



DEPARTMENT OF BUSINESS ASSISTANCE

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2010 THROUGH DECEMBER 31, 2013

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Business Assistance (Business Assistance) for the period July 1, 2010, through December 31, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

Effective January 1, 2014, the Department of Business Assistance ceased operations as a state agency and merged with the Department of Minority Business Enterprise to create the Department of Small Business and Supplier Diversity. As noted below, during our audit we identified several areas where management has not enforced established internal control, which increases the risk that employees could process transactions that do not comply with the Commonwealth's laws and regulations. Management should review and evaluate the audit findings and recommendations outlined in this report for the purposes of developing adequate policies and procedures and internal controls for the new agency.

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AUDIT FINDINGS AND RECOMMENDATIONS

Introduction

Management of the Department of Business Assistance (Business Assistance) has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. When internal control systems are not designed and implemented properly, or when employees do not follow the established controls, there is a risk that Business Assistance could process transactions that do not comply with the Commonwealth's laws and regulations. During our audit, we identified several areas where management has not enforced established internal control.

Improve Controls over Purchasing and Voucher Processing

Business Assistance needs to enforce its policies and procedures in the area of purchasing and expenses. Purchase orders are not consistently approved by the proper authority, vouchers are often not accompanied by sufficient supporting documentation, and some expenses were incorrectly coded. We also noted some instances in which Business Assistance made late payments, in violation of the Prompt Payment Provisions of the Virginia Public Procurement Act.

In regards to the Small Purchase Charge Card program, we noted that cardholders did not consistently prepare the required monthly reconciliations. In addition, when cardholders did prepare the reconciliations, the reconciliations were often not done timely and the cardholder's supervisor did not adequately review and approve the reconciliations. Also, we noted one employee was issued a small purchase charge card but typically requested purchases be made by another employee with the other employee's charge card. This indicates that there is no annual analysis being done of cardholder usage so that management can revoke unneeded cards.

Management must enforce the policies and procedures related to voucher processing and small purchase charge cards to ensure purchases are valid agency expenses and are recorded correctly in the accounting system.

Improve Oversight of Travel

Business Assistance does not enforce the requirement for a supervisor to approve travel prior to it occurring. In addition, Business Assistance reimbursed employees for amounts not supported by proper documentation or that exceeded allowable rates. Employees also did not submit travel reimbursement requests timely.

We recommend that Business Assistance evaluate its processes related to travel expenses and reimbursements. Enforcement of internal controls, especially related to supervisory oversight and review, are critical to ensuring that all expenses are appropriate as well as in compliance with the Commonwealth's policies related to travel.

Develop Policies and Procedures for Terminated Employees

Business Assistance is not terminating employee access to the Commonwealth Accounting and Reporting System (CARS) or ProTrax, its project tracking system, timely. Two employees still had access to CARS one to eight months after their termination. In addition, several former employees were listed as having cell phone charges on bills received and paid by Business Assistance subsequent to their termination.

Timely removal of access for terminated employees ensures financial information remains secure and decreases the risk of fraudulent activity. Ensuring the retrieval and re-assignment of all assets owned by the agency upon an employee's termination is vital. Business Assistance must make every effort to retrieve any assets that may not have been returned by former employees and seek reimbursement from the former employees for any charges incurred by Business Assistance after the employee's termination. In addition, Business Assistance should develop and enforce appropriate policies and procedures to ensure appropriate out-processing of terminated employees.

Comply with Commonwealth Procurement Guidelines

Business Assistance did not properly follow the Commonwealth's public procurement policies related to sealed bids. For the procurement of a contract related to information technology services, Business Assistance opened sealed bids it received prior to the required public opening. Section 2.2-4302.1 of the Virginia Public Procurement Act (VPPA) requires a public opening and announcement of all bids received. Failure to comply with this requirement poses a risk of impropriety in the procurement process. Business Assistance should institute procedures to ensure its procurement procedures are in compliance with VPPA requirements.

AGENCY HIGHLIGHTS

Business Assistance provides a variety of services to business and industry including financial assistance, training, and counseling. Business Assistance has three operational areas: Virginia Jobs Investment Program, Business Information Services, and the Virginia Small Business Financing Authority. An administrative team supports the three operational areas.

Virginia Jobs Investment Program

The Virginia Jobs Investment Program offers economic development incentives to businesses creating new jobs or expanding the number of existing jobs. The program pays a portion of the recruiting and training costs associated with newly created jobs for new and expanding companies, and training for employees at qualifying companies that are changing technologies or processes.

