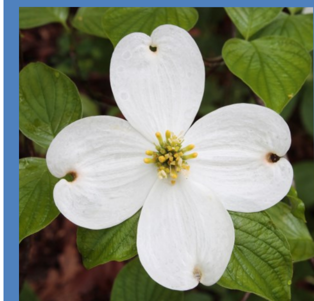


VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2023

Auditor of Public Accounts
Staci A. Henshaw, CPA
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AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Biotechnology Research Partnership Authority (Authority) as of and for the year ended June 30, 2023, and issued our report thereon, dated October 15, 2024. Our report, included in the Authority's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov. Our audit found:

- the financial statements are presented fairly, in all material respects;
- two deficiencies related to determining the fair value of investments and the accrual of accounts payable that we consider to be material weaknesses in internal control;
- two additional internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

In the section titled "Internal Control Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings. Those corrective actions may include additional items beyond our recommendations.

- T A B L E O F C O N T E N T S -

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Develop and Implement Policies and Procedures for Determining Fair Value of Investments
Type: Internal Control
Severity: Material Weakness

The Virginia Biotechnology Research Partnership Authority (Authority) did not perform a timely fair value estimate at the end of the fiscal year for equity investments in privately held early-stage companies. While the Authority did eventually perform an analysis to estimate the investments' fair values as of fiscal year end, it completed the analysis more than six months after the end of the fiscal year in response to the auditor's requests. Additionally, when performing its estimate, the Authority did not sufficiently evaluate all possible inputs for the investments, including the specific rights of its share classes and events occurring between the measurement date and valuation date. As a result of audit inquiry and subsequent performance of procedures to estimate fair value, the Authority determined the total fair value of these investments decreased by $195,000 (39%) from their original cost of $500,000.

Governmental Accounting Standards Board (GASB) standards require governmental entities to measure most investments at fair value. Fair value is the price that market participants would receive to sell an asset or pay to transfer a liability in an orderly transaction at the measurement date. Fair value may be determined using either observable or unobservable inputs. Governmental entities should measure fair value by maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Given the nature of investments in privately held early-stage companies, determining fair value requires the use of primarily unobservable inputs, which increases estimation risk and uncertainty. In developing unobservable inputs, a government may begin with its own data, but it should adjust the data if (a) reasonably available information indicates that other market participants would use different data or (b) there is something particular to the government that is not available to other market participants.

The Authority did not dedicate sufficient resources to determine the investments' fair value until over six months after fiscal year end and following the production of the initial draft of its financial statements. Given the nature of the investments, it is critical to value them as close to the measurement date as possible to maximize the availability of relevant input data. Relevant input data used to calculate fair value may be harder to obtain after the measurement date, increasing the risk that the Authority could materially misrepresent its net position and not be able to provide sufficient, appropriate evidence supporting the valuation. Further, as of fiscal year end, the Authority did not have policies and procedures outlining its process for determining fair value of the investments, which contributed to the delay in determining an appropriate fair value. The lack of documented policies and procedures also increases the risk that the Authority may not follow an appropriate valuation method or consistently apply valuation methods from year-to-year in the event of staff turnover.

The Authority should develop formal policies and procedures for annually determining the fair value of its investments in accordance with GASB standards, including the timing of performing the valuation procedures. The Authority may also choose to engage a specialist to perform an independent valuation of its investments in lieu of performing its own fair value estimate. Implementing appropriate policies and procedures related to fair value of the investments will help the Authority present financial statements in accordance with generally accepted accounting principles.

Develop Procedures for Proper Accrual of Accounts Payable

Type: Internal Control

Severity: Material Weakness

The Authority did not properly evaluate vouchers paid after the end of the fiscal year to determine the correct accounts payable accrual amount to include in its financial statements. We judgmentally selected 11 expense vouchers paid during July and August 2023 for review and identified four vouchers for goods or services received prior to June 30, 2023, which the Authority did not properly accrue as an expense for fiscal year 2023. These errors resulted in the understatement of accounts payable and expenses by $204,544 in the fiscal year 2023 financial statements. We also reviewed an additional random sample of 13 vouchers paid during July and August 2023 and determined the Authority did not properly accrue three out of the 13 (23%) expense vouchers tested, resulting in an additional known understatement of $6,965. In further test work, we identified expenses included in the fiscal year 2023 financial statements that the Authority should have included in its fiscal year 2022 financial statements, resulting in an overstatement of fiscal year 2023 expenses of $35,880 and a corresponding understatement for fiscal year 2022.

