



**VIRGINIA BIOTECHNOLOGY  
RESEARCH PARTNERSHIP AUTHORITY**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2013**

## **AUDIT SUMMARY**

Our audit of the Virginia Biotechnology Research Partnership Authority (Authority) for the year ended June 30, 2013, found:

- The financial statements are presented fairly, in all material respects;
- No internal control findings requiring management's attention;
- No instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- One matter for the Authority Board's consideration regarding the need to finalize its strategic vision.

We have audited the basic financial statements of the Virginia Biotechnology Research Partnership Authority as of and for the year ended June 30, 2013, and issued our report thereon, dated November 1, 2013. Our report is included in the Authority's Annual Report that it anticipates releasing on or around December 3, 2013.

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## MATTER FOR BOARD CONSIDERATION

### Finalize Strategic Vision

The Virginia Biotechnology Research Partnership Authority's management and strategic mission are in a state of transition. In February 2013, the Executive Director officially announced his resignation as of June 30, 2013. However, the Executive Director began preparing the Authority Board for his retirement for months prior to his official announcement. In response to this, the Authority Board began examining its strategic direction and planned to search for a new Executive Director. The Authority Board decided that it needed to set a new strategic vision before hiring a new, permanent Executive Director.

Since December 2012, the Authority Board has commissioned two transition committees that have provided feasible options for a new strategic direction for the Authority. The Authority Board members have spent a lot of time, effort, and money, including hiring a consultant, preparing these potential options. However, the Authority Board has not yet taken action to decide on the direction and move forward.

The Authority's current governance structure appears to be inhibiting its ability to make decisions. There are two separate boards, the Authority Board and the Corporation Board, each with its own powers. There is no reference in the governing documents of either board that there shall be joint meetings or joint committees. However, over the years, the two boards have always held their meetings jointly and formed committees with members from both boards. Having these separate and distinct boards meeting and working together has blurred the lines of authority.

In our observations, the Authority Board has been going through a deliberate process, including healthy discussions about its direction. However, the Authority Board needs to move forward with finalizing a strategic vision so that it can provide direction for any new planning or development initiatives and begin the search for a permanent Executive Director. The Authority Board should consider whether joint meetings and joint committees of the two boards are a help or a hindrance to the work of the Authority. If they continue with the joint meetings and committees, the Authority Board needs to make the responsibility and authority of each board clear.



# Commonwealth of Virginia

## Auditor of Public Accounts

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

November 1, 2013

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable John M. O'Bannon, III  
Chairman, Joint Legislative Audit  
And Review Commission

Board Members  
Virginia Biotechnology Research Partnership Authority Board  
Virginia Biotechnology Research Park Corporation Board

### 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 business-type activities and the aggregate discretely presented component unit of the **Virginia Biotechnology Research Partnership Authority** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 1, 2013.

#### 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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial

reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### 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 determination of financial statement amounts. 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 on November 18, 2013. The Authority Board's response to the "Matter for Board Consideration" identified in our audit is described in the accompanying section titled "Board Response." The board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### 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 Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

DBC/alh

November 18, 2013

Ms. Martha Mavredes  
Auditor of Public Accounts  
Commonwealth of Virginia  
Post Office Box 1295  
Richmond, Virginia 23218

Virginia Biotechnology Research Partnership Authority – Matter for Board Consideration

Dear Ms. Mavredes:

On behalf of the Virginia Biotechnology Research Partnership Authority (“VBRPA”), I am writing in response to your request that VBRPA respond to the proposal by the Auditor of Public Accounts (the “APA”) that it include in VBRPA’s Audit Report a “Matter for Board Consideration,” in the form provided to me (the “Matter for Board Consideration”).

As an initial matter, we concur with the view of the APA that VBRPA is in a state of transition; however, we view this condition as healthy and timely. The Authority has benefitted from the long-term and dedicated service of its current Executive Director, who is retiring at the end of this calendar year. Independent of this leadership change, the time is right to revisit the mission and vision of the VBRPA. Since its formation, the Authority has served an extremely important role as a “place” and as an “agent” for economic development and promoting the life sciences industry in the Greater Richmond region. Over the last 20 years, much has changed in our region and those changes have raised complex issues that need to be addressed by the Authority as to its future. These issues include:

- Geographical scope (local, regional or statewide);
- Substantive focus (life sciences, technology and/or innovation);
- Financial viability;
- Relationship with Virginia Commonwealth University (“VCU”);
- Board governance and relationship to the Virginia Biotechnology Regional Park, the private not-for-profit corporation (the “Corporation”) that predated the VBRPA; and
- Limited additional growth potential of the geographical area in Richmond that has been the focus of the VBRPA’s development and financing activities.

