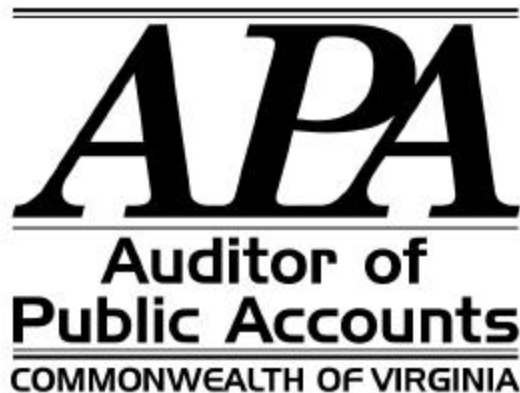


**DEPARTMENT OF MINORITY BUSINESS ENTERPRISE  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE PERIOD  
JULY 1, 2001 THROUGH JUNE 30, 2003**



## AUDIT SUMMARY

This report includes a finding “Consolidate Fiscal and Procurement Operations With Another Agency” that recommends that the Department consider using one of state’s service bureaus or use a larger agency to provide these services. The Department does not concur with this recommendation, however, we believe that in the long-term this recommendation provides improved internal controls and trained staff to the Department and Commonwealth.

Our audit of the Department of Minority Business Enterprise for the period July 1, 2001 through June 30, 2003 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- several internal control matters that we consider reportable conditions; however, we did not identify any material weaknesses in internal controls; and
- no instances of noncompliance that are required to be reported under Government Auditing Standards.

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## AGENCY HIGHLIGHTS

The Department of Minority Business Enterprise 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. The agency offers several areas of support, including procurement assistance, marketing, technical guidance, and financial services.

The Department 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. There is a Memorandum of Agreement and Understanding between the Department and VDOT that outlines the objectives of the relationship between the two agencies. According to the Memorandum, the Department will provide support for VDOT's Disadvantaged and Women's Business Enterprise Program including assisting in the certification and prequalification process, providing general management and technical assistance, maintaining a database of certified disadvantaged and women-owned businesses and the services rendered to them by the Department, identifying and facilitating bonding and financial assistance, and increasing community awareness of the opportunities available to disadvantaged and women-owned businesses with the Commonwealth's highway construction program.

### Capital Access Fund for Disadvantaged Businesses

During fiscal year 2000, the General Assembly provided the agency with \$300,000 of non-reverting funds to capitalize the Capital Access Fund for Disadvantaged Businesses. The Department used the funds to create the Providing Access to Capital for Entrepreneurs' Program, which includes a loan guarantee and loan loss reserve program. The Department manages the fund and the Virginia Small Business Financing Authority administers the fund. The loan loss reserve program provides a form of loan portfolio insurance for participating banks through special loan loss reserve accounts. The lender bank and/or borrower contribute between three and seven percent of the loan amount into the loan loss reserve account and the Department matches the amount up to seven percent of the loan amount. The monies in these loan loss reserve accounts cover losses on loans enrolled by the participating bank. Under the loan guarantee program, the Department will guarantee up to 90 percent of the outstanding principal on loans for eligible participants. During fiscal year 2002, the Department transferred \$100,000 from the fund to the General Fund of the Commonwealth in accordance with Chapter 899 of the Appropriations Act.

At June 30, 2003, the Fund had a balance of \$252,614, including interest and fees earned and the Department had outstanding loan guarantees totaling \$354,001. Currently, one outstanding loan of approximately \$100,000 is in delinquent status, however, the borrower is negotiating repayment terms with the bank. Another outstanding loan of approximately \$50,000 is in default status. If the bank is unable to collect the amount due from the borrower the Department would be obligated to reimburse the bank for 90 percent of the outstanding loan balance and reasonable collection expenses.

