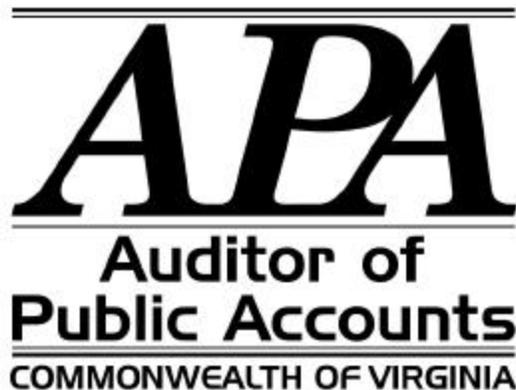


**DEPARTMENT OF MINORITY BUSINESS ENTERPRISES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
MAY 1, 2000 THROUGH JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Minority Business Enterprises for the period May 1, 2000 through June 30, 2001 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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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Our audit of the Department of Minority Business Enterprises found significant improvement in the agency's fiscal operations. Agency management has taken full responsibility for addressing prior year audit issues, establishing and maintaining sound internal controls, and complying with state regulations. Further, management developed and documented policies and procedures that provide guidance to agency personnel processing fiscal transactions.

Below are the internal control weaknesses and compliance issues that we identified during our audit. A report by the Department of the State Internal Auditor dated June 7, 2001 also identified some of the same issues.

Monitor CARS Access

The fiscal officer had the ability to both enter and release fiscal transactions into CARS. Agency management should clarify the fiscal officer's responsibilities, eliminating her oversight access if she continues to enter transactions.

Utilize Interdepartmental Board

The Code of Virginia requires that the Director appoint and consult with an Interdepartmental Board. The Director established the Interdepartmental Board in April 2001, but has not convened a meeting of this group. The group can provide the agency director with additional guidance regarding the agency's operations.

Over the past 18 months, senior management has played a significant role in improving accounting operations. We recommend that the Department continue to focus on improving its accounting operations by promptly addressing identified problems, ensuring that staff continue to receive training so that they remain knowledgeable about state accounting and compliance requirements, and maintaining knowledgeable and experienced fiscal staff. If senior management cannot strongly support and provide guidance to its accounting operations, we strongly recommend that the Department's accounting functions be transferred to another state agency.

AGENCY INFORMATION

The Department of Minority Business Enterprises 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.

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 manages the fund and the Virginia Small Business Financing Authority administers the fund. The Department had guaranteed four loans during the fiscal year totaling \$151,250, with a \$50,000 loan pending. The fund had \$309,569 as of June 30, 2001.

Financial Information

The following are total revenues and expenses by category for fiscal years ending June 30, 2000 and 2001, respectively.

	<u>Fiscal Year June 30, 2000</u>	<u>Fiscal Year June 30, 2001</u>
<u>Revenues</u>		
Appropriations:		
General fund	\$ 669,070	\$ 447,998
Highway trust fund	967,454	1,026,115
Miscellaneous revenues	<u> -</u>	<u> 37</u>
Total revenues	<u>\$1,636,524</u>	<u>\$1,474,150</u>
 <u>Expenses</u>		
Personal services	\$ 925,989	\$1,173,788
Contractual services	160,376	192,984
Continuous charges	136,226	24,008
Other expenditures*	<u>60,168</u>	<u>40,953</u>
Total expenditures	<u>\$1,282,759</u>	<u>\$1,431,733</u>

* Other expenditures include equipment, supplies and materials, transfer payments, and property and improvements.

October 4, 2001

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

The Honorable Vincent F. Callahan, Jr.
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 Enterprises** for the period between May 1, 2000 and June 30, 2001. 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:

Payroll
Expenditures
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 generally accepted accounting principles. 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, entitled "Monitor CARS Access," and "Utilize Interdepartmental Board," are described 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 not taken adequate corrective action with respect to the previously reported finding entitled and "Utilize Interdepartmental Board." Accordingly, we included this finding in the section entitled "Internal Control Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 2, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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DEPARTMENT OF MINORITY BUSINESS ENTERPRISES
Richmond, Virginia

Allegra McCullough, Director

Frank Ramos, Chief Deputy Director