Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

VSBFA APA Audit 2014 & 2015

VSBFA Transfers between Funds

Small Business Job Grant Fund

Small Business Investment Grant Fund

November 30, 2016

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Independent Assessment Report

VSBFA Audit Report 2014 & 2015

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Executive Summary

We have completed an independent assessment and review of the Virginia Small Business Financing Authority (VSBFA) Audit Reports for 2014 and 2015, VSBFA's Transfers between Funds, the administration of the Small Business Jobs Grant Fund and the administration of the Small Business Investment Grant Fund for the Virginia Department of Small Business and Supplier Diversity. Our assessment procedures were performed to determine the effectiveness of the administration of the referenced programs and their compliance with the *Code of Virginia*.

Our assessment procedures included interviews with the associated process owners and review and testing of related records and other procedures as determined to be necessary. Our assessment of the referenced programs was designed to document the effectiveness of the administration of the programs and to identify for management any recommendations in the administration of those programs. We believe that the artifacts and supporting documentation that we reviewed on the related programs provided a reasonable basis for our overall assessment on their compliance with the Code, recommendations and conclusion regarding their administration.

The results of our assessment are presented below.

Review of VSBFA 2014 and 2015 APA Audit Reports

2014 Audit Report

We noted that the VSBFA Audit by APA in 2014 resulted in the following two major audit points/findings:

1. Improve controls over Financial Reporting Process including a lack of written policies and procedures
2. Strengthen controls over Off-CARS disbursements

We also noted that management adequately responded to the above listed findings at the time of the report. Specifically, for the Financial Reporting Process, management noted that each entry of its detailed financial statement spreadsheet included very detailed comments that thoroughly explained each entry that facilitated an easy understanding of the financial reporting process. The management response also cited that anyone who was required to compile the Authority's financial statements would have no difficulty in following their process as each entry is thoroughly explained in the comments embedded in the financial statement spreadsheet.

As far as the Off-CARS disbursement is concerned, management in its response clarified that it was part of the Department of Business Assistance during the first half of 2014 and therefore followed DBA's Procurement Policies and Procedures that allowed for purchases up to $5,000 to be approved by the Division Director. None of the items cited in the audit point exceeded $650 and were approved by the Executive Director who was considered to be the "Division Director" at DBA.

2015 Audit Report

We noted that the VSBFA Audit by APA in 2015 focused primarily on Policies & Procedures over the administration of loan and loan guaranty programs, including controls over cash receipts and collections of accounts receivable. The Audit Report listed no findings related to non-compliance with the Code or any other control issues. The 2015 Audit Report also noted that "The Authority has taken adequate corrective action with respect to audit findings in the prior year".

Remedial Measures

We have been notified of the following remedial measures by VSBFA's Executive Director in response to the 2014 audit:

- Documentation of Policy & Procedures related to the financial reporting process is currently in progress and are approximately 50% complete. The target date for achieving a 100% completion has been set for December 31, 2016.
- In regards to the Off-CARS disbursement audit finding, since the merger of DBA and the Virginia Department of Minority Business Enterprise (VDMBE) to form the Department of Small Business and Supplier Diversity, there is now a clearly defined Procurement Policy that is strictly adhered to by VSBFA.

The 2015 Audit Report was clean and therefore does not list or require any remedial measures.

Management of Transfer between Funds - VSBFA

Background

Item # 105 of the 2016-17 State Budget Bill directed the Secretary of Commerce and Trade to initiate a review of management and accounting practices within the Department of Small Business and Supplier Diversity and to develop a plan to remediate deficiencies noted in a recent audit of the Virginia Small Business Financing Authority conducted by the Auditor of Public Accounts. In addition, it noted that the review should include an examination of transfers between funds under the management of Small Business and Supplier Diversity and the Virginia Small Business Financing Authority.

While the previous section addressed a review of the recent APA audits of VSBFA, this section will specifically address our review and conclusion of our assessment of the transfers between funds by the VSBFA. Our scope was to confirm the occurrence of transfers during fiscal year 2015 and their compliance with the authorization as listed in the Budget Bill.