### Disparity Assessment

Senate Joint Resolution No. 359, which passed during the 2003 General Assembly Session, requested the Department to direct the development of a disparity assessment to determine the status of the participation of minority-owned businesses in the Commonwealth's procurement transactions. The Department requested the assistance of the Departments of General Services and Transportation and the Virginia Employment

Commission in directing the assessment. Study funding will come from the Department, the Virginia Employment Commission, and the Departments of Transportation, Social Services, Business Assistance, and General Services. In addition, the Resolution encourages the Department to seek funding from other private and public sources. In April 2003, the Department contracted with MGT of America, Inc. to perform the disparity assessment at a cost of \$500,000. As of June 30, 2003, the Department had deposited \$331,000 into a special revenue fund to cover the cost of the assessment. This amount includes contributions from the following:

- \$50,000 from the Department of Business Assistance
- \$10,000 from the Department of General Services
- \$145,000 from the Department of Minority Business Enterprise
- \$50,000 from the Department of Social Services
- \$75,000 from the Virginia Employment Commission

The Department contributed a portion of its General Fund and Highway Maintenance and Operating Fund appropriations toward the cost of the disparity assessment and it will collect additional funds in fiscal year 2004.

**FINANCIAL INFORMATION**

The schedules below summarize the Department’s budgeted revenues and expenses compared with actual results for fiscal year 2002 and fiscal year 2003.

**Analysis of Budget and Actual Revenue by Funding Source  
Fiscal Year Ended June 30, 2002**

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>
General fund appropriations	\$ 398,628	\$ 369,845	\$ 369,845
Special revenue fund	-	6,250	2,000
Highway maintenance and operating	<u>1,026,638</u>	<u>1,026,638</u>	<u>1,025,811</u>
Total resources	<u>\$1,425,266</u>	<u>\$1,402,733</u>	<u>\$1,397,656</u>

**Analysis of Budget and Actual Revenue by Funding Source  
Fiscal Year Ended June 30, 2003**

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>
General fund appropriations	\$ 364,565	\$ 250,696	\$ 50,696
Special revenue fund	-	210,000	331,000
Highway maintenance and operating	<u>1,035,857</u>	<u>926,151</u>	<u>925,310</u>
Total resources	<u>\$1,400,422</u>	<u>\$1,386,847</u>	<u>\$1,507,006</u>

**Analysis of Budgeted and Actual Expenses**

Minority Enterprise Industrial Development <u>Services Program</u>	<u>Program Expenses</u>			<u>Breakdown of Expenses by Funding Source</u>		
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Highway Maintenance and Operating</u>
Fiscal Year 2002	\$1,425,266	\$1,402,733	\$1,391,814	\$366,003	\$ -	\$1,025,811
Fiscal Year 2003	\$1,400,422	\$1,386,847	\$1,117,170	\$243,045	\$61,138	\$ 812,987

As with all state agencies, the Department has undergone recent budget reductions in its General Fund and Highway Maintenance and Operating Fund appropriations. The Department has addressed these reductions primarily by not filling vacant positions. In addition, the Director of the Department voluntarily did not receive a salary during fiscal year 2003. As discussed earlier, during fiscal year 2003 the Department created a special revenue fund to account for contributions toward the cost of the disparity assessment. A portion of the Department's General Fund appropriations and Highway Maintenance and Operating Funds went into the special revenue fund to cover the cost of the disparity assessment.

The schedules below summarize the Department's expenses by program and type for fiscal year 2002 and fiscal year 2003.

**Fiscal Years Ended June 30, 2002 and June 30, 2003**

Minority Enterprise Industrial Development <u>Services Program</u>	Fiscal Year <u>2002</u>	Fiscal Year <u>2003</u>
Personal services	\$ 1,070,735	\$ 846,501
Contractual services	197,692	179,268
Supplies and materials	14,409	3,758
Rent, insurance, and utilities	83,839	85,218
Equipment	<u>25,139</u>	<u>2,425</u>
Total expenses	<u>\$ 1,391,814</u>	<u>\$ 1,117,170</u>

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Our audit of the Department of Minority Business Enterprise found that the Department had several internal control weaknesses related to its fiscal operations. During fiscal year 2003, the Department experienced turnover in its fiscal operations area, which contributed to the internal control deficiencies noted during our audit. The Department opted to utilize existing employees to perform the fiscal responsibilities, who had limited financial experience and knowledge of state accounting rules and regulations. The Department did seek training for these employees once they took over the fiscal responsibilities.

