

**DEPARTMENT OF BUSINESS ASSISTANCE**

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



## **AUDIT SUMMARY**

Our audit of the Department of Business Assistance for the two-year period ended June 30, 2007, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System, with the exception noted in the audit recommendation entitled “Deposit Funds in the State Treasury and Have an Appropriation”, and
- matters involving compliance and internal control and its operation that we have communicated to management in the “Audit Findings and Recommendations” section of this report.

The Department has reduced its total staff, including those individuals providing administrative support, and currently has 37 employees. The Department, like other smaller agencies, does not have the staff expertise or resources to process financial transactions, personnel, payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person can compromise the internal control structure and knowledge base needed to handle key transactions and duties.

The Department should work with another agency to establish a central back office operation to provide accounting, budgeting, information security, human resources, and procurement services. Current service arrangements with other agencies do not provide a cohesive process which addresses the true operational needs of the Department. We discuss this and other recommendations in greater detail within the section entitled, “Audit Findings and Recommendations.”

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
AGENCY HIGHLIGHTS	4-5
FINANCIAL INFORMATION	5-6
AUDIT OBJECTIVES	7
AUDIT SCOPE AND METHODOLOGY	7
CONCLUSIONS	8
EXIT CONFERENCE AND REPORT DISTRIBUTION	8
AGENCY RESPONSE	9-11
AGENCY OFFICIALS	12

## AUDIT FINDINGS AND RECOMMENDATIONS

### Shift to an Administrative Service Arrangement

The Department has reduced its total staff, including those individuals providing administrative support, and currently has 37 employees. During this period the Department has also begun increasing the use of administrative arrangements with other agencies to provide payroll and fringe benefit accounting and more recently human resource assistance. However, the remaining staff continue to experience difficulty in maintaining the general accounting, procurement, information technology systems, and security requirements of the Commonwealth.

The Auditor of Public Accounts has advocated 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.

The Department, like other smaller agencies, does not have the staff expertise or resources to process financial transactions, personnel, payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person can compromise the internal control structure and knowledge base needed to handle key transactions and duties. Therefore, the use of larger agencies with sufficient staff and resources will provide needed internal controls and management oversight of public resources.

Further, change in agency leadership may result in having leaders without knowledge of state processes, standards, regulations, and laws. Agency leadership, without an understanding of this essential information, could enter into agreements or contracts that are not in the best interest of the agency or the Commonwealth.

Management should work with another agency to establish a central back office operation to provide accounting, budgeting, information security, human resources, and procurement services. The current arrangements with the Departments of Accounts and Human Resource Management do not provide a cohesive process which addresses the true operational needs of the Department. We recognize that leaders of the smaller agencies will resist this type of change; however, the Commonwealth and the Department will greatly improve its internal controls and gain risk management benefits.

### Deposit Funds in the State Treasury and Have an Appropriation

The Department sponsored a program to support and train small, women, and minority owned businesses in obtaining surety bonding. To support the program, the Department solicited money directly from companies and had them make the donation checks payable directly to a vendor the Department chose without competition. The Department did not have appropriation authority to spend the funds.

Our audit found that the Department sponsored and held two sessions and had arranged to hold a third session, which management postponed at the time of audit. There is some indication that the Department may have planned to sponsor future sessions beyond the three scheduled events.

Although the amount of the total program would not exceed \$30,000, both the Code of Virginia and the Appropriation Act require that no agency shall expend resources of the Commonwealth without authorization either through a direct appropriation or authorized administrative action of the Governor.

Finally, both the Constitution of Virginia and the Code of Virginia require that an officer or employee deposit all Commonwealth revenues in the State Treasury.

The Department is an agent of the Commonwealth and the actions clearly show that the Department planned for this program to represent both the Commonwealth and the Department. As such, the Department should have followed all of the laws, rules, and regulations of the Commonwealth both in obtaining, safeguarding, and spending funds, which when collected by public officials for public events become public funds. Although no one personally benefited from the use of these funds, the Department should institute procedures to prevent this from happening the future.

#### Maintain Official Records of the Department

The Department does not maintain an official record of all of its programs, correspondence, or other communication with outside organizations. During this audit we made numerous inquiries to obtain and secure official records of the Department. Staff told the auditors that the Department did not have any official records or a central file of correspondence and other documents. The Virginia Public Records Act, the Virginia Freedom of Information Act, and numerous other provisions of the Code of Virginia require Commonwealth agencies to maintain official records of their operations and dealings with the public. We recommend the Department immediately contact the State Library to develop and maintain such information both physically as well as electronically.

#### Improve Controls Over Wireless Devices

The Department does not monitor its staff usage of wireless devices and as a result incurred unnecessary costs by paying for usage in excess of plan minutes, having unassigned and unused devices, and paying for potential personal calls. Several wireless device users regularly exceed the existing plan usage limits, and the Department did not take actions to either reduce usage or obtain less costly plans with broader services.

