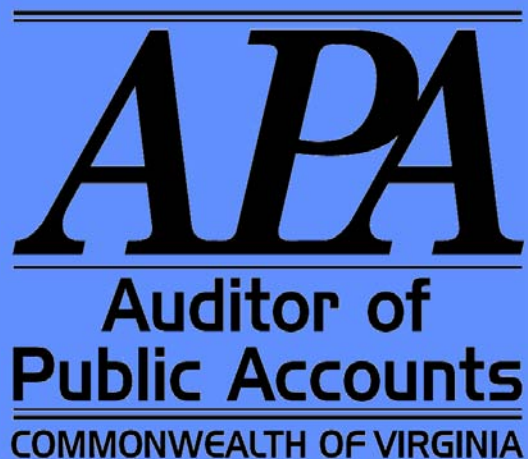


DEPARTMENT OF BUSINESS ASSISTANCE

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our follow up audit of previously reported internal control and compliance issues of the Department of Business Assistance (Business Assistance) for the period ended June 30, 2008, found:

- certain matters involving compliance and internal control and its operation identified as deficiencies in the prior year that we have re-communicated to management in the “Audit Findings and Recommendations” section of this report.
- adequate corrective action with respect to audit findings reported in the prior year that were not repeated here.

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AUDIT FINDINGS AND RECOMMENDATIONS

Shift to an Administrative Service Arrangement

The Auditor of Public Accounts continues to advocate that smaller agencies, which do not have the resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. These arrangements allow the smaller agencies to concentrate on providing program services and eliminate unnecessary personnel costs and resources dedicated to administrative functions.

Management is using the services of the Accounting and Internal Control Compliance Oversight unit at the Department of Accounts, to improve its information security program. However, management has taken no other actions to address this finding, as management was waiting for the resolution of a legislative study to consider the appropriate organization to handle the operational activities currently performed by Business Assistance.

That study, released in the fall of 2008, provided for multiple solutions, including leaving the agency unchanged. The General Assembly did consider legislation during the 2009 session to dissolve Business Assistance and move the various functions into other existing agencies. This legislation failed.

Given the results, Business Assistance still needs to address the concerns and recommendations previously identified. Business Assistance continues to have limited internal resources; and the current Director of Administration, with responsibility for most of Business Assistance's back office operations, will be retiring at the end of the fiscal year. The loss of institutional knowledge that will occur as a result of this retirement will likely create many challenges for the organization.

Management should continue to seek out an opportunity to work with another agency to establish a central back office operation to provide accounting, budgeting, human resources, and procurement services. The Commonwealth and Business Assistance will greatly improve its internal controls and gain risk management benefits by using such an arrangement.

Document Procedures Over the Solicitation and Expenditure of Non-State Resources

We found that Business Assistance now follows the correct processes regarding soliciting of funds and expending of such resources; however, management still has not documented their internal procedures supporting these processes. Change in agency leadership or fiscal staff may result in the loss of knowledge of state processes, standards, regulations, and laws. Management, without a documented understanding of this essential information, continues to be at risk for entering into agreements or contracts that are not in the best interest of the agency or the Commonwealth or noncompliance with Commonwealth policies and procedures. We continue to recommend that management formally document these procedures.

Complete the Agency's Information Security Program

Business Assistance is working with the Accounting and Internal Control Compliance Oversight unit at the Department of Accounts to improve its information security program since our last audit. Specifically, Business Assistance has performed a business impact analysis and risk assessments of sensitive systems. However, while they have developed the associated disaster recovery plan and information technology security policies, they have not formally approved or implemented them.

To be fully compliant with the Commonwealth's information security standards, all components of Business Assistance's security plan require formal approval and integration into their operations. The Accounting and Internal Control Compliance Oversight unit continues to assist Business Assistance in developing their comprehensive information systems security program and anticipates completing these aspects of the security program in May 2009. Once the program is complete and formally approved, Business Assistance should continue to work with the Accounting and Internal Control Compliance Oversight unit to fully integrate the program within their organization and train their employees on the new information security policies and procedures.

Maintain Official Records

Business Assistance has not updated their records retention and disposition schedules and policies to include electronic records. An employee is taking training classes at the Library of Virginia for Disaster Planning, Basic Records and Files Management, and Intermediate and Electronic Records.

