
Department of Trade and Economic Development

Financial Audit

For the period July 1, 1995, through June 30, 1998

October 1999

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-55

SUMMARY

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Department of Trade and Economic Development

Financial Audit

For the Period July 1, 1995, through June 30, 1998

Public Release Date: October 6, 1999

No. 99-55

Background

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 jobs and increases tourism revenues. DTED's primary goal is to promote the state's metropolitan and outstate economic climate. Mr. Gerald Carlson is the current commissioner of the department.

Audit Scope and Objectives

Our audit scope included a review of selected grant and loan programs, the tourism revenue match program, payroll, and professional and technical services for the period July 1, 1995, through June 30, 1998.

Conclusions

Our audit found that the Department of Trade and Economic Development operated within its available resources and had an effective process to monitor revenue and expenditure budgets. The department designed and implemented internal controls to provide reasonable assurance that financial activities were properly recorded in the MAPS accounting system. The department complied with significant finance-related legal requirements for the program areas tested.

(Summary of Department of Trade and Economic Development Response)



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Gerald Carlson, Commissioner
Department of Trade and Economic Development

We have audited selected programs of the Department of Trade and Economic Development for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included selected loan and grant programs, the tourism revenue match program, payroll, and professional and technical services. This has not been a complete audit of the department.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. These 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 the Department of Trade and Economic Development complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of the Department of Trade and Economic Development is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 October 6, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 25, 1999

Report Signed On: September 29, 1999

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:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Michael Hassing, CPA	Auditor-In-Charge
Crystal Eskridge	Auditor
John Hakes, CPA	Auditor
Irene Hass	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Trade and Economic Development at the exit conference held on September 28, 1999:

Allan Peterson	Deputy Commissioner
Judy Kislenger	Fiscal Services Manager

Department of Trade and Economic Development

Introduction

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 jobs and increases tourism revenues. DTED's primary goal is to promote the state's metropolitan and outstate economic climate. The department is lead by a commissioner, appointed by the Governor. Mr. Gerald Carlson, appointed in January 1999, is the current commissioner of the department. Mr. Jay Novak was the commissioner prior to that time.

The provisions of Minn. Stat. Chapter 116J govern the department's four divisions, discussed below:

- 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 expanding existing businesses.
- The Office of Tourism's primary purpose is to generate increased travel expenditures by residents and nonresidents, resulting in 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 Administrative Office provides policy development, management coordination, and fiscal, human resource, and information management services to the department. During the audit scope period, the Administrative Office also provided accounting services for the World Trade Center Corporation.

The department funds its administrative costs and grants mainly from state appropriations and federal monies. The Public Facilities Authority Board and the Agriculture and Economic Development Board administer various revolving loan programs from bond proceeds. Table 1-1 shows the department's use of funds in the three fiscal years ending June 30, 1998.

Department of Trade and Economic Development

Table 1-1
Department of Trade and Economic Development
Summary of Use of Funds
Three Fiscal Years Ended June 30, 1998

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Loans	\$ 62,013,246	\$ 80,006,072	\$ 82,597,471
Grants and Aids (1)	29,104,291	46,185,273	78,861,696
Bond Principal and Interest	27,800,040	30,612,050	37,729,576
Salaries and Benefits	9,893,937	9,993,859	10,998,326
Administrative Expenditures	<u>8,977,096</u>	<u>8,670,387</u>	<u>9,935,739</u>
Total Uses (2)	<u>\$137,788,610</u>	<u>\$175,467,641</u>	<u>\$220,122,808</u>

Note (1): The large increases in grants and aids are attributed primarily to increased funding for flood control and redevelopment projects in flood damaged areas.

Note (2): Financial activity includes Public Facilities Authority and Agriculture and Economic Development funds.

Source: MAPS accounting information on a budgetary basis.

Chapter 2. Loan and Grant Programs

Chapter Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that loans and grants were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with significant finance-related legal provisions regarding loans and grants.

The Department of Trade and Economic Development (DTED) manages various grant and loan programs. The four largest programs administered by the department are the Public Facilities Authority Funds, Small Cities Block Grant, the Contaminated Cleanup Grant, and the Minnesota Investment Fund (previously known as the Economic Development Program). These four areas accounted for 65 percent of the total funds used during the audit period.

For each of its major grant and loan programs, the department solicits applications from local units of government. DTED staff members review the applications for various eligibility criteria. The department then prioritizes the project lists based on the most qualified applications for issuing new grants and loans. The Public Facilities Authority Board authorizes new awards for its programs, while DTED program administrators make awards for other programs. The department monitors grant and loan programs using a database system. The Integrated Data Base (IDB) contains information such as project descriptions, award amounts, status, and budgeted and actual costs. Summarized data from prior years was loaded into the system when the IDB program was completed in 1997. The system interfaces with the Minnesota Accounting and Procurement System (MAPS) by copying MAPS disbursements and loading them into IDB once a week. In addition to the financial monitoring and IDB information, the department assigns regional field inspectors to perform site visits and report on the progress of projects in process.