Our specific internal control findings and recommendations are included below. The Department's official response to the internal control findings and recommendations is included on pages 10 through 13.

### Consolidate Fiscal and Procurement Operations With Another Agency

The Auditor of Public Accounts has, as recently as our audit for the year ended June 30, 2000, recommended the consolidation of the Department's fiscal and procurement activities with another large agency. Past Secretaries and agency directors have resisted consolidating operations; however, this report is an example of how insufficient and inexperienced staff can cause the Department to have inadequate internal controls.

We commend the current Director for his actions to strengthen the Department's internal controls and train the staff. However, fundamentally, the loss of one or two individuals can easily erode these actions in a small agency, such as the Department.

We again recommend the consolidation of the fiscal and procurement function within a larger agency. Numerous small agencies have similar arrangements including a central accounting service for the Governor and Cabinet Secretaries. Because of the work relationship with the Department of General Services, we would recommend consolidation with this agency, which already provides these services to other small departments.

Prior to our audit, the current Director, who has been with the Department since September 2002, had recognized the need for additional internal controls and had undertaken a review of the Department's operations to identify areas that needed improvement.

Below are the internal control weaknesses and compliance issues that we identified during our audit. We recommend that the Department develop and document policies and procedures to address these issues to ensure continuity of sound internal controls over fiscal operations in the event of future employee turnover.

***Agency and Auditor Response:** The Department does not concur with this recommendation; however, we believe in the long-term, this recommendation provides improved internal controls and trained staff to the Department and Commonwealth. Pages 9 to 12 include the Department's detailed response.*

### Contract Management Policies and Procedures

The Department should develop procedures to properly maintain procurement and contract documentation for reviewing and approving payments. The auditor found several instances in which the Department did not maintain the procurement documentation for awarding a contract. Therefore, the auditor could not determine whether or not the appropriate vendor received the contract award. In addition, the Department did not maintain the contract support or purchase order. The Department should review this information prior to approving payments to vendors to ensure the vendor met the terms of the contract and billed for the proper amount. The Department should maintain all documentation in accordance with state guidelines and review voucher support before approving payments.

***Agency Response:*** *The Department concurs, see actions taken page 11*

### Cell Phone Policies and Procedures

The Department needs to strengthen its policies and procedures concerning the usage of cell phones by its employees. During the audit we noted that some employees were regularly exceeding the minutes allowed by their plan for their Department-issued cell phones. Currently, the agency requires that employees certify their usage is appropriate. However, the Department does not have procedures in place to review cell phone bills and verify that the usage is appropriate. The Department should modify its policies and procedures to address what is appropriate cell phone usage and to monitor and follow up on questionable usage. The Department should communicate these policies and procedures to its employees. In addition, the Department should request reimbursement for inappropriate cell phone usage.

***Agency Response:*** *The Department concurs, see actions taken page 11*

### Compliance with Prompt Payment Act

The Department needs to develop procedures to process payments in accordance with the Prompt Pay Act. The Prompt Payment Act requires agencies to process payments to ensure that invoices are paid by the required payment due date. The Department of Accounts (Accounts) reports agencies for noncompliance if fewer than 95 percent of their payments are processed by the required due date. The Department was not in compliance for six of the twelve months in fiscal year 2003.

Accounts reviews support for all transactions entered into the Commonwealth's Accounting and Reporting System by the Department prior to processing the transaction. The Department should ensure the transactions are entered into the system in a timely manner and follow up on any transactions that are not processed by the established deadline to ensure the necessary supporting documentation has been received by Accounts.

***Agency Response:*** *The Department concurs, see actions taken page 12.*



October 15, 2003

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Kevin G. Miller  
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 Enterprise** for the period July 1, 2001 through June 30, 2003. We conducted our audit in accordance with 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. We also reviewed the Department's corrective actions of audit findings from prior year reports.