Review Process

Our testing and review of VSBFA's management of transfer between funds included the following:

- Interview with the Executive Director of VSBFA
- Review of the Budget Bill Item # 123 Section E2
- Review of the letter dated January 11, 2016 from the Executive Director to the Senate Finance Committee and the House Appropriations Committee

Observations

Listed below are our observations from the review of VSBFA's management of transfers between funds during fiscal year 2015:

- The Executive Director through the interview process confirmed that $6.1M was allocated from the U.S. Treasury's State Small Business Credit Initiative (SSBCI) to VSBFA's SSBCI account and was used for its mandated purpose of providing credit enhancements to Virginia's financial institutions when making business loans to qualifying small businesses.
- The Executive Director through the interview process confirmed that a total of $590k was transferred from various funds (Child Care Financing Program, Tobacco Capital Access Program, Environmental Compliance Assistance Fund, P.A.C.E. Program, VSBFA's Operating Account and the Economic Development Loan Fund) to meet payroll obligations.
- Our review of the Budget Bill Item # 123,Section E2, confirmed that to meet changing financing needs of small businesses, the Executive Director of the VSBFA, with the approval of the Director, Department of Small Business and Supplier Diversity may transfer funds managed by the Authority as listed in the *Code of Virginia* (§2.2-2309, §2.2-2310 and §2.2-2290).
- Our review of the Budget Bill Item # 123, Section E2, in conjunction with the letter from the Executive Director of VSBFA to the House Appropriations Committee confirmed compliance with the *Code of Virginia* (§2.2-2309, §2.2-2310 and §2.2-2290) and, the Budget Bill. As mandated, the Executive Director reported by fund, all transfers to the Chairman of the House Appropriations Committee in January 2016.

Conclusion

Based on our review of the transfers between funds by the VSBFA as listed above, we conclude that all transfers for fiscal year 2015 were in compliance with the State Code and the mandated reporting requirements to the Chairman of the House Appropriations Committee.

Small Business Jobs Grant Fund Program (SBJGF)

Background

The SBJGF, created by HB 943 and currently managed by the Virginia Department of Small Business & Supplier Diversity (SBSD) pursuant to §2.2-1615 of the *Code of Virginia*, is intended to increase Virginia's competitive advantage for economic development by funding value-added services that offset the human resource development costs for existing, new, and expanding small businesses that are creating jobs. As a performance-based grant program, no SBJGF funds are disbursed until certain eligibility criteria are met.

These criteria include:

- A small for-profit business must make a new capital investment of at least $100,000
- The small business must create basic employment in one of the following business sectors:
  - Manufacturing
  - Distribution Centers
  - Corporate Headquarters for a company with multiple facilities
  - Research and Development
  - Information Technology Services exclusively for businesses
  - Inbound Call Center
- A minimum of five (5) net new full-time positions must be created
  - The new positions must be filled for at least 90 days
  - The new positions must be created over a 12-month period
  - The new positions must be filled by Virginia residents that qualify for benefits
  - The new positions must receive a minimum entry-level wage rate of at least 1.35 times the federal minimum wage. However in areas that have unemployment of two times or more the state level, this wage minimum may be waived by the Department.

The SBJGF receives annual fiscal year funding of approximately $629,000, which if unused at the end of a fiscal year is accrued in a special fund for future grant distributions in future fiscal year(s). The current balance in SBJGF special funds is 1.9M.

SBJGF Process Control and Procedural Review

As part of this review, interviews were conducted with the SBJGF program staff located in Richmond to determine that the program is being administered in a manner consistent with the Code and that the fund is being sufficiently promoted.

The review involved the following areas of focus:

- SBJGF Staffing and Duties
- Fund distribution levels for fiscal years 2014, 2015, 2016 and YTD 2017
- Observations and recommendations as to how the SBJGF program design may be enhanced to increase accessibility
- Testing of randomly selected SBJGF transactions for procedural compliance

SBJGF Staffing and Duties

- The SBJGF has a current staff level of two program managers of which one part time program manager is located in Northern Virginia and is responsible for the Northern territory and a full time Central VA program manager who is located in Richmond and is responsible for the Central, Hampton Roads, Southside, Southwest and Valley territories

- The Program Managers duties include:
  - Promoting the program to small businesses,
  - Processing applications and conducting due diligence to determine applicant eligibility.
  - Fund distribution review and approval responsibilities consistent with the segregation of duties control procedures in place at the SBSD that govern the review, approval and distribution of funds via CARDINAL
  - Periodic site visits with the business to determine ongoing program compliance

