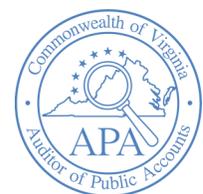




TOBACCO REGION REVITALIZATION COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Tobacco Region Revitalization Commission (Commission) for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system and the Commission's grants management system;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- a matter involving operations that was brought to management's attention. This matter is discussed under the section titled "Comment to Management."

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COMMISSION HIGHLIGHTS

The Tobacco Region and Revitalization Commission's primary mission is to revitalize tobacco-dependent communities in Southern and Southwest Virginia. Committees evaluate grant and loan proposals from eligible participants and make recommendations to the Commission as to what projects should be funded, in what amounts, and whether funding should be in the form of a loan or a grant.

Tobacco Indemnification and Community Revitalization Endowment

In 2002, the Tobacco Indemnification and Community Revitalization Endowment (Endowment) was established to receive proceeds from the sale of the Commission's allocation of the Master Tobacco Settlement. The Endowment is held in trust by the Commonwealth's Department of the Treasury and is managed by the Treasury Board. Annually, endowment earnings are distributed to the Tobacco Indemnification and Community Revitalization Fund (Fund). While the Code of Virginia §3.2-3104 allows for a distribution of up to 15 percent of the Endowment's corpus to the Fund, the Commission's goal is not to exceed a 4.5 percent corpus invasion during any year in which it meets its budget. For fiscal year 2016, the Commission had a corpus invasion of 4.36 percent of the Endowment's Corpus July 1, 2015, balance of \$266,548,604. The Commission transferred the entire corpus invasion and Endowment earnings to the Fund during fiscal year 2016. The table below indicates Endowment activity for fiscal year 2016.

Endowment Activity Fiscal Year 2016

Table 1

Beginning Balance, July 1, 2015	\$271,325,181
Endowment Earnings	12,041,558
Distributions to the Fund:	
Corpus invasion	(11,622,401)
Earnings	<u>(11,509,587)</u>
Ending Balance, June 30, 2016	<u>\$260,234,751</u>

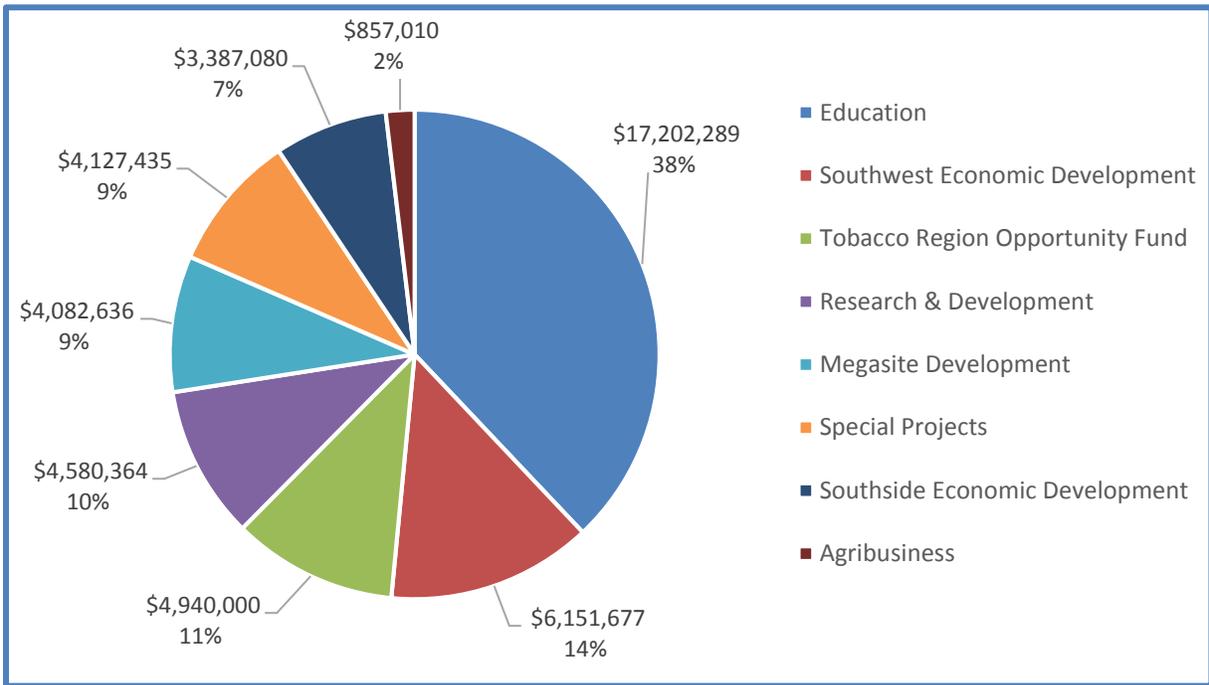
Source: Commonwealth's accounting and financial reporting system