Our audit scope included the financial activities presented in Table 2-1. The department receives state appropriations, issues bonds, and receives grants from the federal government to fund these programs.

Department of Trade and Economic Development

Table 2-1
Department of Trade and Economic Development
Selected Grant and Loan Program Expenditures
Three Fiscal Years Ended June 30, 1998

<u>Program</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Public Facilities Authority (1)(2)	\$58,740,079	\$76,716,811	\$79,879,169
Small Cities Block Grant (2)	28,664,670	25,892,798	53,678,225
Contaminated Sites Cleanup	2,478,759	3,315,540	6,145,092
MN Investment Fund	4,802,310	4,749,892	3,822,723

Note (1): The Public Facilities Authority loan and grant programs include the following: Water Pollution Control Revolving Fund, Drinking Water Revolving Fund, Transportation Revolving Fund, and the Wastewater Infrastructure Fund.

Note (2): The increases in the Public Facilities Authority and Small Cities Block Grant programs are attributed primarily to increased funding for flood control and redevelopment projects in flood damaged areas.

Source: MAPS accounting information.

Public Facilities Authority Loan Revolving Funds

The Public Facilities Authority Board (PFA) administers various loan revolving funds and grant programs. The board, under the chairmanship of the department's commissioner, provides oversight to the activities of the authority. The board consists of commissioners from six state agencies, including Finance, Pollution Control, Health, Transportation, Agriculture and DTED. Funding for the various programs is provided from bond sales and federal grants. In addition, loan repayments are deposited to the fund for financing new projects. Federal and state regulations govern the use of these funds.

The PFA prepares annual financial statements and federal program financial information. The PFA contracts each year for audits of its financial statements and federal programs. The Water Pollution Control Revolving Fund was the main loan program in fiscal year 1998 and the program's loan receivable balance totaled about \$475 million at June 30, 1998. The Water Pollution Control Revolving Fund provides below-market rate loans to cities, counties, or sanitary districts for upgrading and constructing wastewater facilities. The PFA finances wastewater facilities that meet the Clean Water Act standards. During fiscal year 1999, the PFA fully implemented the Drinking Water Revolving Fund and the Transportation Revolving Fund. In addition, the PFA granted more funds through the Wastewater Infrastructure Fund for wastewater treatment projects.

Small Cities Block Grant

The Small Cities Program provides funding for low and moderate-income housing rehabilitation. The Department of Housing and Urban Development (HUD) provides funds for this program. The state contributes a two percent funding match. The department grants funds to cities with a population under 50,000 and counties or rural areas with a population under 200,000. State program rules allocate grant funds into three categories: housing grants, public facility grants, and comprehensive grants. The maximum award for a housing or public facility project is \$600,000. The maximum award for a comprehensive project is \$1.4 million.

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Contaminated Sites Cleanup Grant

The Contaminated Sites Cleanup Grant was created in 1993 to provide funding for contamination investigations, the development of a Response Action Plan, and for the cleanup of contamination on development sites. In fiscal year 1998, the department received increases in state appropriations from the Petroleum Tank Cleanup Fund and the General Fund to provide funding for more projects under this program. The department grants funds to cities, port authorities, housing and redevelopment authorities, economic development authorities, and counties. Funds granted are for up to 75 percent of the estimated cleanup costs of a project. Local agencies provide the remaining 25 percent as match to complete the funding of the project.

Minnesota Investment Fund

The Minnesota Investment Fund was created in 1985 to provide businesses with financial assistance for the development of new employment opportunities, maintenance of existing employment, business start-up, and expansion. The department uses state and federal funds for these purposes. The department grants funds to local governmental agencies for loans to businesses. Grants to a governmental unit are limited to \$500,000 each fiscal year. Loan repayments are split between the local governmental unit and the state. The local businesses can use the funds for training and to purchase land, buildings, equipment, and infrastructure improvements. Funds may not be used for working capital, retail business, and new industrial park development.

Audit Objectives and Methodology

The primary objectives of our review of loan and grant programs were to answer the following questions:

- Did the department design and implement internal controls to provide reasonable assurance that loans and grants were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with the significant finance related legal provisions regarding loan and grant expenditures?

To address these objectives, we interviewed department staff to obtain a general understanding of the internal control structure over the grant and loan process. We obtained a general understanding of the control structure related to the Integrated Database (IDB) system. We analyzed loan and grant expenditures and loan repayments. We tested individual grant agreements for management's authorization and compliance with applicable statutes, laws, and procedures.

Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that loans and grants were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with significant finance related legal provisions.

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Chapter 3. Tourism Revenue Match Program

Chapter Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that in-kind contributions to the Tourism Revenue Match Program were documented and recorded appropriately and that cash contributions were accurately reported in the accounting records. For the items tested, the department complied with significant finance-related legal provisions and management's authorization regarding the tourism matching contributions.