Business Information Services

The Business Information Services Division administers the Procurement Assistance Program, which helps companies to increase their sales to the State. Business Assistance also offers one-to-one business builder counseling and business sales growth seminars. The Division hosts seminars, supports the seminars of other partners, provides one-on-one sessions in numerous cities across the state, and provides vendor/buyer networking opportunities. This group services all businesses, but especially focuses on small, women- and minority-operated businesses.

The Division provides technical support for business startup and entrepreneur development. It leads the Entrepreneur Express program statewide and works with other federal, state, and local partners to deliver approximately 50 programs each year. The programs identify new and early stage businesses, link entrepreneurs with resources, and encourage them to take the next step to grow their business. Other initiatives include the management of the Entrepreneur Advisory Team and the Existing Business Retention and Expansion forum, and the creation of the Business One Stop system.

Virginia Small Business Financing Authority

The Authority has been in existence since 1984 and provides financial assistance to Virginia based businesses through bond issuances, direct loans, loan guarantees, and portfolio loan loss reserves; as well as other technical assistance. The Governor appoints the 11 members of the Authority's Board of Directors. We issue a separate report on the Authority's financial activities. During fiscal year 2013, Business Assistance covered \$154,196, of the Authority's expenses.

Administrative

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

Business Assistance, as well as to the Authority. The Division includes staff of the Virginia Small Business Financing Authority, who are employees of Business Assistance. Business Assistance provides space for the Small Business Financing Authority's staff and pays certain administrative expenses, to the extent that Business Assistance has the resources available to assume these costs.

FINANCIAL HIGHLIGHTS

Business Assistance's primary funding sources are General Fund appropriations and Special Revenue Funds. The following schedule summarizes Business Assistance's original budget, final budget, and actual expenses for fiscal year 2013 by funding source. The decrease from the original to final budget in the General Fund and the increase between the original and final budget in the Special Revenue Funds stem from transfers from the General Fund for the Small Business Investment Grant Programs and the Small Business Jobs Grant Programs. The remaining increase in the budget for the Special Revenue Funds is attributed to an increase in funding for the Aerospace Engine Manufacture Workforce Training Grant to support Rolls Royce's investment in Virginia. The increase from the original to final budget for the Dedicated Special Revenue Fund is due to the transfer of the 2012 cash balance remaining in the Virginia Jobs Investment Program and reappropriated General Funds to the Workforce Retraining Program.

Analysis of Budgeted and Actual Expenses Fiscal Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General Fund	\$11,670,375	\$ 9,491,098	\$ 7,551,951
Special Revenue Funds	593,084	4,298,806	1,318,136
Dedicated Special Revenue Fund	-	2,566,515	1,742,987
Federal Trust	-	70,136	70,136
	<u>\$12,263,459</u>	<u>\$16,426,555</u>	<u>\$10,683,210</u>

Transfer payments reflect monies paid to businesses through various business assistance programs and account for approximately \$7.5 million, or about 70 percent of fiscal year 2013 expenses. The majority of the remaining expenses, or about 23 percent in fiscal year 2013, are for personnel costs.

Subsequent Event

Effective January 1, 2014, the Department of Business Assistance ceased operations as a state agency. The former department merged with the Department of Minority Business Enterprise and will assist in the establishment and promotion of small, women, and minority-owned (SWAM) businesses throughout the Commonwealth, along with providing a one-stop-service for technical assistance related to business formation, access to capital, and workforce development. The newly formed department is the Department of Small Business and Supplier Diversity.

In addition, effective July 1, 2014, the administration of the Virginia Jobs Investment Program was transferred from Business Assistance to the Virginia Economic Development Partnership.



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Commonwealth of Virginia

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July 23, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Business Assistance (Business Assistance)** for the period July 1, 2010, through December 31, 2013. 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, review the adequacy of Business Assistance's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Business Assistance'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.

Appropriations

Expenses, including contractual, payroll, and payments to businesses for assistance

Operating policies and procedures

Small purchase charge card

We performed audit tests to determine whether Business Assistance'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 Business Assistance's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Business Assistance properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Business Assistance 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 the Commonwealth Accounting and Reporting 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 entitled "Audit Findings and Recommendations."

Business Assistance has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on August 6, 2014. Business Assistance did not provide us with a formal response to our report.

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

LJH/alh

AGENCY OFFICIALS

Department of Business Assistance

Ida McPherson
Agency Director