Fund Distribution Levels by Fiscal Year

- *FY 2014 $825,330.37 grants awarded to 52 companies
- **FY 2015 $412,975.87 grants awarded to 32 companies
- **FY 2016 $338,105.21 grants awarded to 20 companies
- ***FY 2017 $113,424.58 grants awarded to 9 companies

*Noted pre-agency merger and staff of seven

**Noted post agency merger and .5 FTE

*** Added an additional 1 FTE in FY 2017

Program Design Observations

- Interviews with the Richmond based SBJGF Central VA program manager resulted in the following observations
  - The full $629,000 funding is rarely distributed in a fiscal year
  - The majority of businesses qualifying for the grants are located in the Northern Virginia and Hampton Roads regions
  - The SBJGF as currently defined by the Code is difficult to promote as it directly suffers from competition with other long standing Virginia Job Investment Program (VJIP) offerings
  - Businesses already involved with existing VJIP offerings do not see the value of pursuing a SBJGF grant
  - The $100,000 capital investment threshold is a barrier for many small businesses thereby limiting fund access to small businesses in rural regions of the state.

Transaction and Procedural Compliance Testing

- A 38% random sample of funded year to date fiscal 2016-2017 transactions was selected for evaluation as part of the procedural testing phase of this review.
- Each of the transactions reviewed and tested included:
  - A completed SBJGF application form,
  - The SBJGF Budget and Training analysis worksheet,
  - The SBSD Accounting Transmittal Voucher with the supporting SBJGF funds disbursal form.
- The results of this testing found that SBSD – Administration/Operations maintains accounting and financial management procedures and systems adequate to properly administer Small Business Jobs Grants.
- Highlights of those procedures include the following Key Controls:
  - Segregations of duty are in place to ensure Grant funds are properly awarded
  - SBJGF reimbursements are approved by Central VA Program Manager and keyed into Cardinal by the Agency Fiscal Technician

- Fiscal Officer approval is a key control point for Cardinal data and payment releases
- CARDINAL monthly reconciliations are performed by Fiscal Officer or Accountant

Observations

Listed below are our observations from the Process Control and Procedural Enhancements review of the SBJGF program

- Based on the results of this management review, it appears that the SBJGF program is being administered in a manner consistent with the *Code of Virginia* §2.2-1615 and the program is being successfully promoted in regions of the state where small businesses with sufficient financial capacity to meet the minimum $100,000 capital investment are located.
- Successfully promoting SBJGF has proved challenging with businesses already involved with longstanding VJIP offerings as well as those with limited access to investment capital in many parts of the state where a $100,000 capital investment requirement is too high.
- SBJGF program design changes to the grant fund code should be evaluated and given serious consideration. We believe that this may result in increased value and accessibility to the program for small businesses with limited access to investment capital in the rural areas of Virginia where job creation is vital.
- Program changes and the ability to differentiate SBJGF from the established VJIP offerings may also enable program managers to more effectively promote and expand use of the fund in rural areas of the state.

Small Business Investment Grant Fund Program (SBIGF)

Background

The SBIGF program managed by the Virginia Department of Small Business & Supplier Diversity (SBSD) pursuant to §2.2-1616 of the *Code of Virginia*, is intended to assist small businesses seeking to raise equity to capitalize their growth. Grant funds are provided to qualifying investors in qualifying small businesses as a means of creating economic benefit for the Commonwealth through increased capital investment and job creation. The program provides grants of 10% of a qualified investment that is made to one or more small businesses, not to exceed $250,000 per eligible investor subject to strict eligibility criteria designated by the code.

The SBIGF receives annual fiscal year funding of $1 million, which if unused at the end of a fiscal year is accrued in a special fund for future grant distributions in future fiscal year(s). The current balance in SBIGF special funds is $4.4M.

SBIGF Process Control and Procedural Review

As part of our review, interviews were conducted with the SBIGF regional lending manager (RLM) located in Richmond to determine that the program is being administered in a manner consistent with the Code and that the fund is being sufficiently promoted.

