



**A. L. PHILPOTT MANUFACTURING
EXTENSION PARTNERSHIP**

REPORT

FOR THE YEARS ENDED

JUNE 30, 2010, JUNE 30, 2011,

AND JUNE 30, 2012

AUDIT SUMMARY

Our audit of Virginia's A.L. Philpott Manufacturing Extension Partnership for the years ending June 30, 2010, 2011, and 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and PeopleSoft Administrative Information System (AIS);
- no matters involving internal control and its operation 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

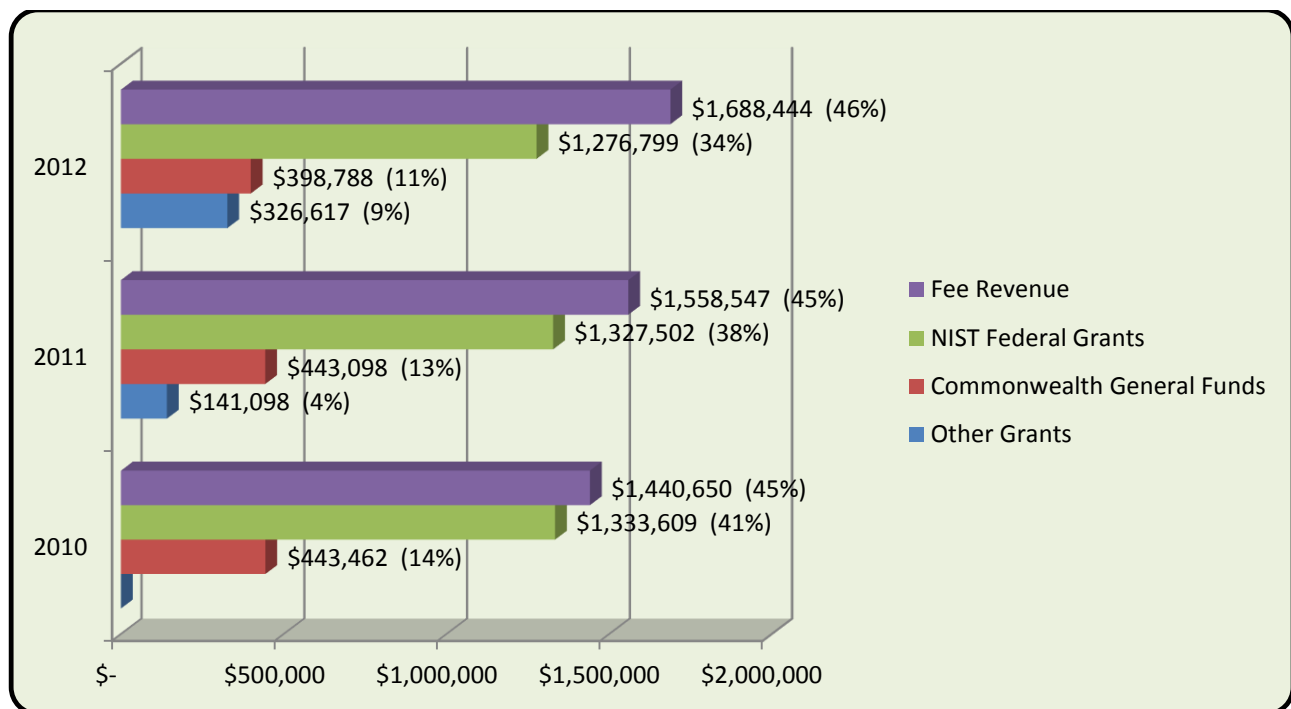
The mission of the A. L. Philpott Manufacturing Extension Partnership (the Partnership) is to create and maintain industrial and manufacturing jobs by helping Virginia industries compete. As an independent entity headquartered in Martinsville, Virginia, the Partnership provides assistance to the business community through six regional offices across the Commonwealth. The assistance is primarily in the form of consulting services to help companies increase productivity, lower costs, identify growth opportunities, improve technology application, and strengthen production teams. The Partnership's manufacturing specialists provide expertise in the following areas:

Business Growth and Innovation
Continuous Process Improvement
Supplier Development

Sustainability and Environmental
Technology Acceleration
Workforce Enhancement

The Partnership funds its assistance programs with a General Fund appropriation from the Commonwealth of Virginia, special revenue derived from fees charged to clients for consulting services, federal grant funding from the U.S. Department of Commerce and the National Institute of Standards and Technology - Manufacturing Extension Partnership, and various other grants. The following graph shows the Partnership's actual funding by source for fiscal years 2010, 2011, and 2012.

Funding Sources for Fiscal Years 2010 through 2012



Source: A.L. Philpott's Accounting Records (AIS)

As can be seen in the graph, the Partnership generates the majority of its funding from fees for consulting services and federal grants. Fee revenue has slightly increased in fiscal years 2011 and 2012, after a sharp decrease in fee revenue, from \$2.6 million in fiscal year 2009, to \$1.4 million in fiscal year 2010. The decrease is primarily attributed to the slumping economy, which resulted in a diminished use of A.L. Philpott's services.

NIST Federal Grants and Commonwealth appropriations have remained relatively stable as a source of funding over the three year period, excluding a ten percent decrease in General Funds received from the Commonwealth from fiscal year 2011 to fiscal year 2012. A.L. Philpott began receiving funding from various other grants in fiscal year 2011, and received increased funding from these grants in fiscal year 2012.

