

AUDIT SUMMARY

Our audit of the Department of Minority Business Enterprise for the year ended June 30, 1998, found:

- internal control matters that we consider reportable conditions;
- no instances of noncompliance that are required to be reported under Government Auditing Standards;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audit findings.

March 2, 1999

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

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

AGENCY HIGHLIGHTS

The **Department of Minority Business Enterprise** assists minority businesses to obtain either public or private business contracts. A minority business enterprise has one or more socially and economically disadvantaged persons as either the owner or individuals with controlling interest.

The Department's market development division develops strategies to assist minority businesses with marketing, financial services, and certification. The management and technical division includes supportive services that provide management services, records, time, office, and financial management to minority-owned businesses involved in highway construction.

General Fund Appropriations	\$ 245,954	23%
Department of Transportation Transfer	<u>849,312</u>	77%
Total	<u>\$1,095,266</u>	
Expenses		
Personnel Services	\$ 578,408	52%
Contractual Services	304,455	28%
Other	<u>215,574</u>	20%
Total	<u>\$1,098,437</u>	

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Department of Minority Business Enterprise for the year ended June 30, 1998. 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 Objectives and Findings

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

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
Revenues

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures 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 an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions for the Department. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the agencies' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are

discussed in the section entitled, “Internal Control and Compliance Finding and Recommendation.” We believe none of the reportable conditions are material weaknesses. Further, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

We found 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.

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.

AUDITOR OF PUBLIC ACCOUNTS

PBB:pym
pym:23

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Address Virginia Employment Commission's Internal Audit Findings

On January 29, 1998, the Virginia Employment Commission's Internal Audit Services division issued an audit report based on a limited review of the Department of Minority Business Enterprise. As of February 1999, the Department still has not addressed one audit finding in the report. Department management should act promptly and develop corrective actions to effectively manage its fixed assets.

Complete Fixed Asset Inventory and Update of Fixed Asset Accounting and Control Systems (FAACS)

The Department has not updated fixed assets information in FAACS since 1994 and a physical inventory of fixed assets at its regional offices has not been completed. The Department should complete the physical inventory of fixed assets throughout the agency and update FAACS as soon as possible.