

**VIRGINIA NATIONAL DEFENSE
INDUSTRIAL AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Virginia National Defense Industrial Authority for the year ended June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the internal accounting system of the Authority;
- 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.

- TABLE OF CONTENTS -

| | <u>Pages</u> |
|---|--------------|
| AUDIT SUMMARY | |
| AGENCY HIGHLIGHTS | 1 |
| AUDIT OBJECTIVES | 2 |
| AUDIT SCOPE AND METHODOLOGY | 2-3 |
| CONCLUSIONS | 3 |
| EXIT CONFERENCE AND REPORT DISTRIBUTION | 3 |
| AGENCY OFFICIALS | 4 |

AGENCY HIGHLIGHTS

The Virginia National Defense Industrial Authority provides technical assistance and coordination between the Commonwealth, its political subdivisions, and the United States government military and national defense activities located within the Commonwealth. The mission of the Authority is to assist Virginia installations and communities in meeting the challenges of, and pursuing the opportunities inherent in the 2005 Base Realignment and Closure Process. The Authority seeks to work in partnership with the U.S. Department of Defense and Virginia communities to strengthen and expand military operations throughout the Commonwealth.

The Authority's first year of operations was fiscal year 2007. Funding is through the Virginia Economic Development Partnership in the form of General Fund Appropriations. The Authority uses its funding primarily for employee compensation and administrative support as contracted through the Virginia Economic Development Partnership. As shown below, the Authority did not spend all of their budget in fiscal year 2007.

Analysis of Budget and Actual Expenses for Fiscal Year 2007

| | <u>Budget</u> | <u>Expenses</u> |
|---------------------------------|------------------|------------------|
| Salaried compensation | \$395,000 | \$272,749 |
| Wage and temporary compensation | 5,000 | 8,140 |
| Marketing and promotions | 5,000 | 4,691 |
| Missions, shows and events | 7,500 | 911 |
| Travel | 26,500 | 6,127 |
| Services | 28,200 | 4,008 |
| Supplies and materials | 2,000 | 1,870 |
| Office use agreements | 25,000 | 25,000 |
| Fixed asset payments | 9,000 | 6,202 |
| Other expenses | <u>6,800</u> | <u>4,694</u> |
| Total | <u>\$510,000</u> | <u>\$334,392</u> |

Source: USL Financial Accounting System

The General Assembly did not approve final funding for the Authority until June 2006. As a result, the Authority did not complete staffing until September 2006. Therefore, actual personnel costs for fiscal year 2007 were significantly lower than budgeted amounts. Events, Travel, and Services expenses were also under budget for the fiscal year due to the delay in staffing. The Authority should see a considerable increase in these expense categories during fiscal year 2008.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 9, 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 the **Virginia National Defense Industrial Authority** (Authority) for the year ended June 30, 2007. 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 recorded financial transactions on the internal accounting system of the Authority, 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 is responsible 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.

Payroll Expenses
Travel Expenses
Contractual Service Expenses
Office Use Agreement 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, vouchers, personnel and payroll files, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary analyses.

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in their internal accounting system. The Authority 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 Authority's internal 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 June 9, 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

SAH/clj

VIRGINIA NATIONAL DEFENSE INDUSTRIAL AUTHORITY

David G. Dickson
Executive Director

BOARD OF DIRECTORS

The Honorable Joe R. Reeder, Chairman

Ms. Reta R. Busher, Vice-Chair

Gen. John N. Abrams, USA, (Ret.)
John B. Adams
G. William Beale
Mark D. Betts
Rear Adm. Robert R. Fountain, Jr. USN, (Ret.)
Gen. Richard E. Hawley, USAF, (Ret.)
Rear Adm. John G. Hekman, USN, (Ret.)

Alfred M. Jacocks, Jr.
The Honorable John W. Knapp, Sr.
Dr. Roseann O'Reilly Runte
Adm. Donald L. Pilling, USN, (Ret.)
The Honorable Cord A. Sterling
Kurt H. Tripp
William L. Welch