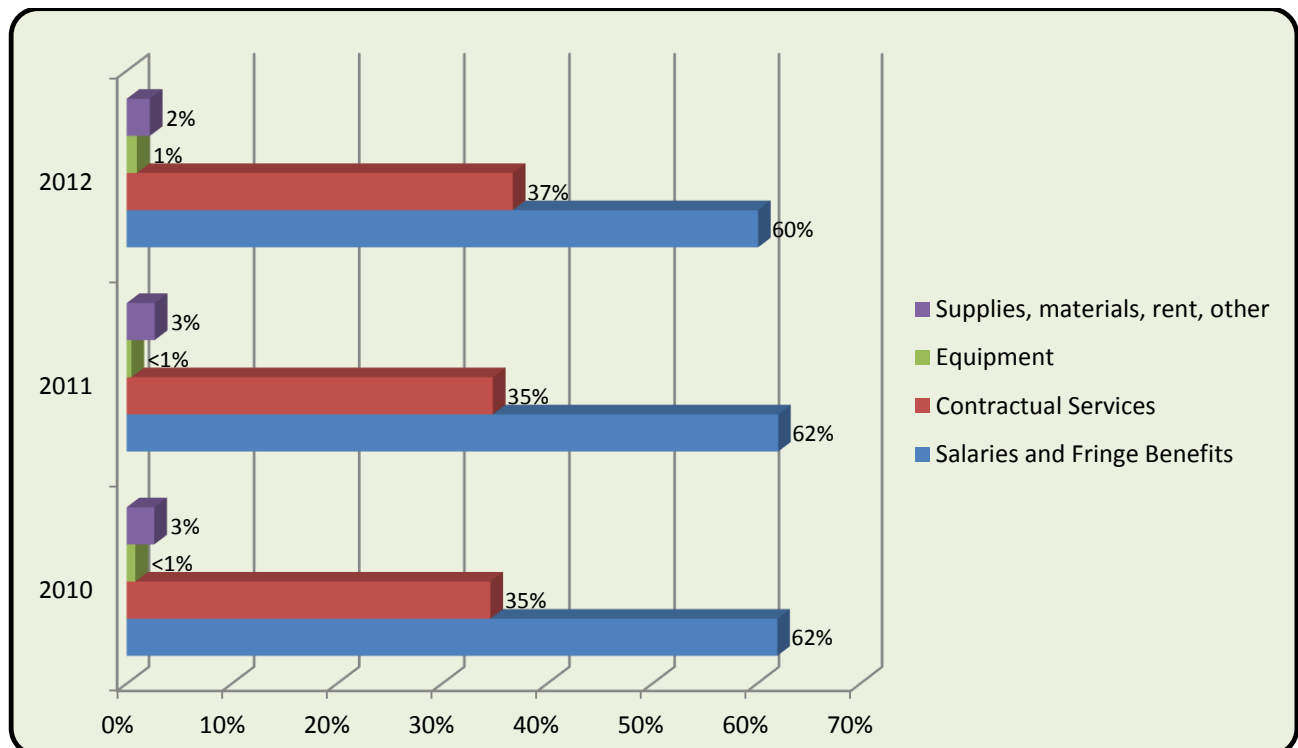
A breakdown of the Partnership's expenses by type for fiscal years 2010 through 2012 is shown in the table and graph below. The majority of the Partnership's expenses are for salaries and fringe benefits and contractual services.

Expenses Fiscal Years 2010 - 2012

<u>Expenses</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Salaries and Fringe Benefits	\$2,338,617	\$2,112,185	\$2,101,810
Contractual Services	1,305,577	1,185,375	1,283,966
Equipment	31,040	15,508	33,604
Supplies, materials, rent and other	98,834	90,652	77,052
 Total Expenses	 \$3,774,068	 \$3,403,720	 \$3,496,432

Source: A.L. Philpott's Accounting Records (AIS)

Percentage of Total Expenses for Fiscal Years 2010 through 2012



Source: A.L. Philpott's Accounting Records (AIS)

A.L. Philpott recently experienced turnover at the Executive Director position. The Executive Director of the Partnership resigned effective August 2, 2013, and the Operations Manager was appointed interim Executive Director by the Board of Trustees until the position can be filled permanently.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 7, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **A.L. Philpott Manufacturing Extension Partnership** (Partnership) for the years ended June 30, 2010, 2011, and 2012. 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 in the Commonwealth Accounting and Reporting System and Partnership's accounting system, review the adequacy of the Partnership's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Partnership'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, regulations, contracts, and grant agreements.

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:

Federal grant revenues and expenses
Contractual services expenses
Payroll expenses
Small purchase charge card transactions
Appropriations
Cash receipting and collection of accounts receivable

We performed audit tests to determine whether the Partnership'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Partnership's operations. We tested transactions and performed analytical procedures, including trend analyses.

Conclusions

We found that the Partnership properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Partnership's accounting system. The Partnership 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 A.L. Philpott's accounting records as recorded in the PeopleSoft Administrative Information System (AIS).

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, regulations, contracts, and grant agreements 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 August 21, 2013.

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

EMS/clj

A.L. PHILPOTT MANUFACTURING EXTENSION PARTNERSHIP

BOARD OF TRUSTEES

(As of June 30, 2013)

Mr. Wayne Smith
Chairman

James E. Atkinson
Stanley A Brantley
John R. Broderick
Jim Cheng
Mattie M. Cowan
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Carl Michael Dudding
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Tiffany McKillip Franks
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Shani Tyler Jones
Angela Kelly-Wiecek
Jack M. Lewis
David R. Lohr
Walter C. Mattox
Keith T. Miller
B. Carlyle Ramsey
Cheryl Thompson-Stacy
Meir Tollman
Kai J. Zhang

AGENCY OFFICIALS

(As of August 7, 2013)

Bill Donohue
Interim Executive Director

Michael Bollinger
Business Manager