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 (including 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 accounting principles generally accepted in the United States of America. 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 discussed in the section titled "Internal Control 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to the audit findings reported in the prior year.

This report is intended for the information and use 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 November 6, 2003 and the agency response is on pages 9-12.

AUDITOR OF PUBLIC ACCOUNTS

SAH:cam  
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## **AGENCY'S RESPONSE**



Mark R. Warner  
Governor

# COMMONWEALTH of VIRGINIA

Edward L. Hamm, Jr.  
Director

*Department Of Minority Business Enterprise*  
200-202 N. Ninth Street, 11<sup>th</sup> Floor  
Richmond, Virginia 23219

Michael Schewel  
Secretary of Commerce and Trade

November 13, 2003

Staci A. Henshaw, CPA  
Audit Director  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street, 8<sup>th</sup> Fl.  
Richmond, VA 23219

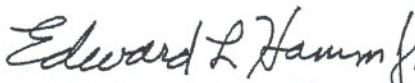
Dear Ms. Henshaw:

I have reviewed the final draft report you submitted to me detailing your audit of the Virginia Department of Minority Business Enterprise (VDMBE). This audit covered the period of July 1, 2001 through June 30, 2003. I am pleased to see that after I communicated my concerns to you, some changes were made in the report.

We will continue to follow your guidelines and consult with you as necessary in an attempt to operate according to State requirements. You will find my response to your audit attached.

Let me take this opportunity to thank you for the time and care taken to explain various findings to me. We truly appreciate your service.

Sincerely,

  
Edward L. Hamm, Jr., Director  
VDMBE

ELH/dh

## RESPONSE TO INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Recommendation:

#### Consolidate Fiscal and Procurement Operations With Another Agency

The Auditor of Public Accounts has, as recently as our audit for the year ended June 30, 2000, recommended the consolidation of the Department's fiscal and procurement activities with another large agency. Past Secretaries and agency directors have resisted consolidating operations; however, this report is an example of how insufficient and inexperienced staff can cause the Department to have inadequate internal controls.

We commend the current Director for his actions to strengthen the Department's internal controls and train the staff. However, fundamentally, the loss of one or two individuals can easily erode these actions in a small agency, such as the Department.

We again recommend the consolidation of the fiscal and procurement function within a larger agency. Numerous small agencies have similar arrangements including a central accounting service for the Governor and Cabinet Secretaries. Because of the work relationship with the Department of General Services, we would recommend consolidation with this agency, which already provides these services to other small departments.

### Response: Do Not Concur:

The Department of Minority Business Enterprise currently has two experienced fiscal personnel, plus an outside consultant (MBA/CPA). Current fiscal functions are operating smoothly, without difficulties. Adequate "back-up" exists.

During FY2002 and FY2003, DMBE operated with one full-time fiscal person who was determined not to be competent, by the current agency director, shortly after the director's arrival near the beginning of the second quarter of FY2003. However, state personnel policies prevented the employee's immediate replacement, since she had previously been rated as a "contributor" i.e., "satisfactory" performer. However, she then received training, several written warnings and counseling.

Shortly thereafter, said employee announced that she was pregnant; thereby, placing any other meaningful corrective action on hold. Employee had medical complications throughout the remainder of her pregnancy, taking early leave during February 2003; then, extended leave until her subsequent unexpected (yet appreciated) resignation at the end of FY2003. During her medical leave, the agency opted to utilize two existing employees (who also had other duties) to learn and perform all routine fiscal duties.

Thus, it was the less than competent performance of one employee (and her initial supervisor) and extended medical leave of that same one agency fiscal employee which caused delayed payments and other internal operational deficiencies noted during the audit. Current fiscal employees are knowledgeable and competent.

