



DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2011 THROUGH DECEMBER 31, 2013

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Minority Business Enterprise for the audit period July 1, 2011, through December 31, 2013, 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 necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Effective January 1, 2014, the Department of Minority Business Enterprise ceased operations as a state agency and merged with the Department Business Assistance to create the Department of Small Business and Supplier Diversity. Management should review and evaluate the audit findings and recommendations outlined in this report for the purposes of developing adequate policies and procedures and internal controls for the new agency.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Internal Controls Over Voucher Processing

The Department of Minority Business Enterprise (Minority Business) needs to improve its controls over voucher processing. Minority Business did not submit travel reimbursement vouchers to their fiscal service delivery agency, Department of General Services (DGS), timely and coded some vouchers such that they were recorded in the incorrect fiscal year. We recommend Minority Business evaluate the way vouchers are currently processed and train employees to ensure they are following proper procedures.

Improve Internal Controls Over Small Purchase Charge Cards

Minority Business does not have adequate internal controls over its Small Purchase Charge Card (SPCC) program. Failure to properly monitor and manage the SPCC program increases the risk of inappropriate activity. During the audit, we noted that cardholders did not maintain adequate supporting documentation for purchases and did not consistently obtain approval before making purchases. In addition, some purchases were improperly coded.

Minority Business should evaluate its SPCC program and assess whether the administrative processes and policies currently in place are adequate given the size of the agency and the nature of its SPCC program. Based on this understanding, Minority Business should ensure that policies and procedures sufficiently describe the cardholder and supervisor responsibilities as well as the documentation required to be retained and reviewed. In addition, employees should be fully trained to ensure purchases are appropriate and properly coded.

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.

FINANCIAL INFORMATION

The following schedule provides information on the original and final operating budget and actual expenses for fiscal years 2012, 2013, and 2014, through December 31, 2013.

| Analysis of Budget and Actual Expenses by Fiscal Year | | | |
|---|------------------------|---------------------|------------------------|
| <u>Fiscal Year</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Expenses</u> |
| 2012 | \$2,019,744 | \$2,162,200 | \$2,025,679 |
| 2013 | 2,096,312 | 2,202,606 | 2,202,177 |
| 2014, as of Dec. 31, 2013 | 2,072,822 | 2,072,867 | 756,620 |

Source: Commonwealth Accounting and Reporting System

Minority Business receives funding primarily from Highway Maintenance and Operating Fund, accounting for 70 percent of the total final budget during fiscal year 2012, 69 percent for 2013, and 73 percent for 2014, through December 31, 2013. Minority Business' remaining funds are received from General Fund appropriations.

As illustrated in the following table, personal services accounted for 68 percent of total expenses for fiscal year 2012, 58 percent for fiscal year 2013, and 72 percent for 2014, through December 31, 2013.

| Expenses by Type by Fiscal Year | | | |
|---------------------------------|---------------------------|---------------------------|-------------------------|
| Expense Type | 2012 | 2013 | 2014* |
| Personal Services | \$1,371,767 | \$1,271,769 | \$541,893 |
| Contractual Services | 471,790 | 748,212 | 195,344 |
| Supplies and Materials | 28,044 | 26,767 | 9,037 |
| Transfer Payments | - | 28 | - |
| Continuous Charges | 143,866 | 140,978 | 5,951 |
| Equipment | <u>10,212</u> | <u>14,423</u> | <u>4,395</u> |
| Total Expenses | <u>\$2,025,679</u> | <u>\$2,202,177</u> | <u>\$756,620</u> |

Source: Commonwealth Accounting and Reporting System

*FY 2014 only includes activity through December 31, 2013.

Subsequent Event

Effective January 1, 2014, the Department of Minority Business Enterprise ceased operations as a state agency. The former department merged with the Department of Business Assistance and will continue to assist in the establishment and promotion of small, women, and minority-owned (SWAM) businesses throughout the Commonwealth, along with providing a one-stop-service for technical assistance related to business formation, access to capital, and workforce development. The newly formed department is the Department of Small Business and Supplier Diversity.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 18, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Minority Business Enterprise** for the period of July 1, 2011, through December 31, 2013. 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's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and 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.

- Appropriations
- Cash Receipts
- Information System Security
- Payroll Expenses
- Small Purchase Charge Card

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, 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 that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations." The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on August 14, 2014. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

LH/ clj



Terry McAuliffe
Governor

Maurice Jones
Secretary of Commerce & Trade

COMMONWEALTH of VIRGINIA
Department of Small Business and Supplier Diversity

Ida Outlaw McPherson
Director

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

August 18, 2014

Dear Ms. Mavredes:

Your audit of the Department of Minority Business for the audit period July 1, 2011 through December 31, 2013, found:

- Proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System
- No instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Your audit summary included one item that the Agency needed to address going forward. Based upon that, the Agency has the following response:

The Agency used the Department of General Services (DGS) for voucher processing in 2011, 2012, and 2013. The vouchers cited were a couple of travel vouchers which exceeded the three (3) day processing time between the Agency and DGS. There were two other vouchers over this time period which involved travel that crossed two fiscal years. Each voucher should have been put on two separate forms.

The Agency believes that while it could have randomly monitored the process employed by DGS, the occurrence was infrequent and should not be noted as an audit finding. As indicated, the total number of travel vouchers throughout the Agency is minimal and therefore the corresponding ratio of this coding issue over the 36 month audit period is minimal. There were no instances of improper coding in 2013.

Management has adopted a policy to improve internal control over voucher processing by insuring that all vouchers are coded to the proper year by directly coding the travel in house and not submitting to an outside Agency for processing as previously done under the Memorandum of Understanding. By coding the vouchers and inputting them into CARS with agency personnel, the agency can ensure that the vouchers are timely submitted.

The Agency had only one SPCC card. Most charges were routine payments such as copier rental, utility, and water supply. These purchases were budgeted yearly with the Director's approval. The two vouchers cited were standing monthly purchases which had been pre-approved verbally by management and signed by the Director within three (3) days of purchase.

Please be assured that the Agency has adopted the policy to include a pre-purchase requisition form on all payments with more detailed explanation to clarify the nature of the purchases. The Agency had already implemented annual training to the employees on State travel regulations and purchase requests.

Sincerely,

Ida O. McPherson, Director

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DEPARTMENT OF MINORITY BUSINESS ENTERPRISE
As of December 31, 2013

Ida Outlaw McPherson

Director