

AUDIT SUMMARY

Our audit of the Department of Business Assistance for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Department's financial accounting records;
- no material weaknesses in the internal control structure and its operation; and
- an issue of immaterial noncompliance.

February 12, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Business Assistance** for the year ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate accuracy of financial transactions recorded on the Commonwealth's Accounting and Reporting System; determine the adequacy of the internal control structure; and determine compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Expenditures
Fixed Assets	Federal Compliance

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We evaluated and considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures 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.

Management's Responsibility

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of internal control structure and its operation would not necessarily disclose all matters in internal control structure that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial information being audited may occur and not be detected promptly by employees in the normal course of performing their assigned duties.

The results of our tests of compliance found an issue of noncompliance which is not considered material. Accordingly, we included this finding in the section entitled, "Compliance Finding."

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 24, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION

The Department of Business Assistance was established in July 1996 and assumed the administration of selected programs, which had been the responsibility of the former Department of Economic Development. Initially, the Department shared offices and relied upon the Virginia Economic Development Partnership for administrative and financial accounting support. In fiscal year 1998, the Department began performing these functions in-house and in January 1998, relocated to their present offices at 8th and Main Streets in Richmond, Virginia.

The Department administers the Industrial Development Services Program that provides a variety of services to business and industry including financial assistance, training, and counseling. The Department has five divisions as follows:

Workforce Services

The Workforce Services Division supports business development using training grants and incentives. The Division offers services including the recruitment and training of individuals, as well as, consulting, video production, and funding. These services, designed to reduce human resource development costs, also ensure that a company's workforce is skilled.

Existing Industry

The Existing Industry Division collects and analyzes information on such issues as needed resources and business conditions, which confront industries in today's marketplace. Businesses use this information to expand operations and their workforce within the Commonwealth and to provide opportunities with other Virginia businesses.

Financial Services

The Financial Services Division promotes small business growth by providing guidance to new, expanding, and relocating companies in securing public or private financing. The Division also oversees the Virginia Small Business Financing Authority, a political subdivision of the Commonwealth, which provides financial assistance to small businesses through the issuance of bonds, loan guarantees, and other assistance.

Small Business Development

The Small Business Division manages the *Virginia Small Business Development Center Network*, which provides management counseling and guidance to small businesses and entrepreneurs through a regional structure of 24 offices throughout the Commonwealth which address topics relating to existing businesses and the start-up of new business efforts. In addition, the Small Business Division promotes the *Virginia Women's Business Enterprise Program* which fosters the growth of women-owned businesses in Virginia.

Administrative

The Administrative Division provides executive management, fiscal, budgetary, information systems, public relations, educational, and human resource support to the other divisions within the Department.

COMPLIANCE FINDING

Improve Cash Management Procedures

The Department of Business Assistance has responsibility for two federal programs: the Small Business Development Grant and the Microloan Grant Program for Non-Intermediaries. The Department passes federal funds totaling \$1,674,976 to the Small Business Development Centers. We noted that the Department does not always disburse federal funds timely. We recommend that the Department establish and implement procedures, which would ensure the disbursement of federal funds within three days of drawdown.