In addition to incurring unnecessary costs of having wireless devices, the Department did not follow the policies and practices of the Commonwealth for monitoring and controlling these devices. Properly monitoring usage would have allowed the Department to adjust plans to meet usage needs and indicate the need to cancel some device contracts for equipment not in use.

The Department should adopt Commonwealth policies and procedures, which would provide for the monitoring of devices and minimized costs to the Department. Management should consult with the Virginia Information Technologies Agency on which plans are most appropriate and for assistance in implementing the proper controls over the devices.

#### Properly Complete Employment Eligibility Verification Forms

The Department is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment.

During our review of eight newly hired employees from July 1, 2006, to June 30, 2007, we found the following exceptions:

- Five instances where the employee did not either properly complete, sign, or date the I-9 form on or before the first day of employment (Section 1);
- Two instances where the employer did not either properly complete, sign, or date the I-9 form within three business days of the employee's first day of employment (Section 2).

The exceptions noted above are not in compliance with the guidelines issued by the US Citizenship and Immigration Services of the US Department of Homeland Security's Handbook for Employers (M-274). In addition, we also found that the Department does not have a separate documented policy regarding I-9 compliance. The lack of documented policy and procedures increases the risk of non compliance and the likelihood that errors will occur.

We recommend that the Department work to ensure new employees are hired within the guidelines set out by the Department of Homeland Security.

#### Document Information Security Program

The Department does not have an adequate information security program that is in compliance with the Commonwealth's Information Technology security standard, ITRM Standard SEC501-01. During our review, we found the Department was missing the following components of their security program:

- Security awareness training program;
- Risk Assessment relating to its entire IT infrastructure;
- Business Impact Analysis;
- Policies and procedures for approving logical access; and
- Policies and procedures for systems, applications, and database monitoring.

Without a documented information security program, the Department cannot identify or adequately maintain critical information technology components which the Department relies upon to carry out its business objectives. Inadequate security policies put the Department and its critical information technology systems and data at risk for loss of availability, integrity, and confidentiality.

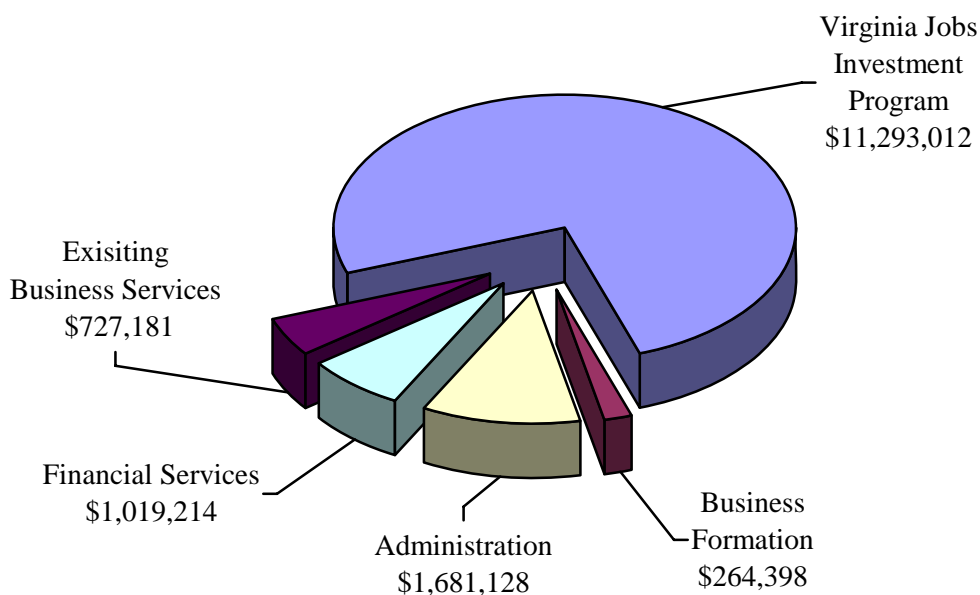
We recommend that management establish information technology policies and procedures and allocate the time and resources necessary to support the improvement and implementation of their Information Security Program.

## **AGENCY HIGHLIGHTS**

The Department of Business Assistance administers the Economic Development Services Program that provides a variety of services to business and industry including financial assistance, training, and counseling. The Department's primary funding source is General Fund appropriations. Below is a summary of the Department's expenses by division for fiscal year 2007, followed by a description of each division's operations.