The purpose of the Tourism Revenue Match Program is to develop private sector involvement in tourism and to attract nonresident travelers to the state. The department obtains nonstate contributions in cash or in-kind services. In-kind contributions include meals, lodging, transportation, advertising, and other services. The amount of funds appropriated for marketing activities in the Tourism Division is contingent upon the receipt of an equal amount of private contributions. The amount of the required match was \$2.5 million per year throughout the audit period. Table 3-1 shows the total contributions the department received for this program for the three fiscal years ending June 30, 1998.

Table 3-1
Department of Trade and Economic Development
Tourism Revenue Match Contributions
Three Fiscal Years Ended June 30, 1998

<u>Contributions</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Cash	\$1,310,257	\$1,627,352	\$1,841,914
In-Kind Services	<u>3,232,991</u>	<u>2,723,967</u>	<u>3,331,042</u>
Total Contributions	<u>\$4,543,248</u>	<u>\$4,351,319</u>	<u>\$5,172,956</u>

Source: Tourism match requirement reports prepared by the Department of Trade and Economic Development.

Audit Objectives and Methodology

The primary objectives of our review of the tourism revenue match program were to answer the following questions:

- Did the department design and implement internal controls to provide reasonable assurance that tourism revenue match contributions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

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- For the items tested, did the department comply with the significant finance-related legal provisions regarding the tourism revenue match contributions?

To address these objectives, we interviewed department staff to obtain a general understanding of the internal control structure for the tourism revenue match cash and in-kind contributions. We analyzed documentation for match contributions and verified that a sufficient amount had been received to comply with applicable appropriation laws and operating procedures.

Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that tourism revenue match contributions were documented and recorded appropriately. The cash contributions were accurately reported in the accounting records. For the items tested, the department complied with significant finance-related legal provisions and management's authorization regarding the tourism matching contributions.

Chapter 4. Payroll

Chapter Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that employees received the correct compensation and that payroll expenditures were accurately reported in the accounting records. For the items tested, the department compensated its employees in compliance with applicable bargaining unit contract provisions and management's authorization.

The Department of Trade and Economic Development (DTED) employed an average of 240 staff members from fiscal year 1996 through fiscal year 1998. This included approximately 200 classified and 40 unclassified positions. The majority of employees were located in St. Paul offices; however, the department also staffed ten travel information centers located throughout the state. Payroll expenditures totaled approximately \$31 million for the three fiscal years ending June 30, 1998.

The department has separate human resource and payroll sections. The human resource group initiates new hires and makes personnel and rate adjustments. The payroll section enters employee hours from timesheets, generates related reports, and verifies the accuracy of the agency's payroll reporting. The department records all personnel and payroll transactions on the State Employee Management System (SEMA4).

Audit Objectives and Methodology

The primary objectives of our audit of payroll were to answer the following questions:

- Did the department design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with the significant finance-related legal provisions concerning payroll?

To meet these objectives, we interviewed agency employees to gain an understanding of the internal control structure over the payroll and personnel process. We analyzed payroll expenditure levels to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested employee salary adjustments to ensure compliance with bargaining unit provisions.

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Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that employees received the correct compensation and that payroll expenditures were accurately reported in the accounting records. For the items tested, the department compensated its employees according to the applicable bargaining unit contract provisions and management's authorization.

Chapter 5. Professional and Technical Services Contracts

Chapter Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that professional and technical service contracts were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with significant finance-related legal provisions regarding professional and technical services.

The Department of Trade and Economic Development is required to follow the contracting laws outlined in Minn. Stat. Chapter 16C. The department incurred approximately \$10.9 million for professional and technical service contract expenditures from July 1, 1995, through June 30, 1998. The majority of the contract expenditures were for advertising and marketing costs to promote Minnesota. The department employs a contract coordinator to process and monitor professional and technical service contracts.

Audit Objectives and Methodology

The primary objectives of our review of professional/technical service contract expenditures were to answer the following questions:

- Did the department design and implement internal controls to provide reasonable assurance that professional and technical service contracts were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with the significant finance-related legal provisions regarding consultant expenditures?

To address these objectives, we interviewed department staff to obtain a general understanding of the internal control structure over the professional and technical contract process. We analyzed contract expenditures and tested individual contracts for management's authorization and compliance with Department of Administration professional and technical service contract guidelines and procedures.

Conclusions

The Department of Trade and Economic Development designed and implemented internal controls to provide reasonable assurance that professional and technical service contracts were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. The department complied with significant finance-related legal provisions regarding consultant expenditures, for the items tested.

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Status of Prior Audit Issues As of June 25, 1999

Most Recent Audit Report 97-8, issued in February 1997, examined selected programs of the Department of Trade and Economic Development related to the Statewide Audit of the State of Minnesota's fiscal year 1996 financial statements and Single Audit of federal assistance programs. The scope included the Community Development Block Grant (CFDA #14.228), which was a major program under the Single Audit Act of 1984. We found that the Department of Trade and Economic Development complied with the applicable general and program specific federal requirements for this program.

State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.