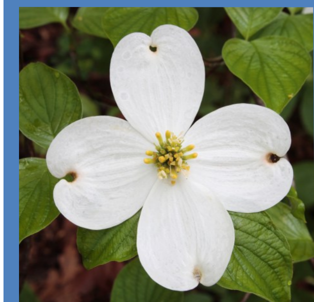


VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

REPORTS ON AUDIT FOR THE YEAR ENDED JUNE 30, 2025

Auditor of Public Accounts
Staci A. Henshaw, CPA
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AUDIT SUMMARY

Our audit of the Virginia Economic Development Partnership (Partnership) for the fiscal year ended June 30, 2025, found:

- proper recording and reporting of all transactions, in all material respects, in the Partnership's financial system, except for cash balances as noted in the finding "Improve Internal Controls Over Bank Reconciliations";

- three matters involving internal control and its operation necessary to bring to management's attention; two of which also represent instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and

- corrective action with respect to prior audit findings remains ongoing as identified in the Findings Summary included in the Appendix.

In the section titled "Internal Control and Compliance Findings and Recommendations" we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audits as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendations.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Information Security Program and IT Governance
Type: Internal Control and Compliance
First Reported: 2022 and 2024 (Includes previously reported findings titled "Improve Service Provider Oversight" and "Improve Virtual Private Network Security.")

The Virginia Economic Development Partnership (Partnership) has made significant progress to improve its information security program and information technology (IT) governance structure. Since the fiscal year 2024 audit, the Partnership performed the following activities as part of its continuing effort to bring the information security program and IT environment in compliance with the Partnership's Information Security Program Manual (Security Program Manual) and the Commonwealth's Information Security Standard, SEC530 (Security Standard).

- Migrated to a hosted financial system to resolve security weaknesses
- Revised the Security Program Manual from a control-based policy document to a narrative-based policy document
- Created draft procedures for 15 of the 18 control families in its Security Program Manual
- Created a draft IT Change Management Procedure and established a Change Advisory Board that meets monthly
- Developed a hardware and software inventory, completed a data and system sensitivity classification, and documented a sensitive IT systems inventory
- Conducted two of eight required IT security audits

The Partnership continues remediation efforts for five control areas tested in the prior years, including findings related to Information Security Officer (ISO) separation of duties, service provider oversight, information security procedures, risk management and contingency planning documentation, and IT security audits. Further, the current audit identified additional control weaknesses related to IT configuration change control. We identified and communicated individual recommendations to the Partnership related to the six control areas tested. However, in the current year we consolidated these recommendations into one comprehensive finding because they collectively relate to the Partnership's IT governance framework for managing IT and information security controls in alignment with business strategy and risk management. We communicated the details of the control weaknesses to management in a separate document marked Freedom of Information Act Exempt under § 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Security Program Manual requires that the Executive Director ensure that the Partnership develops and maintains an information security program. The Security Program Manual also states that Partnership management designates the responsibility of developing, implementing, and overseeing the information security program to the ISO. The Security Standard requires the agency head to maintain an information security program that is sufficient to protect the agency's IT systems and to ensure the information security program is documented and effectively communicated.

Not having a comprehensive and updated IT governance structure to properly manage the Partnership's IT environment and information security program can increase the risk of a data breach or unauthorized access to confidential and mission-critical data, leading to data corruption, data loss, or system disruption. Due to the extent of its corrective actions and the time required to implement the planned information security program and IT changes, the Partnership has not yet accomplished all the tasks needed to complete corrective actions to bring the information security program in compliance with the Security Program Manual and the Security Standard.

The Partnership should continue to dedicate the necessary resources to prioritize implementation of the planned information security program and IT changes to address the remaining control deficiencies and comply with the Security Program Manual and the Security Standard. Implementing these recommendations will ensure the Partnership protects the confidentiality, integrity, and availability of its sensitive and mission-critical data.

