

**DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

MARCH 1992

**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, 1991

Public Release Date: March 26, 1992

No. 92-19

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Urban Revitalization Action Program, Community Development Block Grant, Minnesota Public Facilities Authority revenue bond issuances, loan disbursements.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found the internal control structure to be effective.

We found that the Department of Trade and Economic Development had complied with 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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

E. Peter Gillette Jr., Commissioner
Department of Trade and Economic Development

Audit Scope

We have conducted a financial related audit of selected fiscal activities of the Minnesota Department of Trade and Economic Development as of and for the fiscal year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Department of Trade and Economic Development, as discussed in the Background Information. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Trade and Economic Development in effect at June 30, 1991.

We audited only some of the financial activities of the Minnesota Public Facilities Authority. The authority's financial statements were audited by other independent auditors. The results of their work were issued in a report dated August 6, 1991. We reviewed the audit working papers to satisfy ourselves as to the adequacy of audit coverage.

We conducted our audit in accordance with generally accepted government auditing 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 Minnesota 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 Minnesota Department of Trade and Economic Development's compliance with certain provisions of laws, regulations, and grants. However, our objective was not to provide and opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota 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.

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

- State Grant Programs:
 - Urban Revitalization Action Program (URAP)
- Federal Grant Programs:
 - Community Development Block Grant (CFDA #14.228)
- Minnesota Public Facilities Authority:
 - Revenue Bond Issuances
 - Loan Disbursements

For the grant programs 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

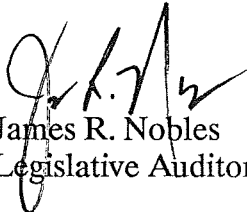
In our opinion, the internal control structure of the Minnesota Department of Trade and Economic Development in effect at June 30, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Minnesota Department of Trade and Economic Development.

We noted some matters involving the internal control structure and its operation which we reported to the management of the Department of Trade and Economic Development at the exit conference held on January 30, 1992.

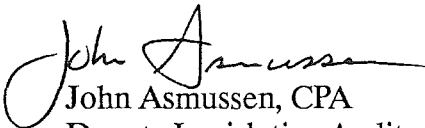
The results of our tests indicate that, with respect to the items tested, the Minnesota Department of Trade and Economic Development complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that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

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota 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 26, 1992.

We thank the Department of Trade and Economic Development staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 14, 1992

Report Signed On: March 20, 1992

Department of Trade and Economic Development

Table of Contents

	Page
Background Information	1

Audit Participation

The following staff from the office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Steve Pyan, CPA	Audit Supervisor
Dan Quandt, CPA	Audit Staff
Janet Knox, CPA	Audit Staff

The findings and recommendations, nonreportable conditions, were discussed with the following staff of the Department of Trade and Economic Development on January 30, 1992:

E. Peter Gillette	Commissioner
Robert Benner	Deputy Commissioner
Judy Charron	Administrative Management Director

Department of Trade and Economic Development

Background Information

The Department of Trade and Economic Development was established in July 1986. E. Peter Gillette succeeded David Speer as commissioner on February 1, 1991.

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 business;
- 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 Rural Development Board, the Minnesota Export Finance Authority and the Minnesota Public Facilities Authority were included in the scope of this audit.

Operations of the department are financed primarily through General Fund appropriations and federal grants. Some of the aforementioned boards or authorities have power to issue revenue bonds. The Public Facilities Authority issued revenue bonds of \$102,429,776 and disbursed \$105,874,606 as loans to local governmental units.

Fiscal Year 1991 departmental expenditures, including encumbrances, were as follows:

<u>Function or Activity</u>	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Community Development				
Grants		\$19,115,948		\$19,115,948
Urban Revitalization	\$ 5,947,400			5,947,400
Public Facilities				
Authority (non-loans)		35,685	\$ 7,306,001	7,341,686
Other Functions	<u>30,767,410</u>	<u>9,850,440</u>	<u>5,298,345</u>	<u>45,916,195</u>
Total Expenditures	<u>\$36,714,810</u>	<u>\$29,002,073</u>	<u>\$12,604,346</u>	<u>\$78,321,229</u>

Source: Statewide Accounting Managers Financial Report, as of August 30, 1991.