

## AUDIT SUMMARY

Our audit of the Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the accounting system of its fiscal agent;
- no material weaknesses in the internal control structure;
- no instances of noncompliance required to be reported under Government Auditing Standards; and
- adequate corrective action of prior audit finding. The Partnership repaid the federal government \$25,248 in disallowed costs according to the final determination for in-kind contribution questioned costs.

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BOARD OF TRUSTEES

May 21, 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 **Virginia's A.L. Philpott Manufacturing Extension Partnership** (the Partnership) for the year ended June 30, 1998. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Partnership's accuracy of recording financial transactions on the accounting system of its fiscal agent, adequacy of the internal control structure, and compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Partnership'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.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Partnership's policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with applicable laws and regulations.

The Partnership'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 Partnership properly stated, in all material respects, the amounts recorded and reported in the accounting system of its fiscal agent. The Partnership records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. Also, we found no matters involving the internal control structure and its operation that we consider to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the Partnership's financial operations may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Partnership has taken adequate corrective action with respect to the previously reported finding.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 13, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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kva:45

## FINANCIAL HIGHLIGHTS

The Partnership, an independent entity headquartered at Patrick Henry Community College (the College) in Martinsville-Henry County, Virginia, seeks to foster statewide economic growth by enhancing the competitiveness of Virginia's small to mid-sized manufacturers. The Partnership carries out its mission through manufacturing specialists who deliver consulting services from eleven regional offices located throughout the Commonwealth.

The Partnership employs an executive director, a business manager, a marketing manager, an office manager, a systems administrator, and an operations manager, manufacturing specialists and has a twenty-three member Board of Trustees. The College, as its fiscal agent, provides budget, accounting, and payroll support. The Partnership anticipates that this support will continue in the future.

The Partnership is a discrete component unit of the Commonwealth. The Partnership maintains its operations with funding from the U.S. Department of Commerce, National Institute of Standards and Technology - Manufacturing Extension Partnership; Virginia's Center for Innovative Technology; General Fund appropriations; and fees for consulting services.

The following table summarizes the financial activity for the year ended June 30, 1998, as recorded on the College's accounting system.

	<u>General Fund</u>	<u>Nongeneral Fund</u>
Revenues:		
Appropriations	\$ 350,000	\$ -
Private gifts and grants	-	517,778
Federal grants	-	1,292,400
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Total revenues	350,000	1,943,078
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Expenses:		
Salaries and fringe benefits	148,830	1,017,962
Contractual services	159,451	667,645
Equipment	6,075	50,037
Other	53,158	63,076
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Total expenses	367,514	1,798,720
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Net increase / (decrease)	(17,514)	144,358
Beginning balance July 1, 1997	17,518	126,868
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Ending balance June 30, 1998	\$ 4	\$ 271,226
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VIRGINIA'S A.L. PHILPOTT MANUFACTURING EXTENSION PARTNERSHIP  
Martinsville, Virginia

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