**Original Finding 1: Contract Management Policies and Procedures**

The Department should develop procedures to properly maintain procurement and contract documentation for reviewing and approving payments. The auditor found several instances in which the Department did not maintain the procurement documentation for awarding a contract. Therefore, the auditor could not determine whether or not the appropriate vendor received the contract award. In addition, the Department did not maintain the contract support or purchase order. The Department should review this information prior to approving payments to vendors to ensure the vendor met the terms of the contract and billed for the proper amount. The Department should maintain all documentation in accordance with state guidelines and review voucher support before approving payments.

**Response: Concur**

The Department's prior procedure was for contracts to be maintained by the Director or Deputy, who would approve payments. New control procedures have been implemented.

**CORRECTIVE ACTIONS**

The Department has developed procedures for properly maintaining procurement contract documentation in the fiscal section for reviewing, approving and auditing payments. As of this date, fiscal operations have copies of all required contracts. All contracts are accessible to fiscal staff for the reviewing of terms of each contract before payment. This procedure is now required by the agency's Fiscal Operations Standards of Procedures (copy submitted to Adam Tagert, Auditor).

**Original Finding 2: Cell Phone Policies and Procedures**

The Department needs to strengthen its policies and procedures concerning the usage of cell phones by its employees. During the audit we noted that some employees were regularly exceeding the minutes allowed by their plan for their Department-issued cell phones. Currently, the agency requires that employees certify their usage is appropriate. However, the Department does not have procedures in place to review cell phone bills and verify that the usage is appropriate. The Department should modify its policies and procedures to address what is appropriate cell phone usage and to monitor and follow up on questionable usage. The Department should communicate these policies and procedures to its employees. In addition, the Department should request reimbursement for inappropriate cell phone usage.

**Response: Concur**

There was a verification process for personal calls in place during the time period covered by the audit. A copy of the relevant monthly telephone bills (cellular and agency) was distributed to each employee. The employee identified and certified all personal calls upon presentation of telephone bill. Payment for all personal calls was required at that time.

## **CORRECTIVE ACTIONS**

Upon notification of alleged questionable cell phone usage, the director implemented DMBE Policy 40 (see attached). A copy of Policy 40 was distributed to all staff. Cellular telephone bills are reviewed monthly by the fiscal officer for inappropriate usage or any abnormal activity. In the event of any possible inappropriate usage, the employee's supervisor is notified immediately. These procedures are documented in the Fiscal Operations Standards of Procedures. These have been the agency's policy and partially-document procedures for the past year, to include monthly review and written verification of state business usage by each employee assigned a cell phone. Follow-through has been improved to better manage and minimize cell phone usage. Employees have been instructed not to exceed monthly plan usage allowance without prior Director approval.

### **Original Finding 3: Compliance with Prompt Payment Act**

The Department needs to develop procedures to process payments in accordance with the Prompt Pay Act. The Prompt Payment Act requires agencies to process payments to ensure that invoices are paid by the required payment due date. The Department of Accounts (Accounts) reports agencies for noncompliance if fewer than 95 percent of their payments are processed by the required due date. The Department was not in compliance for six of the twelve months in fiscal year 2003.

Accounts reviews support for all transactions entered into the Commonwealth's Accounting and Reporting System by the Department prior to processing the transaction. The Department should ensure the transactions are entered into the system in a timely manner and follow up on any transactions that are not processed by the established deadline to ensure the necessary supporting documentation has been received by Accounts.

**Response:** Concur

## **CORRECTIVE ACTIONS**

The Department has developed procedures to ensure that it meets the Prompt Pay Act requirements. The Department generally pays approximately 15- 20 invoices monthly. If even one is delayed for any reason, the agency is generally in violation of the Prompt Payment Act's 95% on time payment requirement. In most instances the agency had timely sent payment documents to DOA via inter-office mail. Sometimes, DOA alleges late receipt, albeit resulting from mail delivery or their own error. In recent months, the agency's policy requires timely hand-delivery of our payment documents to DOA. DOA still does not pay all agency bills as required. With only 15-20 monthly payables, DOA's failures (of even one payable) affects the agency's monthly compliance.

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE  
Richmond, Virginia

OFFICIALS

Edward L. Hamm Jr., Director