Improve Internal Controls Over Bank Reconciliations
Type: Internal Control and Compliance
First Reported: 2025

The Controller's Office did not properly perform or document monthly bank reconciliations. During our audit, the Controller's Office could not provide two of the three bank reconciliations selected for testing, including the year-end bank reconciliation. As the year-end bank balance did not agree to the cash balance recorded in the Partnership's financial system and the Controller's Office did not perform the year-end reconciliation, the Partnership could not demonstrate that it identified, investigated, or resolved the difference. For one reconciliation provided, the documentation lacked required preparer and reviewer signatures and did not include the date of completion. As a result, the Controller's Office could not demonstrate that it performed reconciliations timely or subjected them to independent review. In addition, the outstanding check list included checks that had been outstanding for more than one year and which the Controller's Office did not surrender to the Virginia Department of the Treasury Division of Unclaimed Property (Unclaimed Property) in a timely manner.

The Partnership's Accounting Policies and Procedures require the Partnership to reconcile all open bank accounts each month. The policy also requires preparation and retention of trial balance reports, bank statements, outstanding check listings, and other supporting schedules as part of the reconciliation work papers. Additionally, under the Virginia Disposition of Unclaimed Property Act (§ 55.1-2500 et seq. of the Code of Virginia), all intangible property held for the owner by any governmental agency that has remained unclaimed by the owner for more than one year after it became payable is presumed abandoned. Entities holding such property, tangible or intangible, must report and remit these items to the Virginia Department of the Treasury.

The Controller's Office did not prepare monthly bank reconciliations timely due to competing priorities and staffing shortages. Without timely preparation and review of bank reconciliations, the

Controller's Office cannot effectively monitor cash balances and cash activity and increases the risk that personnel will not identify and correct errors, omissions, unauthorized transactions, or other discrepancies in a timely manner. These weaknesses could lead to inaccurate accounting records within the Partnership's financial system and noncompliance with state laws and regulations.

The Partnership should allocate sufficient staff resources to reconcile all bank accounts each month, retain complete reconciliation workpapers, and document supervisory review. The Controller's Office should maintain sufficient supporting documentation and evidence of review to demonstrate that personnel completed reconciliations timely and resolved any identified discrepancies appropriately. Further, the Controller's Office should report and remit to Unclaimed Property all checks outstanding for more than one year.

Improve Internal Controls Over Capital Assets

Type: Internal Control
First Reported: 2025

The Controller's Office did not adequately document and monitor capital asset additions and disposals. During the audit, the Controller's Office could not provide an asset listing as evidence to support the timely monitoring of capital asset additions and disposals.

The Partnership's Accounting Policies and Procedures state that assets will be recorded in the Partnership's capital asset tracking file and will be tagged with unique identification numbers. The Accounting Policies and Procedures also requires that detailed documentation be maintained for each asset to support the acquisition cost and to provide a proper audit trail. Further, the Accounting Policies and Procedures states that capital asset disposals should be recorded within the capital asset tracking file.

The Controller's Office did not monitor capital asset additions and disposals due to competing priorities and staffing shortages. Without timely preparation and monitoring of capital asset acquisitions and disposals, there is an increased risk that the Partnership would not detect or correct errors in a timely manner. Undetected or uncorrected errors may lead to an increased risk of misstatement in capital asset balances. Additionally, without a complete and accurate understanding of the assets the Partnership possesses, the Controller's Office cannot properly control or safeguard them, further increasing operational and financial risk.

The Partnership should allocate sufficient staff resources to monitor capital asset additions and disposals. In addition, the Controller's Office should maintain and update the capital asset tracking file to account for all acquisitions and disposals in accordance with the Partnership's Accounting Policies and Procedures.

PARTNERSHIP HIGHLIGHTS

The Virginia Economic Development Partnership (Partnership) serves as the Commonwealth's primary economic development organization, focused on attracting business investment, supporting international trade, advancing workforce development initiatives, and promoting Virginia's long-term economic competitiveness. The Partnership operates as a component unit of the Commonwealth of Virginia and administers a broad portfolio of programs supporting economic growth across the state.

