

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Commerce
Fiscal Year 2005



March 9, 2006

06-06

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Commerce

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Scott Tjomsland, CPA	Team Leader
Gena Hoffman	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Commerce at an exit conference on February 24, 2006:

Glenn Wilson	Commissioner
Dennis Munkwitz	Chief Financial Officer
Tim Jahnke	Financial Services Director
John Harvanko	Low-Income Home Energy Assistance Program Director

Report Summary

Key Findings:

- The Department of Commerce did not sufficiently document its audit approach to test and verify household eligibility for federal heating assistance - CFDA #93.568. (Finding 1, page 3)
- The department did not consistently identify all federal program numbers in the accounting system. (Finding 2, page 4)

The audit report contained two audit findings relating to internal controls or legal compliance. The department addressed one federal compliance finding included in our prior report. We did not follow-up a second prior finding pertaining to unclaimed property controls.

Audit Scope:

One major State of Minnesota federal program for fiscal year 2005:

- Low-Income Home Energy Assistance Program (CFDA #93.568)

Background:

The Department of Commerce managed federal expenditures for the Low-Income Home Energy Assistance Program, totaling \$76 million for fiscal year 2005.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Glenn Wilson, Commissioner
Department of Commerce

We have performed certain audit procedures at the Department of Commerce as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. We emphasize that this has not been a comprehensive audit of the Department of Commerce.

Table 1 identifies a State of Minnesota major federal program administered by the Department of Commerce. We performed certain audit procedures on this program as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of requirements that are applicable to each of its major federal programs. Procedures involved reviewing the department's compliance with federal requirements in areas such as cash management, recipient eligibility, financial reporting, and administrative costs.

Table 1
Major Federal Program Administered by the
Department of Commerce
Fiscal Year 2005
(in thousands)

Table with 3 columns: CFDA Number, Program Name, Federal. Row 1: 93.568, Low-Income Home Energy Assistance, \$76,408

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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Conclusions

Our November 18, 2005, report included an unqualified opinion on the State of Minnesota's basic financial statements for fiscal year 2005. In accordance with *Government Auditing Standards*, we also issued our report, dated November 18, 2005, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB *Circular A-133*.

As a result of our procedures, we identified the following weaknesses in internal control over federal reporting and compliance with federal regulations at the Department of Commerce.

Findings and Recommendations

1. The Department of Commerce did not sufficiently document its testing and verification of household eligibility for federal heating assistance (CFDA #93.568).

Department program staff verified eligibility determined by local service providers, however, they did not sufficiently document their testing. In October 2004, the department implemented a new computerized information system that efficiently streamlined payments to utility companies on behalf of eligible Low-Income Home Energy Assistance Program participants. Under the new system, each local service provider continues to determine which households are eligible, while the state Department of Commerce pays the federal aid directly to utility companies. In this situation, the federal government requires that the state agency and their auditors are responsible to verify and test eligibility. The department used their own program staff, along with the assistance of independent auditors of certain local service providers, to ensure compliance with federal eligibility requirements.

The department effectively communicated concerns in reports to service provider management and obtained corrective action plans for resolution. However, staff did not have a structured audit approach to guide quality and consistency of the department's eligibility work and inadequately documented sample selection methods, recipients examined, and attributes tested. The new computerized environment creates an opportunity for staff to more effectively oversee eligibility compliance by scrutinizing the underlying computer system data. Their reviews should also assess security controls, such as determining whether service provider access to the system's eligibility database is appropriate and sufficiently limited. Working papers should provide an audit trail of testing performed and support a conclusion on compliance by the service provider.

Recommendation

- *The Department of Commerce should develop an audit approach with documentation standards to improve the quality of Low-Income Home Energy Assistance Program household eligibility verification.*

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2. The Department of Commerce did not consistently identify federal program numbers for all of its federal accounts in the state's accounting system.

The department could not effectively use the accounting system to accumulate federal program expenditures by their respective Catalog of Federal Domestic Assistance (CFDA) identification number. They did not enter the federal catalog number into the accounting system for all federal accounts. As a result, department staff had to manually assign federal program numbers to \$24 million of federal expenditure activity for fiscal year 2005. The manual intervention caused the Low-Income Home Energy Assistance Program (CFDA #93.568) expenditures to be understated by \$102,508. Not having federal identification numbers in the accounting system increased the risk of incorrectly reporting program expenditures in the State of Minnesota's Financial and Compliance Report on Federally Assisted Programs.

Recommendation

- *The Department of Commerce should ensure that each federal account in the state's accounting system is properly identified with its corresponding federal program number.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Commerce. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 9, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: January 6, 2006

Report Signed On: March 2, 2006

**Status of Prior Audit Issues
As of January 6, 2006**

Fiscal Year 2004 Statewide/Single Audit

We examined the department's activities and programs material to the *State of Minnesota's Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2004. The purpose of the audit was to render an opinion on the State of Minnesota's financial statements for fiscal year 2004 and to examine major federal programs. We issued an unqualified opinion on the *State of Minnesota's Comprehensive Annual Financial Report* for the year ended June 30, 2004. The audit identified two reportable issues pertaining to controls over unclaimed property investment activity and the monitoring of subrecipient audits. We did not examine unclaimed property during this audit or follow-up on that issue. The department has improved its monitoring of subrecipient audits.

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.



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March 1, 2006

James Nobles, Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for your recent audit of the department's Low-Income Home Energy Assistance Program (LIHEAP). We realize the importance of regularly auditing this significant aspect of our business and we appreciate the effort you and your staff invested in the audit. As with all audits and reviews, we welcome your guidance and we will implement your recommendations.

The department's response to the audit findings are listed below. John Harvanko will be responsible for implementing our response to Recommendation #1. This finding has been significantly addressed, but will be fully resolved by June 30, 2006. Dennis Munkwitz will be responsible for implementing our response to Recommendation #2. This finding will be resolved by April 30, 2006.

Recommendation #1: *The Department of Commerce should develop an audit approach with documentation standards to improve the quality of Low-Income Home Energy Assistance Program household eligibility verification.*

Response #1: The Department of Commerce will comply with this recommendation.

As indicated in the audit report, the department implemented a new computerized information and financial data system—the Electronic Household Energy Automated Technology (eHEAT). The new computer system invoked the concept of “split eligibility” moving some of this responsibility from the local service provider to the department. In September, 2005 the department issued guidance to the local service providers on eligibility determination. In addition to this guidance letter, the department has implemented various improvements to their audit approach to address this new responsibility. The department has updated its’ auditing guide tool used by department staff in reviewing the activities of these local service providers to delivery this service.

These improvements include:

- Significant documentation of testing methodologies, including key items, sampling and expanded testing.
- Improved documentation of interviews conducted with local service provider staff.
- Examining data security access controls to eHEAT used by the local service provider.
- Identifying conclusions based on the audit report.
- Determining the local service provider's compliance with federal and state eligibility requirements.
- Conducting independent or supervisory review of each audit performed.

Recommendation #2:

The Department of Commerce should ensure that each federal account in the state's accounting system is properly identified with its corresponding federal program number.

Response #2:

The Department of Commerce will comply with this recommendation.

The department will fully utilize the grants module of MAPS to ensure the proper federal program numbers are recorded in the state's accounting system.

Thank you again for the time and effort you and your staff invested in auditing the Department of Commerce. Your staff conducted the audit with professionalism and respect. We enjoyed working with everyone. We look forward to working with you again.

Sincerely,

/s/ Glenn Wilson

Glenn Wilson, Commissioner