Tobacco Indemnification and Community Revitalization Fund

During fiscal year 2016, the Commission expended approximately \$47 million from the Fund in two general categories: Community Revitalization and Administration. Community Revitalization payments were made to recipients under the Commission's eight grant programs. In fiscal year 2016, Community Revitalization expenses were approximately \$45.3 million, or 96.4 percent of total expenses. The chart below represents a breakdown of these expenses by grant program.

**Expenses by Grant Program
Fiscal Year 2016**

Chart 1



Source: Commonwealth’s accounting and financial reporting system

Administration expenses were approximately \$1.7 million or 3.6 percent of total expenses. The majority of administration expenses were for payroll and benefits for the Commission’s staff, including payroll and benefits expenses for the Commonwealth’s Special Advisor for Rural Partnerships (Special Advisor), which is an appointed position. Remaining administration expenses included payments for facility and equipment rentals, supplies and materials, equipment, contractual services, and other necessary items to support the Commission’s operations.

COMMENT TO MANAGEMENT

From 2010 to January 2018, the Commission funded a significant portion of the Special Advisor’s salary and expenses using money from the Fund. The Commission’s annual approved budget included \$250,000 for the Special Advisor’s salary, fringe benefits, per diem and lodging. The Office of the Secretary of Commerce and Trade (Office of the Secretary) paid mileage expenses. The Special Advisor performed assignments and duties as instructed by, and reported directly to, the Secretary of Commerce and Trade. According to the Office of the Secretary, the majority of the Special Advisor’s work pertained to the Commonwealth’s tobacco region; however, the Special Advisor also performed duties outside the tobacco region. Neither the Commission nor the Office of the Secretary had documentation differentiating the Special Advisor’s work in and outside of the tobacco region. In addition, no documentation detailing how the Commission and the Office of the Secretary shared funding costs related to the Special Advisor’s responsibilities existed.

At the time of the release of this report, the Special Advisor's position was vacant. However, if this position, or a similar position, is filled in the future, the Commission and the Office of the Secretary should create a memorandum of understanding detailing the sources of funding for the position and the portion of the individual's work that supports the tobacco region. Formally documenting this will ensure that both agencies agree on the position's funding. In addition, it will ensure that the Commission uses the Fund in accordance with §3.2-3108 of the Code of Virginia.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

March 9, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Tobacco Region Revitalization Commission** (Commission) for the year ended June 30, 2016. 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's accounting and financial reporting systems and the Commission's grants management system; review the adequacy of the Commission'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

The Commission'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.

Collections of accounts receivable (grantee repayments)
Grant and loan payments
System access
Payroll expenses

We performed audit tests to determine whether the Commission’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 Commission’s operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

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 Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting systems and the Commission’s grants management system. The financial information presented in this report came directly from the Commonwealth’s accounting and financial reporting systems and the Commission’s grants management 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, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. We noted a matter involving operations necessary to being to management’s attention. This matter is discussed in the section titled “Comment to Management.”

The Commission has taken adequate corrective action with respect to audit findings reported in the prior year.

Management’s Response and Report Distribution

We provided a draft of the report to the Commission management on March 13, 2018. Management elected not to provide a response for inclusion in the audit 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

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COMMISSION OFFICIALS

Tobacco Region Revitalization Commission

(as of June 30, 2016)

Terry G. Kilgore, Chairman

Frank M. Ruff, Vice-Chairman

Gayle F. Barts	Catherine Lowe
Ric Brown	Danny Marshall
Kathy J. Byron	Donald Merricks
John Cannon	Robert Mills, Jr.
Charles W. Carrico, Sr.	H. Ronnie Montgomery
A. Benton Chafin, Jr.	Dale Moore
Rebecca Coleman	Will Morefield
James E. Edmunds, II	Edward Owens
Melissa Neff Gould	Cecil E. Shell
Franklin D. Harris	Robert Spiers
Todd Haymore	William M. Stanley, Jr.
John Holland	Richard L. Sutherland
Maurice Jones	Thomas C. Wright, Jr.

Evan Feinman, Executive Director