

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

MARCH 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-08

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: March 18, 1993

No. 93-08

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Community Development Block Grant, Water Pollution Control Revolving Fund, Metropolitan Open Space and Regional Park Acquisition grants, Hospital Equipment Loan Program, and Minnesota Agricultural and Economic Development Board.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Audit Scope

We have conducted a financial related audit of selected financial activities of the Department of Trade and Economic Development as of and for the year ended June 30, 1992. 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 Information. We have also made a study and evaluation of the internal control structure of selected financial activities of the Department of Trade and Economic Development in effect as of June 30, 1992.

We did not audit the financial activities of the Minnesota Public Facilities Authority Water Pollution Control Revolving Fund (CFDA #66.458), which comprised \$374,997,221 and \$13,080,507 respectively in assets and expenses. These activities were audited by other independent auditors. The results of their work were issued in a report dated August 7, 1992. 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 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.

Senator Phil Riveness, Chair

Members of the Legislative Audit Commission

E. Peter Gillette, Commissioner

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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 into various categories. For the selected activities listed below, 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.

Revenues and Expenditures:

- Community Development Block Grant (CFDA #14.228),
- Water Pollution Control Revolving Fund (CFDA #66.458)
- Metropolitan Open Space and Regional Park Acquisition grants

Cash and Investments, Loans Receivable, and Revenue Bonds Payable:

- Water Pollution Control Revolving Fund (CFDA #66.458)
- Hospital Equipment Loan Program
- Minnesota Agricultural and Economic Development Board

We did not assess control risk for other significant internal control structures as follows: revenues and expenditures of the Agriculture and Economic Development Board and the Hospital Equipment Loan program, and expenditures of the Economic Recovery Grant Program, the Office of Tourism, the Minnesota Trade Office, the Business Development and Analysis Division, and the Administration Division.

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Conclusions

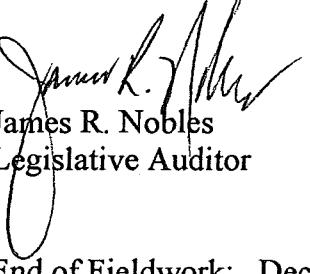
Our study and evaluation of selected financial programs of the Department of Trade and Economic Development disclosed no conditions that did not meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Minnesota Department of Trade and Economic Development.

However, we noted certain conditions involving the internal control structure and its operation that we reported to the management of the Department of Trade and Economic Development in a meeting held on January 11, 1993.

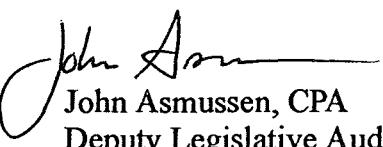
The results of our tests and the reports of other auditors indicate that, with respect to the items tested, the Department of Trade and Economic Development complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came 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.

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 18, 1993.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 16, 1992

Report Signed On: March 12, 1993

Department of Trade and Economic Development

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Daniel Quandt, CPA	Auditor-In-Charge
Janet Knox, CPA	Auditor

The findings and recommendations referred to in this report were discussed with the following staff of the Department of Trade and Economic Development on January 11, 1993:

E. Peter Gillette	Commissioner
Jennifer Engh	Deputy Commissioner
Judy Charron	Administrative Services Director
Michael Auger	Community Development Supervisor
Richard Nadeau	Community Development Loan Officer



Department of Trade and Economic Development

Background Information

The Department of Trade and Economic Development (DTED) is the state of Minnesota's principal economic development agency. It administers programs promoting business expansion and retention, international trade, community development, and tourism. The current Commissioner of the Department of Trade and Economic Development is E. Peter Gillette.

The department's four operating divisions are as follows:

- The Community Development Division assists communities in attracting and retaining businesses while creating desirable places for homes and families.
- The Minnesota Trade Office assists in the development of business exports and foreign investments which enhance Minnesota's economy.
- The Office of Tourism's purpose is to generate travel and tourism into the state, to provide information to travelers, and to provide support services so as to increase Minnesota tourism industry's gross sales and market share.
- The Business Development and Analysis Division supports Minnesota businesses and communities through marketing, technical assistance, analysis, evaluation, publications and information services, training assistance and partnership activities.

A fifth division, the Administration Division, provides administrative and management support to the department's operating divisions.

The department also provides administrative support for various boards and authorities including the Public Facilities Authority, Minnesota Agricultural and Economic Development Board, Rural Development Board, and Minnesota Export Finance Authority.

The programs administered by the department are financed primarily through General Fund appropriations, federal grants, and revenue bond proceeds. The statewide accounting (SWA) system and financial statements for the Public Facilities Authority and the Minnesota Agricultural and Economic Development Board show expenditures, including encumbrances, for various DTED programs and funding sources totaling \$95,937,000 for fiscal year 1992. Our audit included the following programs within the Community Development Division:

Department of Trade and Economic Development

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Community Development Block Grant (CFDA #14.228)	\$316,917	\$26,058,312		\$26,375,229
Public Facilities Authority Water Pollution Control Revolving Fund (CFDA #66.458)		770,720	12,309,787	13,080,507
Metropolitan Open Space and Regional Park Acquisition grants			7,257,270	7,257,270

The department's assets and liabilities as of June 30, 1992 included the following amounts:

	<u>Cash and Investments</u>	<u>Loans Receivable</u>	<u>Bonds Payable</u>
Public Facilities Authority Water Pollution Control Revolving Fund (CFDA #66.458)	\$133,859,026	\$186,590,681	\$237,652,338
Public Facilities Authority Hospital Equipment Loan Program	36,311,409	0	36,515,000
Minnesota Agricultural and Economic Development Board	28,828,081	38,841,224	46,790,000

Sources: Statewide Accounting System Managers Financial and Budget-Expenditure-Encumbrance Reports as of September 6, 1992; Agricultural and Economic Development Board Financial Statements for the year ended June 30, 1992; and Public Facilities Authority-Enterprise Fund Financial Statements for the year ended June 30, 1992.