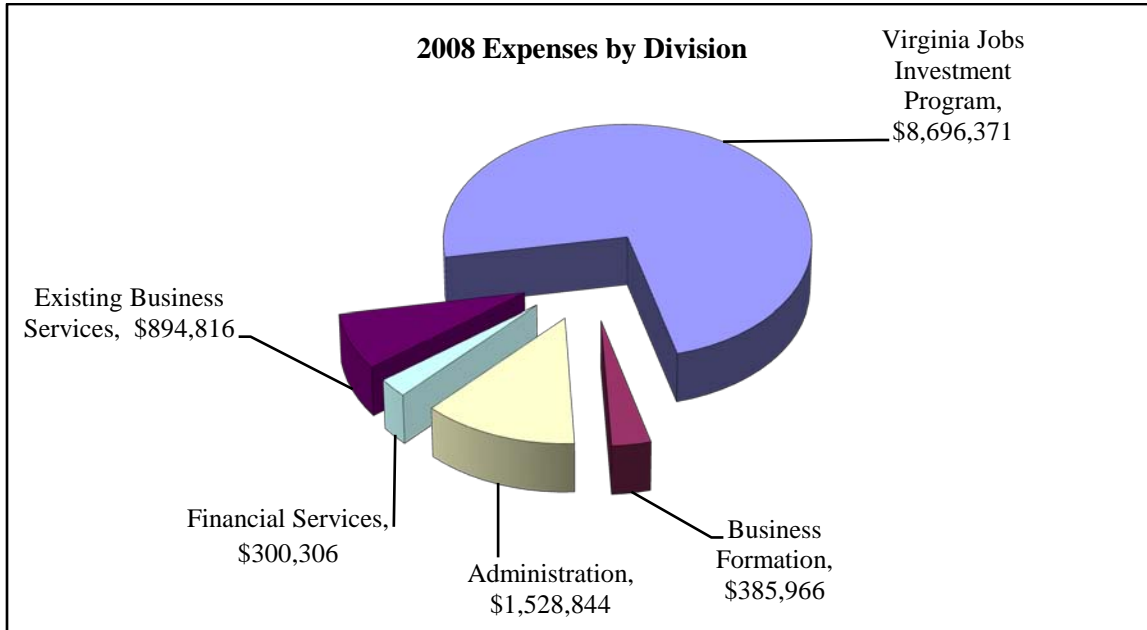
Once the employee completes this training, management will finalize their policies and procedures. Once finalized, management should train staff on the new document retention policies and procedures and ensure that they maintain all records, physical or electronic, in accordance with this policy.

AGENCY HIGHLIGHTS

Business Assistance provides a variety of services to business and industry including financial assistance, training, and counseling. Business Assistance's primary funding source is General Fund appropriations. Below is a summary of agency expenses by division for fiscal year 2008, followed by a description of each division's operations.

Expenses by Division for Fiscal Year 2008

(Total: \$11,806,304)



Source: Commonwealth Accounting and Reporting System

Virginia Jobs Investment Program

The Virginia Jobs Investment Program is an economic development incentive program used to encourage the expansion of existing companies and attract new businesses to Virginia. During fiscal year 2008, the Workforce Services staff assisted 500 companies by providing training to 12,797 Virginians based on employment qualification and skill level.

Existing Business Services

The Existing Business Services Division administers the Procurement Assistance Program which helps companies to grow their sales to the State. The Division hosts seminars, supports the seminars of other partners, provides one-on-one sessions in numerous cities across the state, and provides vendor/buyer networking opportunities. This group services all businesses, but especially focuses on small, women- and minority-operated businesses. They were involved in 286 events in fiscal year 2008 and counseled 1,290 businesses during that same time period.

Business Formation

The Business Formation Division provides technical support for business startup and entrepreneur development. The Division leads the Entrepreneur Express program statewide and collaborates with a host of federal, state, and local partners to deliver approximately 50 programs each year. The programs identify entrepreneurs, link them with resources, and encourage them to take the next step. Other initiatives include the management of the Entrepreneur Advisory Team and the Existing Business Retention and Expansion forum, and the creation of the Business One Stop system.

Financial Services

The Financial Services Division serves as staff to the Virginia Small Business Financing Authority (the Authority), which provides financial assistance to small businesses through the issuance of bonds, loan guarantees, and other programs, designed to increase employment opportunities and encourage the investment of private capital in Virginia businesses. The expenditures related to this division reflect financial support provided by Business Assistance to the Authority. There will be a separate report on the Authority's activities issued in April 2009.

Administrative

The Administrative Division provides executive management, fiscal, budgetary, information systems, public relations, and educational support to the other divisions within Business Assistance as well as the Virginia Small Business Financing Authority.

