



# COMMONWEALTH of VIRGINIA

*Auditor of Public Accounts*

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The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable S. Chris Jones  
Chairman, House Appropriations Committee

The Honorable Walter A. Stosch  
Co-Chairman, Senate Finance Committee

The Honorable Charles J. Colgan  
Co-Chairman, Senate Finance Committee

We are providing this letter to satisfy the requirement of Item 423 M.3. of Chapter 1 of the Virginia Acts of Assembly 2014 Special Session 1 which requested the Auditor of Public Accounts to perform an assessment regarding the structure and relationship of the Center for Innovative Technology and the MACH37 program.

## **CENTER FOR INNOVATIVE TECHNOLOGY – MACH37 CYBER ACCELERATOR**

The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation which acts as the operating arm of the Innovation and Entrepreneurship Investment Authority (Authority). Serving as a political subdivision of the Commonwealth of Virginia, the Authority transfers funds to CIT and CIT expends the funds for realizing the statutory purposes of the Authority. Chapter 806 of the Virginia Acts of Assembly 2013 Session amended the fiscal year 2014 appropriations for the Authority to include \$2,500,000 from the general fund to establish a cyber-security accelerator program to be managed by CIT. CIT was directed to recruit companies for the accelerator program, with any participating company agreeing to start and operate their company in the Commonwealth. Participating companies will be guided through an initiation and development process supported by

key cyber-security professions, investors and technologists. It was the intent of the General Assembly that the funds should be used to defray capital expenses of the participating companies. Any proceeds from the sale of equity in these companies shall be used to support the continuation of the accelerator program and not revert to the general fund.

On April 11, 2013, Governor McDonnell announced the creation of MACH37, a cyber-security accelerator program located at CIT. The program is funded by both General Assembly appropriations and the CIT Growth Acceleration Program (GAP). MACH37 is also supported by a community of cyber-security leaders who contribute to company development. All members of the MACH37 team are employees of CIT.

MACH37 conducts two 90-day cohorts each year. A total of seventeen companies have participated, or are currently participating, in the cyber-security accelerator program. The funds invested in the participating companies come directly from CIT's GAP funds, which are separate from the MACH37 funds. As of September 2014 a total of \$500,000 of GAP funds have been invested in the MACH37 companies. Through these investments, CIT has received between seven percent and eight percent equity in each participating company.

On April 1, 2014, the Governor approved Chapter 1 of the Virginia Acts of Assembly 2014 Special Session 1, which further amended the appropriation language related to the cyber-security accelerator program. The General Assembly clarified their intent that the funds provided to the Authority for establishing the cyber-security accelerator program shall not be expended in support of any activity that would result in the day-to-day operations of the program being conducted by an entity other than CIT. All appropriations provided by the Commonwealth to establish the program shall be conditional upon the program remaining an independent service line solely within CIT and operated by employees of CIT.

## **MACH37 FUND BALANCE**

We did not perform an audit on the MACH37 fund; however, we did conduct limited procedures to gain an understanding of the program. These procedures included inquiries of CIT/MACH37 management and review of financial records. Between July 1, 2013, and June 30, 2014, (fiscal year 2014) MACH37 had expenses totaling \$1,415,689 resulting in an ending fund balance of \$1,084,311. Through the first two months of fiscal year 2015 the program had additional expenses of \$239,945. The expenses from the MACH37 fund are primarily related to operations (payroll, rent, travel, supplies, contractual services, etc.).

Based on our limited review of the financial transactions, we found no evidence of any MACH37 monies being expended by an entity other than CIT. The following table presents the financial activity of the MACH37 fund between July 1, 2013, and August 31, 2014.

<b>MACH37 Cyber Accelerator Fund</b>	
Beginning Balance, July 1, 2013	\$ -
FY14 Appropriations	2,500,000
Expenses:	
Direct Labor (four employees)	(673,241)
Fringe Benefits	(386,710)
Leasehold Improvements	(200,832)
Rent	(134,167)
Contractual Services	(53,947)
Supplies	(15,164)
Travel	(7,686)
Other	<u>(183,887)</u>
Ending Balance, August 31, 2014	<u>\$ 844,366</u>

The MACH37 fund has had no additional revenue outside of the original \$2.5 million appropriation in fiscal year 2014. Furthermore, the fiscal year 2015-2016 Appropriation Act does not include any future appropriations for the MACH37 cyber-security accelerator program. To date, all of the \$1,655,634 spent has been in support of operational costs of CIT. The \$500,000 invested in MACH37 participating companies came from GAP funds. Based on the current spending rate, the money in the MACH37 fund will run out in fiscal year 2015 and there will be no funds remaining to continue support of the cyber-security accelerator program.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj