

December 8, 2000

The Honorable James S. Gilmore, III  
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

Commission Members  
Tobacco Indemnification and Community  
Revitalization Commission

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING

We have audited the financial statements of the **Tobacco Indemnification and Community Revitalization Commission** as of and for the year ended June 30, 2000 and issued our report dated December 8, 2000. Our auditor's report on the financial statements is contained in the Commission's *Annual Report* for fiscal year 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under Government Auditing Standards.

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### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition, entitled "Establish and Improve Financial Operations" is described in the section entitled Internal Control and Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Commission's Board Members and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 25, 2001.

AUDITOR OF PUBLIC ACCOUNTS

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Establish and Improve Financial Operations

The General Assembly created the Tobacco Indemnification and Community Revitalization Commission (Commission), which began operation in November 1999. During the first year, the Commission's management developed and established all payroll, fiscal, and administrative functions and some fiscal policies. However, since management had limited state fiscal experience and difficulty hiring fiscal personnel, the Commission had some compliance and internal control issues. Below are the issues we found during the fiscal year 2000 audit.

- Some late payments to vendors.
- The Commission secured a loan from another agency to pay payroll costs incurred from November 1999 to April 2000. The Commission did not fully repay the other agency until September 2000. Several purchase requests that were unreasonable; however, none of the items were purchased.
- The staff inconsistently paid travel reimbursements and varied on allowable expenses.

In March 2000, the Commission finalized a memorandum of understanding with the Virginia Department of Agriculture and Consumer Services (Agriculture) to act as its fiscal agent. Further, the Commission hired a fiscal officer in August 2000 to handle its fiscal operations.

The Commission, with guidance from Agriculture, should continue to focus on developing and improving its fiscal operations. Specifically, the Commission's fiscal officer should continue to establish policies and procedures that ensure adequate internal controls over financial operations and compliance with all applicable state laws and regulations.