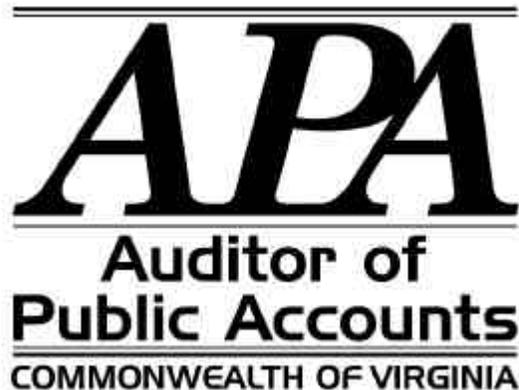


**DEPARTMENT OF BUSINESS ASSISTANCE
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Business Assistance for the year ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal control; and
- no instances of noncompliance that are required to be reported.

March 1, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
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, 2001. 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 evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test 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

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We 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 controls 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.

The Department'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 and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls 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 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 no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 11, 2002.

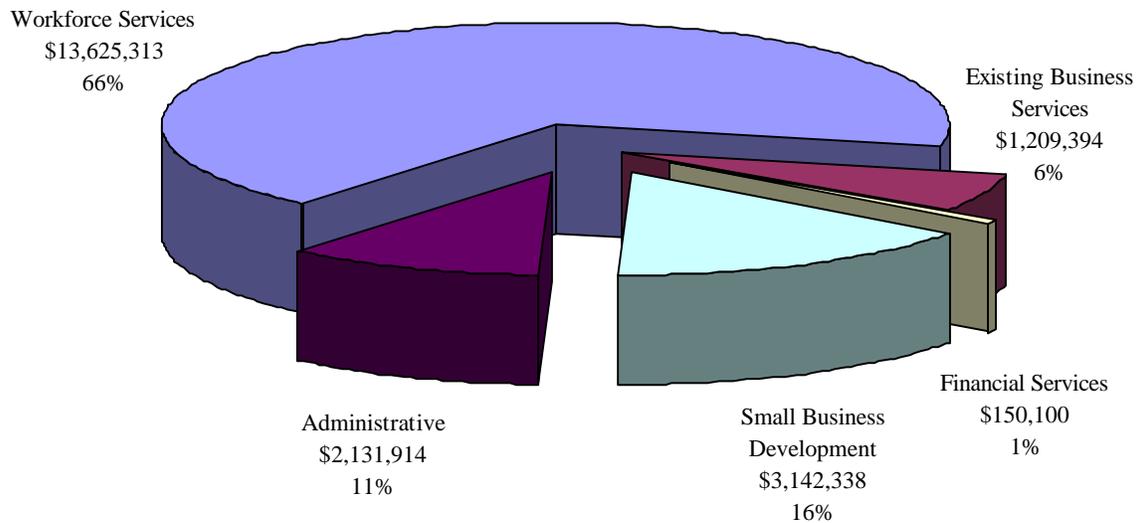
AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION

The Department of Business Assistance (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's primary funding sources for fiscal year 2001 were General Fund appropriations totaling \$19,999,134 and \$1,753,048 in federal grant revenue. The Department's expenses totaled \$20,259,059 for fiscal year 2001. This amount includes \$15,850,375 in grant awards and \$4,408,684 in personnel and administrative expenses. Below is a summary of the Department's expenses by division for the fiscal year, followed by a description of each division's activities.

Expenditures - Fiscal Year 2001



Workforce Services

The Workforce Services Division supports business development by providing training incentives to new and expanding companies. In order to qualify for funding, a business must make a minimum capital investment of \$1,000,000 within 1 year, create a minimum of 25 new jobs within 3 years, pay its employees at least \$8 per hour, and earn at least 50 percent of its revenue from outside of the state. The Division works closely with the Virginia Economic Development Partnership in identifying qualified businesses and developing award packages. Award amounts vary depending on the number of new jobs created by the business, dollars generated from sales and income tax for each job, the degree of skill and complexity of each job, and the amount of competition with other states to attract the business. In addition to funding, the Division offers services including the recruitment and training of individuals, as well as consulting, and video production. These services, designed to reduce human resource development costs, also ensure that a company's workforce is skilled. The Division funded 391 projects during the year and assisted in training 20,580 employees.

Existing Business Services

The Existing Business Services Division works with existing companies to collect and analyze information covering a broad range of issues and conditions that confront industries in today's marketplace. Businesses use this information to expand their operations and workforce and to identify new business and partnership opportunities.

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 Development Division manages the *Virginia Small Business Development Center Network (Network)*. The Network provides management counseling and guidance to small businesses and entrepreneurs through a regional structure of 30 centers throughout the Commonwealth and addresses topics relating to existing businesses and the start-up of new business efforts. The Small Business Development Centers receive funding from federal grants and General Fund appropriations. In addition, centers receive funding from regional sponsors including universities, community colleges, chambers of commerce, and economic development and non-profit organizations. The amount of funding that a Small Business Development Center receives depends on the amount of matching funds provided by its regional sponsors. In fiscal year 2001, the Network sponsored 520 workshops and provided 23,000 hours of business counseling to small businesses through its regional centers. The Small Business Development Division also promotes the *Virginia Women's Business Enterprise Program*, which fosters the growth of women-owned businesses. In addition, the Division oversees the *NxLevel Entrepreneurial Training Program* and the *Micro-Business Development Program*. These programs provide entrepreneurs with the tools and training for starting, developing, and strengthening their businesses.

Administrative

The Administrative Division provides executive management, fiscal, budgetary, information systems, public relations, educational, and human resource support to the other divisions. In addition, the Division oversees the *Small Business Incubator Program*. This program provides state financial assistance to local or regional sponsoring groups to assist them in determining if a small business incubator is feasible, providing program support, and establishing new small business incubators. The Division has formed a committee to evaluate and approve grant requests. The committee determines grant amounts using criteria such as the amount of local matching funds, geographical location, and level of distress in the region.