As shown in Table 1 below, during fiscal year 2025, the Partnership reported approximately $68.3 million in total revenues, primarily funded through appropriations from the Commonwealth, and approximately $63.2 million in expenses supporting workforce initiatives, international trade, business investment, research, marketing, technology, incentives, and pass-through payments.

During the 2025 General Assembly Session, changes to § 2.2-2237.1.B of the Code of Virginia removed the requirement for the Partnership to issue annual financial statements. As such, the fiscal year 2025 audit transitioned from a traditional financial statement audit to a financial performance audit. As a result, the fiscal year 2024 amounts presented below have been converted to a cash basis for comparability purposes and, therefore, will not agree to the fiscal year 2024 audited financial statements, which were prepared using the full accrual basis of accounting.

Revenue Analysis

Total revenue decreased by approximately $2.6 million, or 3.6 percent, from fiscal year 2024 to fiscal year 2025. The decrease was primarily driven by lower carryforward funds and reductions in federal and other grant activity, partially offset by increases in General Fund appropriations and mission reimbursements. Carryforward funds declined by approximately $3.2 million compared to the prior year, reflecting the planned utilization of previously accumulated funding balances. Federal and other grant revenue also decreased by approximately $426,000 due to reduced grant-related activity during the fiscal year.

Expense Analysis

Total expenses increased by approximately $1.9 million, or 3.2 percent, from fiscal year 2024 to fiscal year 2025. The increase was primarily attributable to growth in operational and programmatic activities across several divisions. The largest increases occurred within the international trade, lead generation sector teams, and administration activities, reflecting expanded economic development initiatives and operational support activities during the fiscal year. These increases were partially offset by a significant decrease in pass through payments, which declined by approximately $4.3 million from fiscal year 2024 levels, with over half of the decrease related to the Virginia Business Ready Sites Program. Incentive expenses also decreased modestly from the prior year.

Table 1 below summarizes the changes in revenue and expense activity between fiscal year 2024 and fiscal year 2025.

Partnership Financial Activity

Table 1

	Fiscal Year		Increase (Decrease)	
	2025	**2024**	**Amount**	**Percent**
General fund appropriations	$52,142,593	$50,520,303	$ 1,622,290	3%
Carryforward funds	13,936,250	17,135,000	(3,198,750)	-19%
Participation fees	427,486	418,008	9,478	2%
Mission reimbursements	81,106	62,349	18,757	30%
Federal/other grants	1,094,128	1,520,530	(426,402)	-28%
Interest revenue	444,083	995,876	(551,793)	-55%
Other revenue	222,586	250,618	(28,032)	-11%
Total revenue	**68,348,232**	**70,902,684**	**(2,554,452)**	**-4%**
Talent solutions – RTSBO*	1,765,308	1,683,223	82,085	5%
Talent solutions – TAP**	7,218,558	6,884,053	334,505	5%
Virginia office of education economics	1,151,649	852,492	299,157	35%
International trade	12,118,554	10,990,728	1,127,826	10%
Business investment	7,389,445	6,649,518	739,927	11%
Lead generation sector teams	3,320,072	2,215,195	1,104,877	50%
Research	4,103,541	3,641,527	462,014	13%
Marketing and communications	5,232,611	4,315,414	917,197	21%
Economic competitiveness	1,553,895	1,434,136	119,759	8%
Real estate solutions	1,660,187	1,507,910	152,277	10%
Information technologies	2,389,599	2,148,974	240,625	11%
Incentives	971,864	1,014,601	(42,737)	-4%
Administration	10,216,230	9,130,820	1,085,410	12%
Pass through payments	3,056,538	7,312,986	(4,256,448)	-58%
Federal grants	1,094,128	1,520,788	(426,660)	-28%
Total expenses	**63,242,178**	**61,302,365**	**1,939,813**	**3%**
Net increase	**$ 5,106,054**	**$ 9,600,319**	**$(4,494,265)**	**-47%**

Source: Partnership's financial system – cash basis

* Regional Talent Solutions and Business Outreach

** Virginia Talent Accelerator Program

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 8, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

Jason El Koubi, President and CEO
Virginia Economic Development Partnership

We have audited the financial records and operations of the **Virginia Economic Development Partnership** (Partnership) for the year ended June 30, 2025. 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 Partnership's financial system; review the adequacy of the Partnership's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and evaluate the adequacy of the Partnership's corrective actions for three prior audit findings.

