

**VIRGINIA BIOTECHNOLOGY
RESEARCH PARTNERSHIP AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

Our audit of the Virginia BioTechnology Research Partnership Authority (Authority) for the year ended June 30, 2010, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that requires management's attention and corrective action; this is located in the "Internal Control Finding and Recommendation" section of this report; and
- no instances of noncompliance with material laws and regulations or other matters that are required to be reported.

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2010, and issued our report thereon, dated December 7, 2010. Our report, included in the Authority's 2010 Annual Report, is anticipated to be issued on or around December 17, 2010, and will be available at the Auditor of Public Accounts website at www.apa.virginia.gov and at the Authority's website at <http://vabiotech.com/>.

– TABLE OF CONTENTS –

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL FINDING AND RECOMMENDATION	1
INDEPENDENT AUDITOR’S REPORT:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	2-3
AGENCY RESPONSE	4-5
BOARD MEMBERS	6

Internal Control Finding and Recommendation

Prepare Accurate and Timely Financial Reports

Over the past four years, we have continued to stress management's responsibility to prepare timely, accurate and correct financial statements; however, Biotech financial statements have undergone material restatements before their issuance. In part, this is because of inadequate staff resources. Biotech regularly enters into unique and complex transactions, which requires a degree of knowledge that one person cannot fully possess.

This year, we found some reporting deficiencies, including the failure to record a loss on refinancing debt that led to a reduction in capital lease receivables in the amount of \$425,000; the failure to properly record a deferred amount of \$3.1 million for an advance refunding of bonds; and other miscellaneous immaterial errors in the compilation of the financial statements.

We have brought these matters to the attention of the Board and management and do not believe the actions taken to date have addressed these issues. The U.S. Securities and Exchange Commission is undertaking a review of financial markets for governmental and non-profit organizations, especially those entities regularly in the market issuing or refinancing debt. There have been several actions already taken related to financial reporting and we believe the review above may lead to even stricter oversight of this market. We do not believe that Biotech has appropriately addressed its ability to research and review transactions to determine their effect before consummating a transaction, let alone properly reporting the transaction in the financial statements.

To minimize the risk to the Authority, the Board, and the Commonwealth, we strongly recommend that the Board explore alternatives to having Biotech maintain its own financial reporting staff, or make the commitment to properly staff and resource this function. Lastly, generally accepted auditing standards require auditors to assess risk to an organization and those charged with governance and we believe that this issue does represent a material risk to this organization.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 7, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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 the basic financial statements of the **Virginia Biotechnology Research Partnership Authority** as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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.

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 significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the section entitled "Internal Control Finding and Recommendation," we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 deficiency entitled "Prepare Accurate and Timely Financial Reports" which is described in the section titled "Internal Control Finding and Recommendation," to be a material weakness.

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 the finding identified in our audit is included in the section titled "Agency Response." We did not audit the Authority's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The Authority has not taken adequate corrective action with respect to the previously reported finding "Improve Financial Reporting Process". Accordingly, we incorporated the unresolved issues from this finding in the current finding entitled "Prepare Accurate and Timely Financial Reports" in the section entitled "Internal Control Finding and Recommendation."

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Authority's Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


We discussed this report with management at an exit conference held on November 29, 2010.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh

MEMORANDUM

To: Walter J. Kucharski, Auditor
Andy W. Powell, Audit Director

From: Robert T. Skunda, Executive Director 

Date: December 9, 2010

Subject: APA Audit for Year Ending June 30, 2010

Title: Internal Control Finding and Recommendation

Following the FY 2009 Audit, the Authority agreed to a plan of action to provide support to the Director of Finance, including hiring support staff to handle bookkeeping and basic financial functions, as well as establishing a consultative relationship with a state agency and/or outside CPA firm who could assist in research and answering questions about financial statement entries. Both were implemented, but with only limited success.

At the suggestion of the APA, the Authority met with the Virginia Department of Accounts (DOA) in February of 2010 to request assistance with entries associated with the bond refinancing for the Division of Consolidated Laboratory Services and other bond-related matters. In September, when the Authority followed up requesting assistance during the course of the audit period, repeated requests to the DOA went unanswered. The Authority also reached out to the accounting firm of Harris, Hardy & Johnstone to assist on a matter regarding IRS reporting.

In July, VBRPA hired a person to assist with A/R and A/P functions. This individual was subsequently terminated during the probationary period; however, a replacement person has been hired and is under training at this time.

These items are identified to indicate that the Authority did have a plan for giving additional support and resources to our financial department during the year, but remain insufficient in the assessment by the APA as evidenced by the Internal Controls Finding.

Following the report of the Audit Findings to the Authority's Finance & Audit Committee, Management will do the following:

1. Solicit proposals from qualified accounting firms with experience in auditing and/or supporting public authorities who issue bonds and have complex real estate transactions to provide ongoing support to the Authority by reviewing Quarterly Financial Statements, assisting in the review and preparation of Year-end Financial Statements, providing on-site support to the Director of Finance in the period leading up to commencement of field work by the APA and finally, being available for regular and routine consultation including conducting research on accounting directives and standards;
2. Solicit proposals from qualified accounting firms who may be able to provide the regular accounting and bookkeeping support to the Director of Finance through handling regular

accounts receivable, accounts payable and preparation of monthly, quarterly and annual financial statements through providing a “back office” support capability. This would free up the Director of Finance to be able to handle the more complex finance issues affecting the Authority as well as allow time to prepare for and respond during the annual APA audit process; and

3. Solicit proposals from qualified accounting firms to completely outsource all of the Authority’s accounting and financial reporting functions.

These proposals, and the relative cost-benefit to the Authority will be evaluated and presented to the Authority’s Finance & Audit Committee with a final recommendation and decision being made on a course of action by the end of Q1, 2011 and in ample time to begin the transition in whatever direction may be decided upon before the end of the FY ’11 fiscal year and initiation of the annual audit by the APA next year.

VIRGINIA BIOTECHNOLOGY RESEARCH PARTNERSHIP AUTHORITY

Michael Rao, Chair

Patricia Bell Williams, Vice Chair

Samuel B. Hunter, Secretary

William H. Weirich, Treasurer

Robert T. Skunda, Executive Director

Jim Cheng
Robert L. Jesse
Dwight C. Jones
Benjamin J. Lambert
Patricia M. Woolsey
Zobair M. Younossi

VIRGINIA BIOTECHONOLGY RESEARCH PARK CORPORATION

Michael Rao, Chair

Charles H. Foster, Jr., Vice Chair

Samuel B. Hunter, Secretary

William H. Weirich, Treasurer

Robert T. Skunda, President and CEO

Jim Cheng	Dwight C. Jones
Donna Owens Cox	Carlton E. Miller
Walter K. Graham	Brandon J. Price
Rob Habgood	Craig R. Smith
Cecil R. Harris, Jr.	James A. Strickland
Virgil R. Hazelett	James J. L. Stegmaier
G. Scott Hetzer	William S. White
Ronald D. Wright	