

**A.L. PHILPOTT MANUFACTURING
EXTENSION PARTNERSHIP**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUN 30, 2006 AND JUNE 30, 2007**



AUDIT SUMMARY

Our audit of A.L. Philpott Manufacturing Extension Partnership for the years ending June 30, 2006 and June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AGENCY HIGHLIGHTS

The purpose of the A.L. Philpott Manufacturing Extension Partnership (Partnership) is to foster statewide economic growth by enhancing the competitiveness of Virginia's small to mid-sized manufacturers. As an independent entity headquartered at Patrick Henry Community College in Martinsville, Virginia, the Partnership provides assistance to the business community through six regional offices across the Commonwealth. The assistance is primarily consulting to help companies increase productivity, lower costs, identify growth opportunities, improve technology application, and strengthen production teams. The Partnership's manufacturing specialists deliver consulting services that include:

Lean Enterprise	Lean Six Sigma
Quality Systems	Supply Chain Management
People Systems	Enterprise Plus
Strategic Management	

The Partnership funds its assistance programs with Commonwealth of Virginia General Fund appropriations; special revenue derived from fees charged to clients for consulting services; and federal and state grants from the U.S. Department of Commerce, National Institute of Standards and Technology-Manufacturing Extension Partnership, and Virginia's Center for Innovative Technology. The following tables compare budget to actual funding for fiscal years 2006 and 2007.

Fiscal Year 2006

<u>Funding Source</u>	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Commonwealth General Funds	\$ 902,140	\$ 816,370	\$(85,770)
Special revenue	3,000,000	2,970,961	(29,039)
Federal grants	<u>1,576,799</u>	<u>1,626,341</u>	<u>49,542</u>
Total	<u>\$5,478,939</u>	<u>\$5,413,672</u>	<u>\$(65,267)</u>

Fiscal Year 2007

<u>Funding Source</u>	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under) Budget</u>
Commonwealth General Funds	\$ 629,140	\$ 628,910	\$ (230)
Special revenue	3,400,000	2,593,721	(806,279)
Federal grants	<u>1,526,799</u>	<u>1,515,236</u>	<u>(11,563)</u>
Total	<u>\$5,555,939</u>	<u>\$4,737,867</u>	<u>\$(818,072)</u>

As can be seen in the following table, although Commonwealth General Funds have increased between fiscal years 2005 and 2007, the Partnership generates the majority of its funding from fees for consulting services and federal grants. Commonwealth General Funds accounted for approximately 15 percent for fiscal year 2006 and 13 percent for fiscal year 2007. Special Revenue has had a decrease of 14 percent between fiscal years 2005 and 2007 which represents 55 percent of total funding for both fiscal years under audit. Federal grants have remained stable, accounting for 30 percent in fiscal years 2005 and 2006 and 32 percent in fiscal year 2007.

The following table summarizes the Partnership's actual funding by source for fiscal years 2005 through 2007:

<u>Funding Source</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Commonwealth General Funds	\$ 508,140	\$ 816,370	\$ 628,910
Special revenue	3,005,312	2,970,961	2,593,721
Federal grants	<u>1,534,811</u>	<u>1,626,341</u>	<u>1,515,236</u>
Total	<u>\$5,048,263</u>	<u>\$5,413,672</u>	<u>\$4,737,867</u>

The following tables summarize the Partnership's actual expenditures by source for fiscal years 2005 through 2007:

<u>Fiscal Year 2005</u>	<u>General Funds</u>	<u>Federal Grants</u>	<u>Special Revenue</u>	<u>Total</u>
Expenditures:				
Salaries and fringes	\$ -	\$1,030,164	\$1,309,828	\$2,339,992
Contractual	419,771	205,555	1,653,928	2,279,254
Equipment	146	-	84,649	84,795
Supplies, materials, rent, and other	<u>88,223</u>	<u>36,248</u>	<u>3,095</u>	<u>127,563</u>
Total expenditures	<u>\$508,140</u>	<u>\$1,271,967</u>	<u>\$3,051,500</u>	<u>\$4,831,604</u>

<u>Fiscal Year 2006</u>	<u>General Funds</u>	<u>Federal Grants</u>	<u>Special Revenue</u>	<u>Total</u>
Expenditures:				
Salaries and fringes	\$ -	\$ 858,310	\$1,522,043	\$2,380,353
Contractual	506,481	190,130	1,213,233	1,909,844
Equipment	-	-	89,424	89,424
Supplies, materials, rent, and other	<u>309,889</u>	<u>78,815</u>	<u>46,878</u>	<u>435,582</u>
Total expenditures	<u>\$816,370</u>	<u>\$1,127,255</u>	<u>\$2,871,578</u>	<u>\$4,815,203</u>

<u>Fiscal Year 2007</u>	<u>General Funds</u>	<u>Federal Grants</u>	<u>Special Revenue</u>	<u>Total</u>
Expenditures:				
Salaries and fringes	\$ -	\$ 802,557	\$1,649,475	\$2,452,032
Contractual	506,367	459,399	823,939	1,789,705
Equipment	-	-	57,960	57,960
Supplies, materials, rent, and other	<u>122,543</u>	<u>122,701</u>	<u>1,891</u>	<u>247,135</u>
Total expenditures	<u>\$628,910</u>	<u>\$1,384,657</u>	<u>\$2,533,265</u>	<u>\$4,546,832</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 12, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

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

We have audited the financial records and operations of **A.L. Philpott Manufacturing Extension Partnership** (Partnership) for the years ending June 30, 2006 and June 30, 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Partnership's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Partnership'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.

- Federal grant revenues and expenditures
- Contractual services expenditures
- Payroll expenditures
- Small purchase charge card
- Financial assistance and incentives payments
- Appropriations
- Cash receipting and collections of accounts receivable

Capital assets
Network Security

We performed audit tests to determine whether the Partnership'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 the Partnership's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the A.L. Philpott Manufacturing Extension Partnership properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Partnership 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.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on February 28, 2008. 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

HV:clj

AGENCY OFFICIALS

A.L. Philpott Manufacturing Extension Partnership

Jeff Kohler
Executive Director

BOARD OF TRUSTEES

Walter C. Mattox
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Peter Jobse	

