

**DEPARTMENT OF MINORITY BUSINESS ENTERPRISES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 1998 through APRIL 30, 2000**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Minority Business Enterprises for the period July 1, 1998 through April 30, 2000 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we did not identify any material weaknesses in internal controls; and
- several instances of noncompliance that are required to be reported under Government Auditing Standards.

The issues found in this report represent a severe deficiency of internal controls and increase the risk that fraud or misappropriation of funds could occur and go undetected. While we found no fraud or misappropriation of funds, the staff lacks financial experience and knowledge of state rules and regulations. Although the Department of Minority Business Enterprises has taken corrective action on many of the issues cited in this report, we continue to question the Department's ability to effectively process transactions and ensure their compliance with the appropriate rules and regulations.

Additionally, the size of the agency and complexity of operations makes it cost prohibitive for the Department to maintain the appropriate levels of staff to handle purchasing and accounting operations. We therefore strongly recommend that the Secretary of Commerce and Trade work with the Secretary of Finance to determine the agency that could best handle the purchasing and accounting operations for this agency.

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AGENCY INFORMATION

The Department of Minority Business Enterprises (MBE) assists in the establishment and promotion of minority businesses throughout the Commonwealth. A minority business is an enterprise that has one or more socially and economically disadvantaged persons as either the owner or individuals with controlling interest. MBE offers several areas of support including procurement assistance, marketing, technical guidance, and financial services.

MBE has two primary sources of funding: General Fund appropriations and Highway Maintenance and Operating Funds provided by the Virginia Department of Transportation (VDOT). The funds provided by the VDOT support efforts to increase the participation of disadvantaged and women-owned business enterprises in Virginia's Federal Highway Construction Program.

During fiscal year 2000, the General Assembly provided MBE with \$300,000 to capitalize the Capital Access Fund for Disadvantaged Businesses. MBE manages the fund and the Virginia Small Business Financing Authority administers the fund. The fund had \$305,474 as of April 30, 2000.

Financial Information

The following are total revenues and expenses for the fiscal year ending June 30, 1999, and the period July 1, 1999 through April 30, 2000, respectively:

<u>Revenues</u>	<u>Fiscal Year June 30, 1999</u>	<u>Period Ending April 30, 2000</u>
Appropriations:		
General Fund	\$ 251,887	\$ 384,641
Highway Trust Fund	963,825	966,862
Miscellaneous Revenues	<u>1,841</u>	<u>-</u>
Total Revenues	<u><u>\$1,217,553</u></u>	<u><u>\$1,351,503</u></u>
<u>Expenses</u>		
Personal Services	\$ 864,786	\$ 841,436
Contractual Services	220,154	102,275
Supplies and Materials	12,605	7,914
Transfer Payments	5,272	151
Continuous Charges	21,648	71,362
Property and Improvements	320	-
Equipment	<u>19,192</u>	<u>1,586</u>
Total Expenditures	<u><u>\$1,143,977</u></u>	<u><u>\$1,024,724</u></u>

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Our audit of the Department of Minority Business Enterprises found serious internal control deficiencies and lack of compliance with state regulations for the period July 1, 1998 through April 30, 2000. Agency management has responsibility for establishing and maintaining sound internal controls, and complying with state and federal regulations. Further, management must have policies and procedures that allow the agency to follow the controls built into the central statewide systems.

Below are the internal control weaknesses and compliance issues that we identified. A report by the Department of the State Internal Auditor issued on April 6, 2000 also addressed some of these deficiencies and compliance issues.

Fiscal Personnel

Overall, agency personnel did not have adequate knowledge of fiscal operations and state accounting policies and procedures. The number and type of management issues in this report highlight the need for staff to understand the basics of the state's fiscal operations. During our audit, we found the following situations over the handling of fiscal transactions.

- Personnel with limited or no training and experience sometimes processed or reviewed transactions.
- There was an inadequate separation of duties and oversight over the procurement and purchasing processes.
- There were no guidelines for the internal processing of transactions.

Some of the issues impacting fiscal personnel and operations occurred during a restructuring of agency personnel. We did note that many of the accounting issues cited in this report increased in volume during the restructuring period.