### **Expenses by Division** **Fiscal Year 2007**

Total: \$14,984,933



### ***Virginia Jobs Investment Program***

The Virginia Jobs Investment Program, formerly the Workforce Services Division, is an economic development incentive program used to encourage the expansion of existing companies and attract new businesses to Virginia. During fiscal year 2007, the Workforce Services staff assisted 497 companies by providing training to 16,418 Virginians based on employment qualification and skill level. The Virginia Jobs Investment Program maintains a daily monitoring and forecasting tool for determining projected and active project funding based on active project budgets, projected project budgets, and historical variables.

### ***Existing Business Services***

The Existing Business Services Division administers the Department's Procurement Assistance Program which helps companies to grow their sales to the State. They host seminars, support the seminars of other partners, distribute a newsletter, provide one-on-one sessions in numerous cities across the state, and provide vendor/buyer networking opportunities. This group services all businesses but especially focuses on small, women, and minority businesses. They were involved in over 100 events in fiscal year 2007 and counseled 1,747 business 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. The programs identify entrepreneurs, link them with resources, and encourage them to take the next step. Other initiatives of this division include the management of the Entrepreneur Advisory Team, the Existing Business Retention and Expansion forum, and the Business partner training sessions.

### ***Financial Services***

The Financial Services Division identifies potential capital financial resources for business clients and administers loan and guarantee programs designed to increase employment opportunities and encourage the investment of private capital in Virginia businesses. The Division also oversees the Virginia Small Business Financing Authority (VSBFA), which provides financial assistance to small businesses through the issuance of bonds, loan guarantees, and other assistance. During fiscal year 2007, the VSBFA administered \$10 million in financing committed to 125 businesses and local industrial development authorities resulting in \$247 million in additional financing.

### ***Administrative***

The Administrative Division provides executive management, fiscal, budgetary, information systems, public relations, and educational support to the other divisions within the Department.

## **FINANCIAL INFORMATION**

The schedule below summarizes the Department's original budget, final budget, and actual expenses for fiscal years 2007 and 2006. The Department received total resources of approximately \$16.4 million in fiscal year 2007 and \$13.6 million in fiscal year 2006. The fiscal year 2007 increase in original to final budget is primarily a result of an increase in general funds to support a rising demand for services provided by the Virginia Jobs Investment Program and an additional non-general fund appropriation increase in relation to the Workforce Investment Act (WIA). The increase in original to final budget for 2006 is also primarily in relation to the Workforce Investment Act.

### **Analysis of Budgeted and Actual Expenses** **Fiscal Years Ended June 30, 2007 and June 30, 2006**

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$12,823,366	\$14,329,884	\$14,104,532	\$11,066,542	\$11,365,078	\$11,284,732
Special fund	350,253	157,753	56,492	350,253	100,253	62,980
Commonwealth						
transportation fund	-	-	-	1,065,924	-	-
WIA federal fund	-	1,937,435	823,909	-	1,976,903	879,733
Federal trust	-	-	-	115,088	115,088	-
Total	<u>\$13,173,619</u>	<u>\$16,425,072</u>	<u>\$14,984,933</u>	<u>\$12,597,807</u>	<u>\$13,557,322</u>	<u>\$12,227,445</u>

Source: Commonwealth Accounting and Reporting System



The table below summarizes the Department's expenses by type for fiscal years 2007 and 2006. Transfer payments account for \$10.3 million, or almost 69 percent, of fiscal year 2007 expenses. Transfer payments represent monies paid to businesses through various business assistance programs. The majority of the remaining expenses are personnel expenses, 25 percent.

Analysis of Expenses by Type  
For Fiscal Years Ended June 30, 2007 and June 30, 2006

Economic Development Services Program

	<u>2007</u>	<u>2006</u>
Transfer Payments	\$10,344,842	\$ 7,747,919
Personal Services	3,685,692	3,403,601
Contractual Services	574,539	415,925
Continuous Charges	305,526	285,968
Equipment	32,998	346,879
Supplies and Materials	<u>41,336</u>	<u>27,153</u>
 Total	 <u>\$14,984,933</u>	 <u>\$12,227,445</u>

Source: Commonwealth Accounting and Reporting System



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

May 15, 2008

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 two-year period ended June 30, 2007. We conducted this performance audit in accordance with 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.

## 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 Department's internal controls, and test compliance with applicable laws and regulations.

## Audit Scope and Methodology

The Department'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.

- Expenses, including payroll
- Transfer payments
- Information system security

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

### Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System, with the exception noted in the audit recommendation entitled "Deposit Funds in the State Treasury and Have an Appropriation". The Department 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 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."