The review involved the following areas of focus:

- SBIGF Staffing and Duties
- Fund distribution levels for fiscal years 2016 and YTD 2017
- Observations of how the SBIGF program is being administered
- Testing of randomly selected SBIGF transactions to evaluate and confirm procedural and Code compliance

SBIGF Staffing and Duties

The SBIGF has no dedicated staffing. VSBFA's three Regional Lending Managers (RLM's) market and administer the SBIGF along with the VSBFA's nine active loan, credit enhancement, and bond programs. The VSBFA's loan and fund accounting staff reconcile all program funds, including SBIGF, to CARDINAL on a monthly basis. The RLM's duties for SBIGF include:

- Promoting the program to small businesses and investors, business trade associations, business advocacy entities, and banks.
- Processing applications and conducting due diligence to determine applicant and investor eligibility.
- Fund distribution review responsibilities consistent with the segregation of duties control procedures in place at the SBSD that govern the review, approval and distribution of funds via CARDINAL

Fund Distribution Levels by Fiscal Year

- FY 2015: 2 businesses; 18 investors; $74,000 in grants disbursed
- FY 2016: 6 businesses; 21 investors; $118,965 in grants disbursed
- FY 2017 YTD:19 businesses; 43 investors; $485,493 in grants disbursed
- Grand Total – All years: 27 businesses; 82 investors; $678,458 in grants disbursed

Program Design Observations

- Interviews with the Richmond based SBIGF Regional Lending Manager (RLM) resulted in the following observations
  - The full annual grant allocation has thus far not been fully distributed in any fiscal year
  - Grant distributions have increased significantly in fiscal 2016 and 2017 (YTD) due to increased levels of effective program promotion activities
  - Slight program design changes will be proposed through proposed legislative changes. These proposals will further clarify and expand the definition of an "individual" investor in order to more appropriately match the realities of equity fund investment practices to allow single purpose investment LLC's and trusts to be included as "eligible investors". It would further allow the founders of the companies to be eligible investors, even if they receive compensation from the company, and it would limit eligible investments only to those investors who have made qualifying investments since 2016.

Transaction and Procedural Compliance Testing

- A 38% random sample of fiscal 2016 and 2017 (YTD) transactions was selected for evaluation as part of procedural testing phase of this review.
- Each of the transactions reviewed and tested included:
  - Review of compliance with the SBIGF policy statement;

- Review of compliance with the SBIGF task outline procedure check list;
- Examination of the Business Application Certification and Investor Application Certification due diligence and approval documentation;
- The SBSD Accounting Transmittal Voucher with the supporting SBIGF funds disbursal form.

- The results of this testing found that SBSD – Administration/Operations maintains accounting and financial management procedures and systems adequate to properly administer Small Business Investment Grants.
- Highlights of those procedures include the following Key Controls:
  - Segregations of duty are in place to ensure Grant funds are properly awarded;
  - SBIGF distributions are approved by the VSBFA Executive Director and keyed into CARDINAL by Fiscal Technician;
  - Fiscal Officer approval is key control point for CARDINAL data and payment releases;
  - CARDINAL monthly reconciliation is performed.

Observations

Listed below are our observations from the Process Control and Procedural Enhancements review of the SBIGF program

- Based on the results of this management review, it appears that the SBIGF program is being administered in a manner consistent with the *Code of Virginia* §2.2-1616.
- Enhanced promotion efforts for the program in fiscal years 2016 and 2017 (YTD), as the result of the agency changing responsibility for the program to the VSBFA, has resulted in significant improvements in grant distribution activities over previous fiscal cycles.
- Transaction and procedural compliance testing found that SBIGF company and investor transactions are being administered consistent with SBSD policies, procedures and controls.

Summary of Observations and Recommendations

Listed below is a summary of observations and recommendations that are a result of this independent assessment:

Observations

- In response to the 2014 Audit of VSBFA,
  - Remedial measures related to documentation of financial reporting policies and procedures are approximately 50% complete and have a target completion date of December 31, 2016.
  - Strict adherence to SBSD's clearly defined Procurement Policy has facilitated the remediation of the Off-CARS disbursement audit finding.
- The 2015 Audit Report was clean and therefore does not list or require any remedial measures.
- All transfers between funds by VSBFA for fiscal year 2015 were in compliance with the State Code and the mandated reporting requirements to the Chairman of the Senate Finance Committee and the chairman of the Senate Appropriations Committee.
- The SBJGF program is being administered in a manner consistent with the *Code of Virginia* §2.2-1615 and the program is being successfully promoted in regions of the state where small businesses with sufficient financial capacity to meet the minimum $100,000 capital investment are located.

