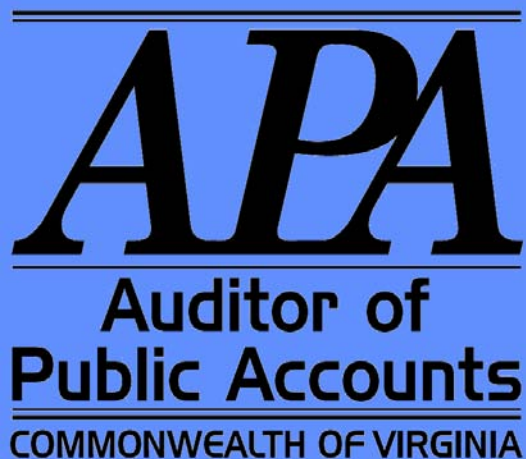


**VIRGINIA NATIONAL DEFENSE
INDUSTRIAL AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Virginia National Defense Industrial Authority for the year ended June 30, 2008, 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 assists military installations and surrounding communities in addressing the challenges and opportunities resulting from the 2005 Base Realignment and Closure Process. The Authority also seeks to work in partnership with the U.S. Department of Defense and local communities to strengthen and expand military operations throughout the Commonwealth.

A seventeen member board consisting of sixteen citizen members and the Adjunct General of Virginia directs the work of the Authority. The Governor appoints ten 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 is also responsible for monitoring defense related state and federal legislation and advocating funding for the Commonwealth's defense activities.
- The *Local Coordination, Support and Communication Committee* is responsible for coordinating and providing advice on the Authority's communications with military installations and community leaders throughout the Commonwealth, including the content on the Authority's website and newsletter and its use of roundtables and site visits.
- 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 recommendations. The Governor and General Assembly approve grants from the Fund. The Secretary of Finance receives General Fund appropriations and makes grant disbursements from the Fund on a reimbursement basis. As noted above, the Authority's Grant Review and Oversight Committee Board 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.

In fiscal years 2007 and 2008, the General Assembly appropriated a total of \$25 million for these activities. The General Assembly designated \$15 million of this \$25 million to specific projects, and opened the remaining \$10 million to a competitive award process. They appropriated an additional \$27 million for fiscal year 2010, but designated all of these funds for specific projects. Although some projects span several fiscal years, the Fund receives the total grant award in a single budget year.

Whether the General Assembly designates specific grant projects within the Appropriation Act or the Governor awards the grants through a competitive process, all recipients must complete the grant application 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.

Financial Highlights

Funding for the Authority's activities 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 records the Authority's financial activity in its accounting system. The Authority uses its funding primarily for employee compensation and the administrative support services provided by the Partnership. In addition, for fiscal year 2008, the Authority obtained contractual services to aid them in research and strategic visioning activities for the Commonwealth's defense activities. As shown below, the Authority did not spend its entire budget for fiscal year 2008.

Analysis of Budget and Actual Expenses for Fiscal Year 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Compensation	\$390,800	\$390,800	\$332,998
Contractual services	218,608	193,108	105,773
Administrative support agreements	25,000	25,000	25,000
Travel	22,000	22,000	8,851
Board meetings	7,500	7,500	2,259
Fixed assets	7,000	7,000	2,725
Website and communications	3,000	3,000	241
Supplies and materials	3,000	3,000	815
Other expenses	<u>8,700</u>	<u>8,700</u>	<u>6,818</u>
	<u>\$685,608</u>	<u>\$660,108</u>	<u>\$485,480</u>

Source: Virginia Economic Development Partnership's Accounting System

The Authority included all available funds in its budget including carry over funds from the prior year. However, the Authority kept its actual spending within its final fiscal year 2008 appropriations of \$485,500 due to anticipated budget reductions in future years.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 6, 2009

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, 2008. 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 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.

Contractual services expenses
Payroll 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 April 23, 2009.

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

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AGENCY OFFICIALS

VIRGINIA NATIONAL DEFENSE INDUSTRIAL AUTHORITY

David G. Dickson
Executive Director

BOARD OF DIRECTORS

The Honorable Joe R. Reeder, Chairman

The Honorable John W. Knapp, Sr. 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.)

Vice Adm. James D. McArthur, Jr. USN (Ret.)

Maj. Gen. Robert B. Newman, Jr. VaANG

Dr. Roseann O. Runte

The Honorable Cord A. Sterling

Kurt H. Tripp

William L. Welch, Jr.