The Matter For Board Consideration focuses on three areas of concern (strategic vision, replacement of the Executive Director and governance). To address these and other issues, the Board must exercise its fiduciary duty by acting in a thorough, timely and inclusive manner for all stakeholders. This is precisely what the Board has done and continues to do, as explained below in more detail.

As noted in the proposed Matter For Board Consideration, the Board has been actively engaged in discussions as to its future strategic direction for the last 12-18 months. The VBRPA has multiple stakeholders (including the Commonwealth of Virginia, the City of Richmond, the surrounding counties, VCU, owners and tenants in the Park and the public) and it is important to the future success of VBRPA that the stakeholders develop a consensus as to its strategic plan. The key issues facing the Authority are complex and have a far reaching and long-term impact. Not surprising, our Board discussions have included some disagreements as to which option is preferable in a number of areas. Disagreements among board members is healthy and reflect an active and engaged board. Since the Authority has not, and currently does not, have any time sensitive issues, the Board's deliberate and inclusive process for deciding its future strategic vision has been appropriate and in fact represents best governance provisions.

At the Authority Board meeting on November 4, 2013, the Board agreed that prior to the next board meeting on December 3, 2013, each board member should review the two strategic planning reports that have been prepared in the last year. At the December meeting, the Board plans to approve a process and timeline for working with the new Interim Executive Director to finalize the strategic plan. I anticipate that a final strategic plan will be presented at the April meeting and then approved at either that meeting or the June meeting.

In the fall of 2012, the current Executive Director announced his plans to retire at the end of the 2013 fiscal year and the Board began the process of interviewing several search firms for the purpose of identifying an appropriate successor. Shortly thereafter the Board concluded that it would be in the Authority's best interest to agree on a strategic plan prior to the recruitment of a new Executive Director. As part of this approach, the Authority decided to seek out a qualified candidate to serve as an Interim Executive Director during the transition period to assist in finalizing the strategic plan. At its board meeting on November 4, 2013, the Authority agreed to hire Carrie Roth as an Interim Executive Director. In the Board's view, Ms. Roth's skill set and experience are ideally suited for this position. The Board also agreed at its November 4 meeting to ask the existing Interim Leadership Transition Committee to restart the process of engaging a search firm to identify the next permanent Executive Director. Since the board meeting, this committee has begun work on this assignment. The Board has told Ms. Roth that it does not expect her term of employment to extend beyond December 4, 2014, because it intends to hire a permanent Executive Director within the next 12 months.



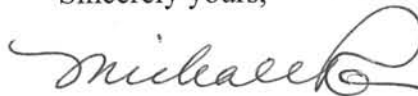
Ms. Martha Mavredes  
November 18, 2013  
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Regarding the issue of governance, the Authority Board agrees with the APA that now is an appropriate time for the Authority to consider whether joint meetings of the Authority Board with the Board of the Corporation and joint committees of the Authority Board and the Corporation Board are a help or a hindrance to the work of the Authority. It is important to note that the historical relationship between these two entities has been collaborative, complementary and mutually-beneficial. As originally established, the Authority was focused primarily on securing grants and state appropriations, issuing bonds and holding real estate. The Corporation, on the other hand, was focused on providing services and performing functions most efficiently done by private corporations and not appropriate or necessary for governmental entities. The Authority has historically acted independently of the Corporation in certain instances, such as issuing bonds and hiring the new Interim Executive Director. As the two entities have evolved, the Authority now holds all of the assets and employs all of the personnel so it is appropriate to consider the relationship between the two entities. This decision will need to be made as part of the overall strategic plan that will be developed during the coming months.

In summary, the Authority Board has been addressing, and continues to address, every issue raised in the proposed Matter For Board Consideration in a thorough, timely and inclusive manner. While some decisions may be taking longer than might have been expected, the Board's process has been important to building a consensus and getting to the right result and the time is now right for bringing closure to this process. As indicated above, the Authority Board expects that all three areas identified by the APA will be resolved in the next 6-12 months.

For these reasons, the Authority Board respectfully requests that the APA consider our response and determine whether the proposed Matter For Board Consideration needs to be included in its Audit Report of the VBRPA.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael Rao", with a stylized flourish at the end.

Michael Rao  
Chairman of the Board

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

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Benjamin J. Lambert, Vice Chair

Samuel B. Hunter, Secretary

Ronald D. Wright, Treasurer

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