Vendor Payments and Procurement

- Employees wrote purchase orders after receiving goods and services. State guidelines recommend the use of requisition forms, but require the use and preparation of purchase orders for all goods before purchase and receipt.
- Some vendor payments did not have proper approval because authorizing signatures were either missing or illegible. It also appears that someone other than authorized staff signed vouchers.
- Duplicate payment recovery has not occurred on two invoices:
 - Hello, Inc. – invoice was paid on July 23, 1998 and August 18, 1998.
 - Commonwealth Park Suites Hotel – invoice was paid on August 4, 1998 and September 22, 1998.

- A consultant did not receive an IRS Form 1099-Miscellaneous Tax Reporting form for payments totaling \$4,375.
- MBE did not comply with the Commonwealth's Prompt Pay Act from November 1999 through April 2000. Although the State Comptroller expects normal agencies to have 5 percent or less of their payments past due, Minority Business Enterprise's past due payments were 86.68 percent in March 2000 and 80 percent in April 2000.
- The annual rental payment of \$57,364 to the Department of General Services (DGS) was more than 140 days overdue.
- No Memorandums of Understanding (MOUs) exist between this agency and other state facilities (such as Virginia Department of Transportation), where the agency uses space for remote offices.

Travel

- Employees received travel reimbursement payments without having proper or complete support for the expenses.
- Travelers received per diem payments that were either not due or improperly calculated. The State Comptroller has guidelines for per diem payments to pay for meals and incidentals, which are not otherwise covered. When a traveler receives a meal as part of a meeting or event, the guidelines require a reduction of the per diem payment.
- Unauthorized Out-of-the-Country Travel
 - The Director did not receive prior written approval from the Secretary of Commerce and Trade to attend a conference in Jamaica. However, the Director did receive approval after the trip.
 - Supporting documentation indicated that the Director was scheduled to attend a four-day conference, but the conference schedule shows only a one-day meeting and the Director did not arrive on that day until after 2:00 p.m.
 - During the final three days of the trip, the Director stayed at an all-inclusive resort, but still requested meal per diem reimbursements.
 - Travel reimbursements for hotels and meals on this trip exceeded state guidelines.

Travel Advances

- Temporary travel advances had no supporting documentation and employees did not repay the advances within the required 60 days after receiving the advance. MBE had outstanding travel advances totaling \$2,119 at April 30, 2000, dating back to October 21, 1998.

Payroll

- Hourly employees worked more than the annual 1500-hour limit set by state regulations.
- Wage employees received overtime payment without authorization or approval. On one occasion, an employee submitted thirty-eight hours of unauthorized overtime for one week.
- There are no time and effort-reporting requirements for wage employees.
- Personnel files were often incomplete or missing.

General

- There was no agency policy and procedure manual.
- Because of its chronic lateness in performing health care reconciliations, MBE did not receive refunds for health care overpayments for January and February 2000.
- Employees do not reimburse the agency, nor does MBE request reimbursement, for personal calls on agency cellular phones.
- The Code of Virginia requires that the Director appoint and consult with an Interdepartmental Board. Although the Director has tried to create the Board, there have been no appointments.
- Management has failed to institute a strong internal control environment and enforce state regulations throughout this agency.

RECOMMENDATIONS

The above issues represent a severe deficiency of internal controls and increase the risk that fraud or misappropriation of funds could occur and go undetected. While we found no fraud or misappropriation of funds, the staff lacks financial experience and knowledge of state rules and regulations. Although MBE has taken corrective action on many of the issues cited in this report, we continue to question MBE's ability to effectively process transactions and ensure their compliance with the appropriate rules and regulations.

Additionally, the size of the agency and complexity of operations makes it cost prohibitive for MBE to maintain the appropriate levels of staff to handle purchasing and accounting operations. We therefore strongly recommend that the Secretary of Commerce and Trade work with the Secretary of Finance to determine the agency that could best handle the purchasing and accounting operations for this agency.

May 31, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Minority Business Enterprises** (MBE) for the period of July 1, 1998 to April 30, 2000. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Payroll
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are described in the subsection titled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed several instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 20, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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DEPARTMENT OF MINORITY BUSINESS ENTERPRISES
Richmond, Virginia

Linda Byrd-Harden, Director