FINANCIAL INFORMATION

The schedule below summarizes the Business Assistance's original budget, final budget, and actual expenses for fiscal year 2008 by funding source. The increase from the original to final budget is primarily due to additional non-general fund appropriation increases supporting the Workforce Investment Act (WIA).

Analysis of Budgeted and Actual Expenses **Fiscal Years Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u> <u>Expenditures</u>
General Fund	\$ 11,503,798	\$ 11,308,018	\$ 11,277,911
Special Fund	350,253	150,253	74,487
WIA Federal Fund	-	580,782	358,191
Federal Trust	-	95,716	95,715
	<u>\$ 11,854,051</u>	<u>\$ 12,134,769</u>	<u>\$ 11,806,304</u>

Source: Commonwealth Accounting and Reporting System

Transfer payments, reflecting monies paid to businesses through various business assistance programs, account for \$7 million, or almost 59 percent, of fiscal year 2008 expenditures. The majority of the remaining expenses, 33 percent, are for personnel costs.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 9, 2009

The Honorable Tim Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

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

We have audited selected financial records and operations of the **Department of Business Assistance** for the period ended June 30, 2008 to determine Business Assistance's progress in correcting internal control and compliance matters identified in our prior audit. 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.

Objectives

Our audit's objective was to review the adequacy of the Business Assistance's internal controls over areas identified as deficiencies in the prior year audit report.

Audit Scope and Methodology

Business Assistance'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.

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, as they pertained to the prior year deficiencies.

Expenses
Information system security

We performed audit tests to determine whether Business Assistance'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. Our audit procedures included inquiries of appropriate

personnel, inspection of documents, records, and contracts, and observation of Business Assistance's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

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 "Audit Findings and Recommendations." We found that Business Assistance took adequate corrective action with respect to audit findings reported in the prior year that were not repeated here.

Business Assistance 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.

Exit Conference and Report Distribution

We discussed this letter with management at an exit conference held on April 22, 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

JPS/alh



April 27, 2009

Mr. Walter J. Kucharski, Director
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Mr. Kucharski:

On behalf of the Virginia Department of Business Assistance (VDBA) I appreciate the time and effort the Auditor of Public Accounts (APA) staff spent reviewing the financial accounting and control operations for Fiscal Years 2008. I found your auditors to be professional and thorough in their review and proceedings.

Although I concur with two of the Management Findings there are two that I appreciate having the opportunity to provide our explanation. Herewith I will document some actions we have already taken and those planned in response to the APA findings and recommendations in this report:

Shift to an Administrative Service Arrangement

The Management Findings clearly outlined the facts that precluded VDBA from moving forward on the recommendation to Shift to an Administration Service Arrangement. In light these circumstances and with the pending retirement of the Director of Administration VDBA has several very viable options being explored for consideration. VDBA finds itself in this challenging situation due to severe funding/staffing reductions that are beyond our control. Nonetheless as agency director I take full responsibility with the intent to correct the situation.

Document Procedures Over the Solicitation and Expenditure of Non-State Resources

In accordance with the Auditor of Public Accounts Audit Findings and Recommendations in the 2006-2007 Audit and our May 8, 2008 Plan of Action letter we concurred with the findings and indicated that ***we were in the process of preparing a request to solicit for sponsorship dollars to help fund these programs.***

We have established a request to solicit fund approval document and have received approval from both the Chief of Staff and Department of Planning and Budget for the solicitation of funds. There was never any indication or guidance given that beyond our solicitation request that additional procedures were needed. It was our opinion that we ***followed all of the laws, rules and regulations of the Commonwealth both in obtaining, safeguarding, and spending funds, which were collected . . .*** We followed the regulations as stated in the CAPP Manual and believed that to be sufficient. Given that it has brought to our attention that we need an internal policy we will begin drafting the process of drafting a policy to meet your requirement.



VIRGINIA DEPARTMENT OF BUSINESS ASSISTANCE
Connecting Businesses with Resources

Mr. Walter J. Kucharski
April 27, 2009
Page 2

Complete the Agency's Information Security Program

VDBA concurs with this finding and agrees with APA's recommendation.

Maintain Official Records

VDBA concurs with this finding and agrees with APA's recommendation.

Thanks to you and your staff during this audit review. We look forward to continuing to work with you to improve VDBA's overall financial management.

Sincerely,

Lynda Sharp Anderson
Director

cc: The Honorable Patrick O. Gottschalk
Secretary of Commerce and Trade

AGENCY OFFICIALS

DEPARTMENT OF BUSINESS ASSISTANCE

Lynda Sharp Anderson
Director

Stacy VanLeliveld
Director of Administration