



INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND CENTER FOR INNOVATIVE TECHNOLOGY

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2020

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We have audited the basic financial statements of the Innovation and Entrepreneurship Investment Authority (Authority), including its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2020, and issued our report thereon, dated August 31, 2021. Our report, included in the Authority's Annual Report, is available on the Auditor of Public Accounts' website at www.apa.virginia.gov.

Our audit of the Authority for the year ended June 30, 2020, found:

- the financial statements are presented fairly, in all material respects;
- one internal control finding and recommendation requiring management's attention; however, we do not consider it to be a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Develop and Adhere to Policies and Procedures for Reviewing Service Organization Control Reports Related to Financial Operations

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Management of the Center for Innovative Technology (CIT) does not request service organization control (SOC) reports from third-party service providers for outsourced financial processes. Further, CIT does not have written policies and procedures related to the review of SOC reports to ensure providers have adequate controls over these financial processes.

CIT outsources certain business tasks and functions to service providers who process sensitive transactions, such as payroll, vendor payments, and accounting processes. The Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 10305 requires agencies to have adequate interaction with providers to appropriately understand the providers' internal control environment. Although the Commonwealth does not require CIT to follow these guidelines, the review and documentation of SOC reports over outsourced financial processes is a best practice, as it ensures the service organizations' systems are operating effectively.

SOC reports (specifically SOC 1, Type 2 reports) provide an independent description and evaluation of the operating effectiveness of providers' internal controls over financial processes. Without a formal process for obtaining, reviewing, and documenting SOC 1, Type 2 reports, management cannot ensure that providers' controls are designed, implemented, and operating effectively. Although CIT management interacts with its providers, by not consistently reviewing and considering their SOC 1, Type 2 reports, management is increasing its risk that it will not detect a weakness in a provider's environment, which could negatively impact the financial activity of the entity.

Although CIT does have a process for obtaining and reviewing certain SOC 2, Type 2 reports, which pertain to the design and operating effectiveness of system controls, management does not contractually require their subservice organizations to provide them with a SOC 1, Type 2 report on an annual basis. In addition, when a subservice organization sends a SOC 1, Type 2 report, CIT does not evaluate the results of the independent auditor's report, which is dissimilar to the review management performs for SOC 2, Type 2 reports.

CIT management should implement policies and procedures to obtain, review, assess, and document the effectiveness of provider controls reported through SOC 1, Type 2 reports. Maintaining oversight of all third-party service providers will assist CIT in ensuring the providers suitably design internal controls and that the providers' controls operate effectively.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 31, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Innovation Partnership Authority and
Center for Innovative Technology

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 **Innovation and Entrepreneurship Authority**, including its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 31, 2021.

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 opinion 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.

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 was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control entitled "Develop and Adhere to Policies and Procedures for Reviewing Service Organization Control Reports Related to Financial Operations," which are described in the section titled "Internal Control Finding and Recommendation," that we consider to be a significant deficiency.

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 the Finding and Recommendation

We discussed this report with management at an exit conference held on September 7, 2021. The Authority's response to the finding and recommendation identified in our audit is described in the accompanying section titled "Authority Response." The Authority'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.

Status of Prior Finding and Recommendation

The Authority has taken adequate corrective action with respect to the audit finding and recommendation reported in the prior year.

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

LDJ/vks



August 25, 2021

Staci A. Henshaw, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Henshaw:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2020 audit by the Auditor of Public Accounts (APA). Below is management's response to the finding:

Develop and Adhere to Policies and Procedures for Reviewing Service Organization Control Reports Related to Financial Operations

CIT Management Response:

On an annual basis, CIT requests SOC reports, and applicable bridge letters, from third-party service providers. During the fiscal year 2020 audit, CIT provided the SOC 1 Type 2 reports from several third-party providers of outsourced financial processes. Management agrees that there is not a written policy and procedure related to the review of SOC 1 Type 2 reports and that the current process needs to be expanded to ensure that SOC 1 type 2 reports are obtained, reviewed, assessed and documented. CIT is in the process of expanding the current SOC report review process and documenting the policies and procedures.

Sincerely,

A handwritten signature in black ink that reads "Susan Aitcheson". The signature is written in a cursive, flowing style.

Susan Aitcheson, CPA
Chief Financial Officer

**INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY
AND
CENTER FOR INNOVATIVE TECHNOLOGY**

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