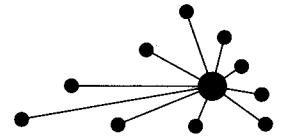
### Exit Conference and Report Distribution

We discussed this letter with management at an exit conference held on May 15, 2008. 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

TAS/wdh



May 13, 2008

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

Dear Mr. Kucharski:

The Virginia Department of Business Assistance (VDBA) appreciates the time and effort the Auditor of Public Accounts (APA) staff spent reviewing its financial accounting and control operations for Fiscal Years 2006 and 2007. I agree with most of your recommendations and appreciate the opportunity to 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

As you reported, significant and recurring budget reductions have severely limits VDBA's ability to maintain proper internal controls 100% of the time. VDBA agrees with APA regarding the need for improved internal control. As you may or may not be aware, a study regarding the possibility of merging VDBA with another agency was recently commissioned. We will be in a better position to determine our ability to work with another agency to establish a central back office operation at the conclusion of the study.

Deposit Funds in the State Treasury and Have an Appropriation

We concur with this finding and anticipate that with the change in VDBA's management this will no longer be an issue. Due to additional budget reductions we are beginning to have a difficult time providing the necessary funding level to a few of the programs currently administered by VDBA. Therefore, we are in the process of preparing a request to solicit for sponsorship dollars to help fund these programs.

Maintain Official Records of the Department

The VDBA has on file with the State Library of Virginia Record Retention Schedules for our individual divisions. Within each Schedule the programs area identified and the records are stored and/or destroyed as established. However, we do not have a Record Retention Schedule specifically for electronic records. With the increase in electronic correspondence the VDBA agrees we need to address this and we will begin researching the process on how electronic records are to be handled and/or maintained. Again, due to budget reductions we have had to lay off our IT Manager and depend heavily on the Virginia Information Technology Agency (VITA) for our electronic backup of all electronic records as well as guidance in this area.

Mr. Walter J. Kucharski  
May 13, 2008  
Page 2

This is yet another reason for the Commonwealth to investigate the reasonableness of having an agency to oversee administrative functions for small agencies. However, we will establish a policy regarding the maintenance of records for all of our programs, correspondence and other communications with outside organizations. We will seek guidance from the Virginia Public Records Act, the Virginia Freedom of Information Act and any other provision of the Code of Virginia pertaining to official records of our operations and dealings with the public.

#### Improve Controls Over Wireless Devices

We recognize the need to monitor more closely the usage of wireless devices; however budget reductions having caused a decrease in staff make it difficult to keep a watchful eye on the usage. We do have a procedure in place, although it is not in the form of a policy, whereby all employees with a wireless device are given a copy of their bill each month. They are to review the bill for any personal calls and reimburse the agency if a charge is associated with the call. However, if the personal call was early in the month and there was no cost for that particular, and the total usage exceeded the plan limits for the month, there was no reimbursement being made for that particular personal call.

VDBA had a few unassigned cell phones during the period of this audit and these were used as needed when an employee checked out a state vehicle. When the employee was given car keys they were also given a cell phone to be used while they were on travel status. Since then, most employees who frequently travel have wireless devices and these unassigned cell phones no longer exist. They have been terminated and removed from our bill. We will be more diligent in reviewing the usage and make any necessary adjustments in the plan type when needed.

We are in the process of developing a Telecommunications Policy to address the use of all telephones, desk top and wireless devices. We have already obtained copies of policies that two other agencies have and expect to have our policy in place by July 1, 2008.

#### Properly Complete Employment Eligibility Verification Forms

We concur with your finding that some of the Employment Eligibility Verification forms (I-9) we not completed properly in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. Recent budget reductions forced us to place our HR Manager in lay-off status and effective November 15, 2007 our personnel function is being provided by the Department of Human Resource Management (DHRM).

Walter J. Kucharski  
May 13, 2008  
Page 3

Document Information Security Program

VDBA concurs with this finding and agrees with APA's recommendation of the need for an overseeing agency for administrative functions, to include Information Security, for smaller agencies. Unfortunately, we do not have the staff expertise or resources to implement an adequate information security program. We will, however, attempt to establish information technology policies and procedures to minimize and improve our security program. We will enlist the assistance of VITA to attempt to get some training and guidance on where and how to start this process.

Thank you and your staff for your professionalism during the review. We look forward to continuing to work with you to improve VDBA's overall financial management.

Sincerely,

A handwritten signature in cursive script that reads "Lynda Sharp Anderson".

Lynda Sharp Anderson  
Acting Director

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

LSA/swv

## AGENCY OFFICIALS

### DEPARTMENT OF BUSINESS ASSISTANCE

Lynda Sharp Anderson  
Acting Director

Preston Wilhelm  
Division Director  
Workforce Services

Elizabeth Moran  
Division Director  
Legislative and Community Affairs  
(Small Business Incubator Program)

Wayne Waldrop  
Division Director  
Existing Business Services

Scott Parsons  
Division Director  
Financial Services

Stacy VanLeliveld  
Director of Administration