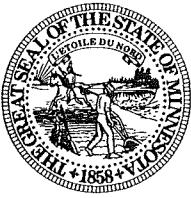


DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT
PROGRAMS SELECTED FOR FISCAL YEAR 1993
STATEWIDE AUDIT

MARCH 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-04



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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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 audited selected programs of the Department of Trade and Economic Development as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit federal programs. 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 outlined below and as further discussed in the Background Information section. Other independent auditors audit the financial activities of the Minnesota Public Facilities Authority Water Pollution control Revolving Fund (CFDA #66.458), which comprised \$420,685,026 and \$17,056,640, respectively, in assets and expenses. The results of their work were issued in reports dated August 6, 1993. Our conclusions, insofar as they relate to the activities of the Water Pollution Control Revolving Fund, are based solely on the reports of the other auditors.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Trade and Economic Development. The work conducted in the department is part of our 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 the department during fiscal year 1993.

Internal Control Structure

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

Revenues and Expenditures:

- Community Development Block Grant (CFDA #14.228),
- Water Pollution Control Revolving Fund (CFDA #66.458)

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

For the selected activities 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.

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.

Conclusions

Our audit disclosed the condition discussed in the finding of the independent auditors from a report dated August 6, 1993, involving the internal control structure of the Department of Trade and Economic Development. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable


conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

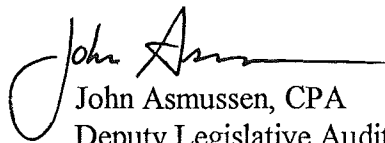
We also noted certain conditions involving the internal control structure and its operation that we reported to the management of the Department of Trade and Economic Development at the exit conference held on December 21, 1993.

The results of our compliance 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 9, 1994.

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 15, 1993

Report Signed On: March 3, 1994

Department of Trade and Economic Development

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Audit Participation

The following members 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-In-Charge
Mark Mathison	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 December 21, 1993:

E. Peter Gillette	Commissioner
Jennifer Engh	Deputy Commissioner
Bonnie Burt	Senior Administrative Officer
Judy Charron	Administrative Services Director

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 three operating divisions are as follows:

- The Business and Community Development Division works with Minnesota businesses and communities to facilitate economic growth.
- The Minnesota Trade Office assists in the development of business exports and foreign investments which enhance Minnesota's economy.
- The Office of Tourism encourages travel and tourism to the state and provides support services to the tourism industry.

A fourth 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, 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 Minnesota Agricultural and Economic Development Board show expenditures, including encumbrances, for various DTED programs and funding sources totaling \$110,678,944 for fiscal year 1993.

We did not audit the financial activities of the Minnesota Public Facilities Authority Water Pollution Control Revolving Fund (CFDA #66.458). These activities were audited by other independent auditors. We reviewed the audit working papers to satisfy ourselves as to the adequacy of audit coverage. Our selected scope audit included the following programs within the Business and Community Development Division:

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Expenditures:				
Community Development Block Grant (CFDA 14.228) [1]	\$ 236,508	\$29,260,674		\$29,497,182
Public Facilities Authority Water Pollution Control Revolving Fund (CFDA 66.458) [2]			\$17,056,640	\$17,056,640

Department of Trade and Economic Development

The department's assets and liabilities as of June 30, 1993, included in the audit scope were:

	<u>Cash and Investments</u>	<u>Loans Receivable</u>	<u>Bonds Payable</u>
Public Facilities Authority Water Pollution Control Revolving Fund (CFDA 66.458) [2]	\$125,475,522	\$240,075,644	\$237,119,250
Public Facilities Authority Hospital Equipment Loan Program [3]	19,874,698		21,095,000
Minnesota Agricultural and Economic Development Board [4]	22,449,614	31,797,663	39,350,000

Sources:

- [1] Statewide Accounting System Managers Financial Report as of September 4, 1993.
- [2] Public Facilities Authority-Water Pollution Control Revolving Fund Financial Statements for the year ended June 30, 1993.
- [3] Public Facilities Authority-Hospital Equipment Loan Program Financial Statements for the year ended June 30, 1993.
- [4] Agricultural and Economic Development Board Financial Statements for the year ended June 30, 1993.