Audit Scope and Methodology

The Partnership's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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:

Appropriations	Information system security
Cash	Payroll expenses
Contractual services expenses	Small purchase charge card administration
Grant revenues and expenses	System access

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 performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives. We also confirmed bank balances with outside parties.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Partnership properly stated, in all material respects, the amounts recorded and reported in the Partnership's financial system, except for cash balances as noted in the finding "Improve Internal Controls Over Bank Reconciliations." The financial information presented in this report came directly from the Partnership's financial system.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section titled "Internal Control and Compliance Findings and Recommendations." Corrective action with respect to prior audit findings remains ongoing as identified in the Findings Summary included in the Appendix.

Report Distribution

We discussed this report with management at an exit conference held on September 11, 2026. Management's response to the findings identified in our audit is included in the section titled "Partnership Response." We did not audit management's response and, accordingly, we express no opinion on it. 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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

MAC/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Improve Information Security Program and IT Governance	Ongoing	2022
Improve Service Provider Oversight	Ongoing**	2022
Improve Virtual Private Network Security	Ongoing**	2024
Improve Internal Controls Over Bank Reconciliations	Ongoing	2025
Improve Internal Controls Over Capital Assets	Ongoing	2025

* **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.

**We have incorporated these findings as a component of the finding titled "Improve Information Security Program and IT Governance."

VEDP | Virginia Economic Development Partnership

September 8, 2026

Ms. Staci A. Henshaw
Auditor of Public Accounts
Riverfront Plaza – West Tower
901 E. Byrd Street, 7th floor
Richmond, Virginia 23219

Dear Ms. Henshaw:

The Virginia Economic Development Partnership (VEDP) has reviewed the findings and recommendations provided by the Auditor of Public Accounts (APA) as part of your audit of VEDP's financial records for the year ended June 30, 2025. VEDP appreciates the opportunity to respond to the Internal Control and Compliance Findings and Recommendations included in your report, and we give your comments the highest level of consideration.

Internal Control and Compliance Findings and Recommendations

Improve Information Security Program and IT Governance

VEDP recognizes the importance of having a robust information security program and information technology (IT) governance structure. We appreciate the APA's acknowledgement of the significant progress we have made in this area and understand and agree with the need to continue these efforts to bring the information security program and IT environment in compliance with our Information Security Program Manual and the Commonwealth's Information Security Standard, SEC530, which we have adopted as our security standard. As noted in the report, we have made significant improvements in the control areas identified in prior APA audit reports and we look forward to demonstrating additional progress during the FY2026 audit process, including in the areas of separation of duties, documentation of information security policies and procedures, service provider oversight, risk management and contingency planning, and change management.

Improve Internal Controls Over Bank Reconciliations

VEDP recognizes the importance of completing bank reconciliations in a timely manner. The delay in completing the FY2025 reconciliations was due to finance staffing shortages, as noted in the report. We have now assigned this task to a specific staff member and put procedures in place to ensure the reconciliations are completed in a timely manner going forward, including maintaining complete reconciliation workpapers and documenting supervisory review. A detailed review is also in process for checks outstanding for more than one year so they can be reported and remitted to the Division of Unclaimed Property.

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Improve Internal Controls Over Capital Assets

VEDP acknowledges the finding that the FY2025 Capital Asset activity was not completed in a timely manner due to finance staffing shortages. We have completed the FY2025 capital asset tracking file and have put procedures in place to ensure that the file is updated regularly and available for review prior to the start of APA annual audits going forward. The capital asset tracking process has been assigned to a specific staff person on the finance team.

We are very appreciative of the courtesy and professionalism with which the APA team conducted this year's audit. We also appreciate their patience as we gathered the requested documentation in the course of the audit.

Sincerely,

Jason El Koubi
President and CEO

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