- Successfully promoting SBJGF has proved challenging with businesses already involved with longstanding VJIP offerings and as well as those with limited access to investment capital in many parts of the state where a $100,000 capital investment requirement is too high.
- The SBIGF program is being administered in a manner consistent with the *Code of Virginia* §2.2-1616.
- Enhanced promotion efforts for the SBIGF program in fiscal years 2016 and 2017 (YTD), as the result of the agency's decision to change the responsibility of the program over to the VSBFA, has resulted in significant improvements in grant distribution activities over previous fiscal cycles.
- SBIGF company and investor transactions are being administered consistent with SBSD policies, procedures and controls.

Recommendations

- The SBJGF program design changes to the grant fund code should be evaluated and given serious consideration. The changes should include a reduction in the investment capital requirement that is currently at $100k. This will facilitate increased value and accessibility to the program for small businesses with limited access to investment capital in the rural areas of Virginia where job creation is vital.
- SBSD should make a dedicated effort to differentiate SBJGF from the established VJIP offerings through program changes that could facilitate effective promotion of the program by program managers and also expand use of the fund in rural areas of the state.
- The enhanced promotion efforts for the SBIGF program that have been implemented and are currently proving to be very successful, should continue vigorously in the future as well. The increase in grant distribution activities over previous fiscal cycles will speak for itself and result in an optimum utilization of allocated grant funds.

Exhibits

Exhibit A

Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

Virginia Small Business Finance Authority

Audit Report

June 30, 2014

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the Virginia Small Business Financing Authority for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and its internal accounting system and records;

- certain matters involving internal control and its operation necessary to bring to management's attention; and

- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Controls over Financial Reporting Process

The Virginia Small Business Financing Authority (Authority) does not have sufficient controls over its financial reporting process. While the Authority does have a series of notes and comments within its accounting spreadsheets to aid in the preparation of its financial statement trial balance, the Authority does not have a written policy over its presentation of its required year-end financial report to the General Assembly nor does it follow any specific accounting framework for presenting its year-end financial report. As a result, the year-end financial report is at risk for inconsistencies and contains some misrepresentative language. For example, the Authority references Governmental Accounting Standards Board (GASB) Statement 34 within its report; however, the report is not presented in accordance with governmental accounting standards. While we did not perform procedures to opine to the accuracy of the financial report, our limited review over its compilation also found that the Authority overstated its balance of loan loss reserve accounts by $338,199 in one of its program footnotes.

Section 2.2-2312 of the Code of Virginia dictates that the Authority shall submit an annual report of its activities setting forth a complete operating and financial statement. The Code of Virginia does not require the Authority's special-purpose financial statements to be in accordance with Generally Accepting Accounting Principles (GAAP). However, information reported should be presented in a manner that is reliable and does not unintentionally mislead users of the report.

The Authority establishes the financial report from its accounting spreadsheets, which are prepared based on a series of notes within the spreadsheets. Management believes this process is sufficient to ensure reliability and consistency between periods given the simplicity of the Authority's financial activity. While we agree that this process does serve as a useful tool in developing financial statements, we believe the absence of a reporting framework warrants a more formal and encompassing reporting policy on how the financial activity should be presented in the year-end report.

The Authority's lack of a written policy over the presentation of the year-end report in connection with the absence of an applicable accounting framework increases the risk of inconsistent presentation and fails to provide verifiable criteria against which the presentation may be compared. References to accounting standards, which the Authority only partially follows, diminish the understandability of the report and is misleading to users, and errors undermine its reliability. In addition, the lack of a formal internal policy increases the risk, in the event of the departure of a key employee, that the agency will be unable to prepare consistent, reliable, financial reports in an efficient, effective, and timely manner.

We recommend that the Authority develop a policy over its presentation of the year-end financial report to ensure consistency and clarify what should be presented since no specific accounting framework is followed. The Authority should apply a more rigorous financial reporting review process to detect and correct significant errors prior to report issuance. In addition, we recommend that the Authority remove references to GASB standards it does not follow and label its year-end financial report as "unaudited."

