

**DEPARTMENT OF TRADE AND
ECONOMIC DEVELOPMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1989**

MARCH 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1989

Public Release Date: March 16, 1990

No. 90-12

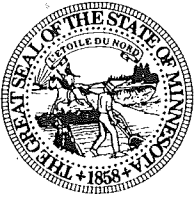
OBJECTIVES:

- EXAMINE THE ECONOMIC DEVELOPMENT FUND FINANCIAL STATEMENTS.
 - EVALUATE INTERNAL CONTROL STRUCTURE: Grants, payroll, contractual services, and travel.
 - TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.
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CONCLUSIONS:

- Our opinion on the financial statements was included in the Minnesota Comprehensive Annual Financial Report.
- We found the internal control structure to be effective.
- We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. David Speer, Commissioner
Department of Trade and Economic Development

Audit Scope

We have conducted a financial related audit of the Department of Trade and Economic Development as of and for the year ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Trade and Economic Development, as discussed in the Background section. We have also made a study and evaluation of the internal control structure of the Department of Trade and Economic Development in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government audit standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Trade and Economic Development are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Trade and Economic Development's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Trade and Economic Development is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management, with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Economic Development Fund

- Assets
- Liabilities
- Fund Balance
- Revenues
- Expenditures

Grants

- Community Development Block Grant Program (CFDA #14.228)
- Urban Revitalization Action Program

Disbursement Systems

- Payroll
- Contractual Services
- Travel

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

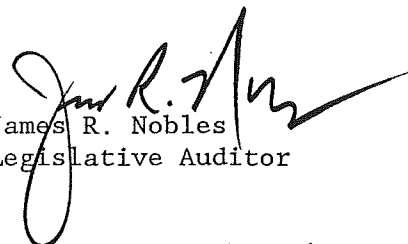
In our opinion, the internal control structure of the Department of Trade and Economic Development in effect at June 30, 1989, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Department of Trade and Economic Development.

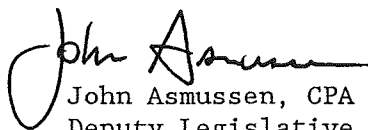
The results of our tests indicate that, with respect to the items tested, the Department of Trade and Economic Development complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Trade and Economic Development had not complied, in all material respects, with those provisions.

Senator John Brandl, Chairman
Members of the Legislative Audit Commission
Mr. David Speer, Commissioner
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This report is intended for the information of the Legislative Audit Commission and 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 16, 1990.

We would like to thank the Department of Economic Development staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 2, 1990

REPORT SIGNED ON: March 8, 1990

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Steve Pyan, CPA	Auditor-in-Charge
Pat Ryan	Staff Auditor
Dan Quandt	Staff Auditor

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

I. BACKGROUND

The Department of Trade and Economic Development was established in July 1986 replacing the former Department of Energy and Economic Development. David Speer has served as commissioner since December 1986.

Major activities of the department include:

- administering various community and economic development grants to local units of government;
- providing economic development loans and management and marketing assistance to small businesses;
- conducting advertising and other marketing activities to increase travel expenditures in the state; and
- promoting international trade opportunities for Minnesota businesses.

The department serves as administrative staff for various boards and authorities. Activities of the Minnesota Agricultural and Economic Development Board, the Minnesota Public Facilities Authority, the Rural Development Board, and the Minnesota Export Finance Authority were included in the scope of this audit.

Operations of the department are financed primarily through General Fund appropriations and federal grants. Fiscal Year 1989 departmental expenditures, including encumbrances, were as follows:

	<u>GENERAL FUND</u>	<u>FEDERAL FUND</u>	<u>OTHER FUNDS</u>	<u>TOTAL FUNDS</u>
Personnel Services	\$ 7,110,803	\$ 353,948	\$1,247,802	\$ 8,712,553
Expense and Contractual Services	6,661,754	258,462	1,272,013	8,192,229
Supplies and Materials	510,957	735	139,063	650,755
Equipment	162,552	11,279	40,918	214,749
Grants and Aids	13,548,889	26,351,508	4,260,172	44,160,569
Redistributed Costs	<u>0</u>	<u>9,239</u>	<u>12,956</u>	<u>22,195</u>
TOTALS	<u>\$27,994,955</u>	<u>\$26,985,171</u>	<u>\$6,972,924</u>	<u>\$61,953,050</u>

Source: Statewide Accounting System - Managers Financial Report as of September 4, 1989.