolution of those findings that are specific to the agency's programs.

Cross-cutting findings in a subrecipient audit report are those findings that affect the programs of more than one state agency. Instead of having each state agency review these cross-cutting findings, the Department of Finance has assigned one of the state agencies involved with each subrecipient to be the cognizant agency responsible for the task. In order to fairly determine which state agencies should be the cognizant agencies for the various subrecipients, the Department of Finance analyzed fiscal year 1986 federal funds subgranted to local governments and nonprofit organizations. The purpose of this analysis was to determine which state agency provided the most federal funds to each subrecipient, and to see if there is a correlation between state agencies and types of subrecipients. Based on the results of the analysis, DTED was assigned as cognizant agency for 34 cities.

According to the fiscal year 1986 State Auditor's Single Audit Report, there were two questioned costs for subrecipients of the Community Development Block Grant Program (CFDA #14.228). In addition, 8 of the 34 cities for which DTED is the cognizant agency had cross-cutting findings.

DTED CDBG staff have implemented procedures to receive and review the required audit reports. Similar procedures were used to review and resolve the questioned costs included in the State Auditor's report for CFDA #14.228. Both of the questioned costs were resolved; however, the cities involved were not notified of the results of DTED's review.

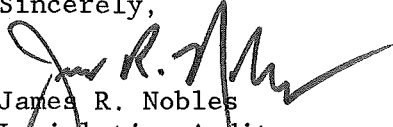
No one at DTED has been assigned responsibility for following up on cross-cutting findings included in the audits of the cities for which they are cognizant. Community Development Division staff question whether they have authority to perform this function with federally funded staff. If this is not an option, state funded positions should be used to fulfill this responsibility. Fiscal Services staff prepared draft procedures to be used. However, they were not finalized and no follow-up work was completed on the cross-cutting findings.


#### RECOMMENDATION

- To meet requirements of the Single Audit Act, DTED should:
  - establish a process to follow up on cross-cutting findings; and
  - inform the cities of the resolution of all questioned costs, internal control, or compliance findings.

Thank you for the cooperation extended our staff during this audit.

Sincerely,

  
James R. Nobles  
Legislative Auditor  
Attachment

  
John Asmussen, CPA  
Deputy Legislative Auditor

March 17, 1988

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The administration of subgrants awarded under the Community Development Block Grant Program (CFDA #14.228) should be improved.

1. DTED should ensure timely submission and review of quarterly (progress) reports from subrecipients.

RECOMMENDATION IMPLEMENTED. Based on testing done for fiscal year 1987, it appears that the progress reports which are now submitted semi-annually are being submitted timely and reviewed by the CDBG staff.

2. DTED should develop controls to ensure that payments to subgrantees are made for eligible costs incurred within the approved grant period.

RECOMMENDATION IMPLEMENTED. The grant end dates are now included on the payment summary worksheets which are reviewed before payments are made to subgrantees. Our fiscal year 1987 testing did not find instances of payments made after the grant end dates had expired.

Time distribution records to support payroll charges to federal programs need improvement.

3. DTED should institute procedures to allocate salary charges based on the actual hours worked to the various programs.

RECOMMENDATION IMPLEMENTED. Effective July 1, 1987, DTED began allocating salary charges based on the actual hours worked on the various programs.



Minnesota Department of  
Trade and Economic Development

Office of the Commissioner

900 American Center  
150 East Kellogg Boulevard  
St. Paul, MN 55101-1421

612/296-6424  
Fax: 612/296-1290

March 17, 1988

Ms. Claudia Gudvangen  
Audit Manager  
Office of the Legislative Auditor  
Veterans Service Bldg.  
St. Paul, MN 55155

RE: February 11, 1988, Draft Management Letter and Audit Report Response

Dear Ms. Gudvangen:

Your Draft Management Letter identified two findings and also provided recommendations for clearance of those findings. The purpose of this letter is to provide you with a formal response.