Per GASB, liabilities resulting from exchange transactions generally arise when two parties exchange consideration (for example, receipt of goods or services for a promise to compensate the vendor or service provider). Therefore, the Authority should perform, as part of its financial reporting process, an analysis of expenses paid after fiscal year end to determine the proper fiscal year to which the expenses relate and accrue those amounts in the financial statements. The Authority does not have detailed financial reporting procedures, which contributed to an insufficient analysis of invoices after the end of the fiscal year and lack of an associated accounts payable accrual.

As the Authority continues to receive grant funding and seek additional funding sources, its expenses are likely to continue to increase. This change in activity increases the risk of a material misstatement of the Authority's liabilities and expenses if the Authority does not implement procedures to analyze and properly accrue accounts payable at the end of the fiscal year. The Authority should develop policies and procedures for accounts payable accruals to support accurate financial reporting. Additionally, the Authority should perform a comprehensive review of its financial reporting procedures for compilation of its financial statements and update them for any other areas where processes or activity have recently changed.

Improve Controls Surrounding Compensation Changes

Type: Internal Control

Severity: Significant Deficiency

The Authority did not properly document or maintain support in personnel files for all compensation adjustments, including salary changes for contract employees such as the President and Chief Executive Officer of the Authority. For three out of three (100%) salary changes occurring during fiscal year 2023, the Authority was unable to provide original source documentation showing approval of the amounts or effective dates of the changes recorded in the Commonwealth's retirement benefits system.

Virginia Department of Human Resource Management (DHRM) Policy 6.10, Personnel Records Management, which details requirements for state agencies and represents best practice for the Authority, states that entities should maintain personnel records in a secure physical or electronic location. These records are to include, at a minimum, applications for employment, offer letters, performance evaluation forms, salary adjustment authorizations, and other similar records. Further, the Virginia Biotechnology Research Partnership Authority Act § 4.I. states that the Executive Director and employees of the Authority shall be compensated in the manner provided by the Board of Directors of the Authority. The Authority's accounting manual policies and procedures also state that the Authority will submit salary changes to its Board for final approval.

Without maintaining official compensation adjustment authorization documentation in personnel files, it will be more difficult for the Authority to confirm or support the information recorded in the Commonwealth's retirement benefits system. The inability to confirm or support changes recorded in the retirement benefits system may indicate improper amounts in the Commonwealth's retirement benefits system, which may cause improper calculations for future pension and other post-employment benefit plan contributions and result in incorrect pension and other post-employment benefit assets or liabilities in the Authority's financial statements. Additionally, not documenting the approval of compensation changes increases the risk that the Authority could pay unauthorized and incorrect salaries.

The Authority should ensure it follows a consistent process for approving and documenting changes in employee compensation or employment status and retaining the associated documentation using a secure methodology. Developing and following a consistent process will help to ensure the Authority makes appropriate entries into the Commonwealth's retirement benefits system, maintains supporting documentation that it can retrieve upon request, and pays only properly approved salary changes.

Develop and Implement a Process to Maintain Oversight Over Third-Party Service Providers
Type: Internal Control
Severity: Significant Deficiency

The Authority does not obtain and review System and Organization Controls (SOC) reports for its third-party service providers. The Authority does not have written policies and procedures detailing the process for obtaining and reviewing SOC reports to allow for continuity of this process in the event of staff turnover, which contributed to the insufficient review during the fiscal year under audit.

Service providers are entities that perform outsourced tasks and business functions on behalf of the Authority. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to have adequate interaction with service providers to appropriately understand the provider's internal control environment. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations. SOC reports, specifically SOC 1, Type 2 reports, provide an independent description and evaluation of the operating effectiveness of a service provider's internal controls over financial processes. They also include complementary user entity controls (CUECs) entities should have in place to ensure adequate control over financial processes involving the service provider.

