

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

**REPORT ON AUDIT
FOR THE PERIOD
FEBRUARY 1, 2008 THROUGH DECEMBER 31, 2008**



AUDIT SUMMARY

Our audit of the Department of Minority Business Enterprise for the period February 1, 2008 through December 31, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation that we have communicated to management in the Internal Control Findings and Recommendations section of this report; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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STATUS OF PRIOR YEAR RECOMMENDATIONS

Information System Security Program

The Accounting and Internal Control Compliance Oversight unit at the Department of Accounts is assisting the Department of Minority Business Enterprise (Minority Business) in developing an information systems security program. The anticipated completion date is April 2009. Once the program is complete, Minority Business should continue to work with the Accounting and Internal Control Compliance Oversight unit to implement the program and train its employees in the information security policies and procedures.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Follow Small Purchase Charge Card Procedures

Minority Business' sole cardholder did not maintain a daily record of individual purchases to compare to the monthly credit card statement. Therefore, Minority Business does not know if they are paying for only their purchases, or if there are erroneous charges on their monthly statement.

The State Comptroller recommends that small purchase charge card holders maintain a daily log of purchases to ensure that agencies only pay for items they purchased and can detect errors and erroneous charges timely. Minority Business should follow the Commonwealth's procedures for small purchase charge cards.

Process Vendor Statements Promptly

Minority Business did not send several bills to the Department of General Services in a timely manner, resulting in non-compliance with Commonwealth's Prompt Payment Statutes. The Prompt Payment Statutes require agencies to pay their vendor bills either by the due date or within 30 days of receiving goods or services, whichever is later. In order to comply with the Prompt Payment Statutes, Minority Business must send its bills to the Department of General Services in sufficient time for them to pay the bill in accordance with the Statutes.

AGENCY HIGHLIGHTS

The Department of Minority Business Enterprise (Minority Business) assists in the establishment and promotion of small, women, and minority-owned (SWAM) businesses throughout the Commonwealth. A SWAM business is an enterprise that has one or more socially and economically disadvantaged persons as either the owner or individuals with controlling interest. Minority Business offers several areas of support, including management and technical assistance, as well as educational, training, marketing, and outreach programs.

Minority Business' sources of funding are General Fund and Highway Maintenance and Operating Fund appropriations. The funds provided by the Highway Maintenance and Operating Fund appropriation supports efforts to increase the participation of disadvantaged owned business enterprises in Virginia's federal transportation and construction projects.

The following table shows Minority Business' original budget, final budget, and actual expenses for fiscal year 2008. Minority Business received total resources of approximately \$2.66 million in fiscal year 2008.

Analysis of Budget and Actual Funding by Funding Source Fiscal Year Ended June 30, 2008

| <u>Funding Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Expenses</u> |
|--|------------------------|---------------------|------------------------|
| General Fund | \$ 749,817 | \$ 921,933 | \$ 881,315 |
| Special Revenue | - | 352,016 | - |
| Highway Maintenance and Operating Fund | <u>1,385,501</u> | <u>1,385,501</u> | <u>1,288,705</u> |
| Total Resources | <u>\$2,135,318</u> | <u>\$2,659,450</u> | <u>\$2,170,020</u> |

Source: Commonwealth Accounting and Reporting System and Chapter 847 of the Appropriations Act

The increase from the original to final budget is due to the unused cash balance of \$352,000 in funding for disparity studies provided in fiscal year 2004, which has carried forward each year since. In December 2008, Minority Business transferred this amount to the General Fund as part of its budget reduction strategy. Minority Business also received an additional \$166,000 as a re-appropriation of the prior fiscal year's unexpended general funds.

The table below summarizes Minority Business' expenses by major object for fiscal year 2008. Payroll expenses of about \$1.56 million account for nearly 72 percent of fiscal year 2008 expenses. Minority Business employs approximately 20 full-time employees. The majority of the remaining expenses, about 19 percent, are for contractual services. Contractual services include computer services, travel, and administrative and fiscal services purchased from other state agencies.

Analysis of Actual Expenses by Type for Fiscal Year Ended June 30, 2008

| <u>Expense Type:</u> | <u>Amount</u> |
|----------------------|--------------------|
| Personal Services | \$1,556,037 |
| Contractual Services | 414,925 |
| Continuous Charges | 123,725 |
| Other | <u>75,333</u> |
| Total Expenses | <u>\$2,170,020</u> |

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 10 , 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Minority Business Enterprise** for the period February 1, 2008 through December 31, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of Minority Business' internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Minority Business' 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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenses
Payroll expenses
Appropriations
Information Systems Security

We performed audit tests to determine whether Minority Business' 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and agreements, and observation of Minority Business' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Minority Business properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Minority Business 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 and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Internal Control Findings and Recommendations."

Minority Business has completed corrective action with respect to the previously reported findings "Improve Controls over Cell Phone Usage" and "Improve Payroll Certification Processes." Minority Business is correcting the previous report finding "Document Information Security Program" with the assistance of the State Comptroller. Accordingly, we have provided an update on Minority Business' progress in addressing this finding in the section entitled "Status of Prior Year Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on March 11, 2009. Management's response has been included at the end of this report.

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.

AUDITOR OF PUBLIC ACCOUNTS

SEV/clj



Timothy M. Kaine
Governor

COMMONWEALTH of VIRGINIA

Samuel Hayes, III, PE
Director

Department of Minority Business Enterprise

Viola O. Baskerville
Secretary of Administration

1111 East Main Street, Suite 300
Richmond, Virginia 23219

March 11, 2009

Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

In my capacity as Director of the Department of Minority Business Enterprise (hereinafter, "DMBE" or the "Agency"), I have reviewed the findings and recommendations provided by the Auditor of Public Accounts ("APA") in its report. I acknowledge the findings and recommendations included in the audit review for the period of February 1, 2008 through December 31, 2008.

The Agency is pleased to report that many operational and internal controls improvements and changes have been implemented since the fiscal year 2008 Audit. As noted in this Audit, the two issues that require additional attention were credit card purchase logging and closer adherence to the Prompt Pay Act. DMBE has revised our credit card policies and have implemented daily credit card log updates, which is and continues to be reconciled monthly and reviewed by the Director prior to submission to the Department of General Services for review. DMBE has also implemented additional measures to ensure that invoices are approved in a timely manner to adhere to the State's Prompt Pay Act.

The Department of Minority Business Enterprise is fully committed to doing its part in addressing the recommendations included in this report. We appreciate the work of the APA in helping identify areas in which the Agency can be more efficient and secure.

Sincerely,

A handwritten signature in cursive script that reads "Samuel Hayes III".

Samuel Hayes III, P.E.

Agency Director and Special Assistant to the Governor for Minority Enterprise

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

DEPARTMENT OFFICIAL

Samuel Hayes, III
Director