According to your Draft Management Letter, "DTED is not following up on cross-cutting findings identified in subrecipient audit reports." DTED's cross-cutting finding resolution responsibilities were proposed by the Department of Finance. In response, DTED has consistently maintained that the State Auditor is the most appropriate state agency to follow up on cross-cutting findings and that DTED program and administrative staff should not be involved for the following reasons:

1. State audit staff has the necessary background on A-128 audits and local accounting systems. As a result, state audit staff is better equipped to answer local government questions related to resolving findings and advising local government on proper accounting techniques.
2. DTED does not have audit staff resources to resolve cross-cutting findings and would encounter obligations from federal grantor agencies if federal program staff are used on non-program related tasks.
3. The State Auditor conducts A-128 audits of many local governments each year. If we were to follow the Finance proposal, DTED staff could be assigned to resolving local government cross-cutting findings that were originally identified by the State Auditor.

Ms. Claudia Gudvangen

-2-

March 17, 1988

In a related area, your Draft Management Letter recommended that DTED "inform the cities of the resolution of all questioned costs, internal control, or compliance findings." In November of 1987, Small Cities Development Program staff developed a standard monitoring and audit finding resolution notification letter. We intend to use this letter regularly. An example is attached.

I wish to commend you and your staff for the professional manner in which the audit was conducted. I would also offer to volunteer my staff to assist you with the development of a workable cross-cutting finding resolution policy.

Sincerely,

A handwritten signature in cursive script, appearing to read "David J. Speer".

David J. Speer  
Commissioner

DJS:cd

COMM/IIII13-CP

Attachment

Minnesota Department of  
Trade and Economic Development

Community Development Division

900 American Center  
150 East Kellogg Boulevard  
St. Paul, MN 55101-1421

612/296-5005  
Fax: 612/296-1290

SAMPLE

October 21, 1987

Mr. Jim Taddei  
Project Director  
114-7th Avenue West  
Alexandria, MN 56308

RE: Grant #16010402386, City of Alexandria  
Audit Findings

Dear Jim:

Based upon your response, the audit findings identified  
in the audit for the year ending December 31, 1986 have  
been cleared.

If you should have any questions, please feel free to  
contact Becky Johnston at 612/296-9006.

Sincerely,

Louis Jambois, Director  
Small Cities Development Program

LJ:cd

VL II/3-CP

cc: Master File

Minnesota Department of  
Trade and Economic Development

Community Development Division

900 American Center  
150 East Kellogg Boulevard  
St. Paul, MN 55101-1421

612/296-5005  
Fax: 612/296-1290

October 21, 1987

✓<sub>1</sub>

RE: Grant #✓<sub>2</sub>  
✓<sub>3</sub>

Dear ✓<sub>4</sub>:

Based upon your response, the ✓<sub>5</sub> identified in the ✓<sub>6</sub>  
✓<sub>7</sub> been cleared.

If you should have any questions, please feel free to  
contact ✓<sub>8</sub> at 612/✓<sub>9</sub>.

Sincerely,

Louis Jambois, Director  
Small Cities Development Program

LJ:cd

VL II/3-CP

cc: Master File  
✓<sub>10</sub>

FINDINGS AND CONCERNS LETTER

Variable Worksheet

V1 \_\_\_\_\_ (Name and Address)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

V2 \_\_\_\_\_ (Grant #, Grantee)

V3 Findings and Concerns (circle appropriate one):

Audit Findings; Monitoring Findings; Monitoring Findings and Concerns;  
Monitoring Concerns

V4 \_\_\_\_\_ (Dear....)

V5 Findings and Concerns (circle appropriate one):

audit findings; monitoring findings; monitoring findings and concerns;  
monitoring concerns

V6 Circle appropriate one: (Audit or Monitoring  
Report/Date)

audit for the year ending \_\_\_\_\_

monitoring report dated \_\_\_\_\_

V7 Circle appropriate one:

have; has

V8 \_\_\_\_\_ (Rep's Name)

V9 \_\_\_\_\_ (Rep's Phone # without  
Area Code)

V10 \_\_\_\_\_ (CC's)

\_\_\_\_\_

V11 \_\_\_\_\_ (Names and Addresses  
of CC's)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_