Analysis of SOC reports is a key process in gaining an understanding of service providers' internal control environments and maintaining oversight over outsourced operations. Without obtaining, reviewing, and properly documenting the review of necessary SOC reports in a timely manner, the Authority cannot ensure its service providers' design proper controls and implement them effectively. The Authority also cannot assess the impact of any internal control deficiencies and/or exceptions identified in the SOC reports or ensure it has the necessary CUECs in place to strengthen its own control environment.

The Authority should regularly obtain and review SOC reports for its significant third-party service providers and document the results of its review to assess the effectiveness of its providers' controls over financial processes. Additionally, to allow for continuity of this process in the event of staff turnover, the Authority should develop and implement policies and procedures for reviewing SOC reports**.** These policies and procedures should include, at a minimum, the timeframe for obtaining SOC reports from the service provider, review and documentation requirements for user entity complementary controls, and the steps needed to address internal control deficiencies found in reviews. If the Authority identifies weaknesses in SOC reports, management should take appropriate action, which may include implementing complementary controls to mitigate its exposure to risk until the provider corrects the deficiency, or exploring services provided by other third-party providers.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 15, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board Members
Virginia Biotechnology Research Partnership Authority

Robert Ward, Interim President & Chief Executive Officer
Virginia Biotechnology Research Partnership Authority

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the 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, the financial statements of the Virginia Biotechnology Research Partnership Authority (Authority) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 15, 2024. Our report includes a reference to other auditors who audited the financial statements of the component unit of the Authority, as described in our report on the Authority's financial statements. The other auditors did not audit the financial statements of the component unit in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component unit of the Authority.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled "Internal Control Findings and Recommendations," we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies titled "Develop and Implement Policies and Procedures for Determining Fair Value of Investments" and "Develop Procedures for Proper Accrual of Accounts Payable," which are described in the section titled "Internal Control Findings and Recommendations," to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies titled "Improve Controls Surrounding Compensation Changes" and "Develop and Implement a Process to Maintain Oversight Over Third-Party Service Providers," which are described in the section titled "Internal Control Findings and Recommendations," to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's Response to Findings

We discussed this report with management at an exit conference held on December 2, 2024. Government Auditing Standards require the auditor to perform limited procedures on the Authority's response to the findings identified in our audit, which is included in the accompanying section titled "Authority Response." The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

EMS/vks

ACTIVATION CAPITAL
From start to phenomenal
VA BIO+TECH PARK

December 19, 2024

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

Dear Ms. Henshaw:

Thank you for the comprehensive audit report for the fiscal year ending June 30, 2023. We appreciate the time and effort your team invested in evaluating our financial practices and providing recommendations. We value the insights that your findings offer and have previously addressed or are currently addressing the following areas:

Finding Title	Status for FY23	Status for FY24	Status for FY25
Develop and Implement Policies and Procedures for Determining Fair Value Investments	First Reported	Corrected	Corrected
Develop Procedures for Proper Accrual of Accounts Payable	First Reported	Corrected	Corrected
Improve Controls Surrounding Compensation Changes	First Reported	Improved	Corrected
Develop and Implement a Process to Maintain Oversight Over Third-Party Providers	First Reported	Pending	Correction Ongoing

We are committed to ensuring that all recommendations are fully implemented. Our goal is to enhance the efficiency and accountability of our operations and to continue meeting our obligations as a responsible Authority of the Commonwealth of Virginia.

We will continue to monitor these changes and welcome any follow-up questions or additional guidance from your team.

Thank you once again for your assistance. We look forward to our continued collaboration.

Sincerely,

Signed by:
Elizabeth O'Donnell
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Vice President of Finance
Activation Capital
Phone: 434-760-3912
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Acknowledged By:

Robert W. Ward
Interim CEO & President
Activation Capital

Signed by:
Dan McDonough
7E1A6463EEE3459...
12/20/2024

Daniel McDonough
Fractional CFO
Activation Capital

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Develop and Implement Policies and Procedures for Determining Fair Value of Investments	Ongoing	2023
Develop Procedures for Proper Accrual of Accounts Payable	Ongoing	2023
Improve Controls Surrounding Compensation Changes	Ongoing	2023
Develop and Implement a Process to Maintain Oversight Over Third-Party Service Providers	Ongoing	2023

* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.