

# Department of Trade and Economic Development

## Selected Programs

## Statewide Audit Fiscal Year 1996

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February 1997

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

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STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

Mr. Jay Novak, Commissioner

Department of Trade and Economic Development

We have audited selected areas of the Department of Trade and Economic Development (DTED) for the fiscal year ended June 30, 1996, as further explained in Chapter 1. We emphasize that this has not been a complete audit of all financial activities of the department. The work conducted at DTED is part of our Statewide Audit of the State of Minnesota's fiscal year 1996 financial statements and Single Audit of federal financial assistance programs. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 2, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our reports on the supplementary information schedule of federal financial assistance, internal control structure and compliance with laws and regulations. We anticipate issuing that report in June 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that DTED complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of DTED is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of DTED. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 7, 1997.

A handwritten signature in black ink, appearing to read "James R. Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in black ink, appearing to read "John Asmussen".

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 17, 1997

Report Signed On: January 31, 1997



## **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  
Renee Redmer, LPA  
Fubara Dapper, CPA

Deputy Legislative Auditor  
Audit Manager  
Auditor-in-Charge



# Department of Trade and Economic Development

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## Chapter 1. Introduction

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The Department of Trade and Economic Development (DTED) is Minnesota's principal economic development agency. The department's mission is to facilitate an economic environment that produces new job growth in excess of the national average, and to increase nonresident tourism revenues. DTED's primary goal is to promote the state's economic climate in both metropolitan and outstate economies. The department's commissioner is appointed by the governor. Mr. Jay Novak is the current commissioner of the department.

The department's four divisions, discussed below, follow Minn. Stat. Chapter 116J.

- The Business and Community Development Division provides a variety of financial and technical services to communities, businesses, and economic development professionals. The division works in partnership with communities and businesses to create wealth and produce new quality jobs by growing existing businesses.
- The Office of Tourism's primary purpose is to generate increased travel expenditures by residents and nonresidents that produce additional sales and sales tax revenues. Division goals also include maintaining and enhancing employment opportunities throughout Minnesota's travel industry.
- The Minnesota Trade Office provides numerous services to Minnesota businesses. Services include education, counseling, and financing programs in export business. The division also provides a network of public/private supported foreign trade offices, trade shows, and foreign trading delegations, market research and strategies to identify and expand export markets for Minnesota products. The office also oversees the World Trade Center Corporation.
- The Administrative Office provides policy development, management coordination, and fiscal, human resource, and information management services to the department.

Our audit focused on the Community Development Block Grant (CFDA #14.228) which is a major program under the federal Single Audit Act of 1984. The Business and Community Development Division and the Administration Office are responsible for the block grant program. The financial activities for this program were material to the state's Single Audit objectives. The expenditures for fiscal year 1996 totaled approximately \$30 million.

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## Chapter 2. Federal Programs

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### *Chapter Conclusion*

*The Department of Trade and Economic Development complied with the general and specific requirements for the Community Development Block Grant (CFDA #14.228).*

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The Department of Trade and Economic Development administered federal funds totaling about \$32 million in fiscal year 1996. The Single Audit Act defines major federal programs for Minnesota with expenditures exceeding \$10 million. The Community Development Block Grant (CFDA #14.228) which expended about \$30 million in fiscal year 1996 was a major federal program for the Statewide Single Audit. DTED has about four other federal programs, totaling \$2 million, that are not material to the Single Audit objectives.

The department also provided some federal support to the Public Facilities Authority (PFA) for administration of the Water Pollution Control Revolving Fund. The PFA is not a part of the state's primary government for financial statement purposes or for the Statewide Single Audit. However, the federal government required a separate compliance audit of the Water Pollution Control Revolving Fund (CFDA #66.458). A private CPA firm audited the financial statements and completed the compliance audit for this program.

The primary objective of the Community Development Block Grant Program is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income. DTED provides grants to small units of local government to carry out projects in their communities. In addition, department staff provide technical assistance to grant applicants and recipients. All funded activities are designed as follows:

- To benefit low and moderate income persons.
- To prevent or eliminate slums and blight.
- To alleviate urgent community development needs caused by existing conditions that pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet those needs.

### **Audit Objectives, Procedures, and Results**

We focused our audit on the Community Development Block Grant. The Single Audit Act includes two audit objectives that require us to determine whether:



## Department of Trade and Economic Development

- the state complied with rules and regulations that may have a material effect on each major federal program; and
- the state has internal accounting and control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

To address these objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of financial transactions to determine compliance with program regulations.

Several statutory and regulatory requirements govern federal financial assistance programs. The general requirements include: Political Activity, Davis-Bacon Act, Civil Rights, Cash Management, Relocation Assistance and Real Property Acquisition, Federal Financial Reports, Drug-Free Workplace Act, Allowable Costs/Cost Principles, and Administrative Requirements. Our audit scope included testing of the department's compliance with most of these general requirements.

Federal regulations govern specific compliance features for its programs. These requirements are categorized as follows: types of services allowed or unallowed, eligibility, matching, level of effort and/or earmarking requirements, special reporting requirements, and special tests and provisions. We tested the department's compliance with these specific requirements for the Community Development Block Grant.

We found the Department of Trade and Economic Development complied with the applicable general and program specific federal requirements for the Community Development Block Grant.