

**VIRGINIA NATIONAL DEFENSE
INDUSTRIAL AUTHORITY**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Virginia National Defense Industrial Authority, for the year ended June 30, 2011, found:

- proper recording and reporting of all transactions, in all material respects, in the accounting 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 Virginia National Defense Industrial Authority (Authority) provides technical assistance and coordination of military and national defense activities between the Commonwealth, its political subdivisions, and the United States government. The Authority also focuses on economic development efforts designed to create favorable conditions for current and future Defense Department investments in Virginia.

An 18 - member board consisting of 16 citizen members, the Adjutant General of Virginia and the Secretary of Commerce and Trade, directs the work of the Authority. The Governor appoints 10 of the citizen members. The Speaker of the House appoints four citizen members and the Senate Rules Committee appoints the remaining two citizen members. The Board has formed three standing committees to guide the Authority's activities.

- The *Strategic Planning Committee* is responsible for developing a strategic plan to sustain and grow the economic impact of the Commonwealth's defense activities. The Committee also guides staff efforts to seek new opportunities for mission growth and identify threats to current defense investment.
- The *Local Coordination, Support and Communication Committee* is responsible for maintaining communications with and among regional and community military councils statewide. The Committee also facilitates communications statewide regarding military and defense issues through the VNDIA website, Defense Advocate newsletter, and with state legislators and administration officials.
- The *Grant Review and Oversight Committee* is responsible for soliciting and reviewing grant applications, making award recommendations to the Governor, and providing oversight of the use of grant funds for the Commonwealth's Military Strategic Response Fund.

Military Strategic Response Fund (Fund)

During the 2006 Session, the Virginia General Assembly established the Fund to supplement local funding for projects initiated as a result of the 2005 Base Realignment and Closure Commission's (BRAC) recommendations. The Governor approves grants from the Fund. The Secretary of Finance receives General Fund appropriations and makes grant disbursements from the Fund on a reimbursement basis. In fiscal year 2011, the General Assembly appropriated \$7.5 million for these grants.

As noted above, the Authority's Grant Review and Oversight Committee assists in the application process and provides oversight for ensuring the grantee complies with the grant agreement including certifying to the Secretary of Finance that the grantee is requesting reimbursement of eligible expenses. All recipients must complete the grant application and award process and comply with grant award agreements. Each prospective grantee must show that it has funds available to match the Commonwealth's contribution. If the grantee does not comply with the grant agreement, the Commonwealth can withhold reimbursement or rescind the grant. The Secretary of Finance directly pays the grant recipient and none of the funds are in the Authority's financial records.

Financial Highlights

Funding for the Authority's activities typically comes through the Virginia Economic Development Partnership (Partnership) in the form of General Fund Appropriations. The Partnership provides all back office administrative support to the Authority including fiscal, human resources, and information technology services. The Partnership also records the Authority's financial activity in its accounting system. The

Authority can retain and carry forward its unspent appropriation from prior years. In 2011 it carried forward \$6.3 million of unspent Defense Advanced Research Projects Agency (DARPA) funds that it received directly from the General Fund in 2010. A summary of the Authority's revenues for the fiscal year ended June 30, 2011 is below.

Analysis of Revenues for Fiscal Year ended June 30, 2011

	<u>2011</u>	<u>Percentage of Total Revenues</u>
General Fund Appropriations		
Carry forward	\$6,290,075	94%
Provided by the Partnership	403,317	6%
Interest	<u>4,328</u>	<u>-</u>
Total revenues	<u>\$6,697,720</u>	<u>100%</u>

Source: Virginia Economic Development Partnership's Accounting System

Excluding the pass-through payments for 2011, which made up 94 percent of the Authority's expenses, the majority of the Authority's expenses are for personnel and administrative costs. Administrative costs represent the administrative fees paid to the Partnership to provide general bookkeeping and administration. The pass-through payments for 2011 represent disbursements to Arlington County to support meeting the Department of Defense force protection standards for the DARPA building. A breakdown of the Authority's expenses by type for the fiscal year ended June 30, 2011 is below.

Analysis of Expenses by Type for Fiscal Year ended June 30, 2011

	<u>2011</u>
Pass-through payments	\$6,109,060
Personnel	326,922
Administrative costs	25,000
Travel	8,428
Marketing and promotion	6,602
Services	4,760
Missions, shows, and events	2,092
Supplies and materials	747
Other expenses	<u>5,179</u>
Total expenses	<u>\$6,488,790</u>

Source: Virginia Economic Development Partnership's Accounting System

Subsequent Events

In December 2011, the Governor submitted the budget for the period 2012-2014, which included a provision to abolish the Authority effective July 1, 2012. This proposed dissolution is pending actions taken by the General Assembly on the Governor's recommendation.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

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March 12, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia National Defense Industrial Authority** (Authority) for the year ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 the Authority's financial transactions in the Virginia Economic Development Partnership's (Partnership) accounting system, review the adequacy of the Authority's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Authority'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 significance and 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.

Revenue
Expenses (including payroll and pass-through expenses)

We performed audit tests to determine whether the Authority'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 Authority's operations. We tested transactions

and performed analytical procedures, including budgetary and trend analyses. As the Authority relies on the Partnership's internal control structure, we also reviewed the results of the audit of the Partnership's operations.

Conclusions

We found that the Authority's financial transactions were properly recorded and reported, in all material respects, in the Partnership's accounting system. The Partnership records the Authority's 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 Partnership's accounting 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 March 16, 2012.

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

LJH/alh

VIRGINIA NATIONAL DEFENSE INDUSTRIAL AUTHORITY

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