Strengthen Controls over Off-CARS Disbursements

The Authority does not have sufficient controls over off-CARS (Commonwealth Accounting and Reporting System) disbursements. During our review, we found that the Authority did not complete and approve an internal purchase request form for eight out of ten (80 percent) purchases for goods and services reviewed. In addition, we found issues with supporting documentation in two out of 35 (6 percent) disbursements reviewed. In one instance, the Authority could only provide a copy of the check written but could not provide additional documentation to substantiate the purpose for the disbursement. In the second instance, the Authority could not provide the support timely due to a misfiling, providing the documentation over one month after the original request. The 35 transactions sampled included ten administrative expenses and 25 loan distributions.

During the first half of fiscal year 2014, the Authority was required to follow the Department of Business Assistance (Business Assistance) procurement policy. According to that policy, an internal purchase request form is to be used internally to initiate and ensure accountability for a purchase, as well as to ensure a purchase is appropriately authorized prior to an employee obligating the Authority to it. After Business Assistance merged with the Department of Minority Business Enterprise to form the Department of Small Business and Supplier Diversity (Supplier Diversity), it is unclear whether the policy continued to be active during the remainder of the fiscal year; however, our review found issues throughout the entire fiscal year. In addition, the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20310 requires expense documents to be maintained on file for a period of three years.

An internal purchase request form is a method of ensuring that spending is carefully controlled at the Authority. The primary reason the Authority did not comply with this policy is that management viewed the language in the policy as conflicting and; therefore, interpreted the policy differently. In addition, management does not view the form as a significant control since management is responsible for signing all checks and is aware of all purchases. However, without the use of internal purchase request forms or some other mechanism for front-end approval, management cannot assess the reasonableness of a purchase until after it has already been obligated to the Authority, increasing the risk of inappropriate transactions. In addition, without maintaining adequate supporting documentation, the Authority cannot substantiate a disbursement or support the purpose for a payment, increasing the risk of inappropriate or fraudulent transactions.

We recommend that the Authority communicate with Supplier Diversity to establish a policy regarding purchase approvals based on current operations, risks, and activity. Once a new policy has been adopted, management should require purchasing staff to comply with the policy. Additionally, the Authority should maintain adequate supporting documentation for all disbursements in accordance with the CAPP Manual.

AUTHORITY BACKGROUND

The Virginia Small Business Financing Authority (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 Authority's 11 member Board of Directors.

During fiscal year 2014, the Department of Business Assistance and the Department of Minority Business Enterprise merged to form the Department of Small Business and Supplier Diversity (Supplier Diversity). The Director of Supplier Diversity appoints the Authority's Executive Director, who oversees the Authority's operations. The Authority's staff, who are also Supplier Diversity employees, but paid entirely by the Authority's revenues, support the Authority by marketing the Authority's programs and services, reviewing program applications, conducting credit analyses, monitoring the progress of projects that have received funding, servicing loan receivables, administering the Authority's fund and bank accounts, and preparing the Authority's financial statements and reporting to state and federal funding sources. The Authority is included as part of Supplier Diversity's general fund appropriations; however, various fees and interest earnings cover the majority of the Authority's administrative expenses.

PROGRAM HIGHLIGHTS

The exact nature and number of programs administered by the Authority have continually changed over time based on market need and funding resources available. The Authority's financing programs fall into three broad categories: bonds, direct assistance, and indirect assistance.

Through the bond program, the Authority provides Virginia businesses and 501(c)3 non-profits with access to low cost bond financing which they would otherwise not be able to obtain on their own. The direct assistance programs provide loans to qualified Virginia businesses and 501(c)3 organizations, while the indirect assistance programs provide support to Virginia businesses through loan guarantees, cash collateral, and loan insurance programs. The goal of these programs is to encourage economic development through either job creation or retention by small businesses while striving to recapture public funds over time for future credit requests.

Detailed below is more information about the various programs administered by the Authority.

Bond Programs

The *Industrial Development Bond Program* is a financing vehicle in which the Authority serves as a conduit issuer of tax-exempt and taxable industrial development bonds for qualifying businesses and 501(c)3 entities. The Authority also has the ability, through specific language in the Code of Virginia, to assist Virginia's transportation initiatives through the issuance of bonds for qualified private-sector companies working with the Virginia Department of Transportation in public-private partnerships. The nature of the entity and consideration of the Commonwealth's available allocation of private activity bonds determine whether or not the bond issuance will be tax-exempt.

The private sector provides the bond financing, not the Authority or the Commonwealth, and the respective small business or non-profit has responsibility for debt service. As such, the Authority takes on no risk as a result of this program. The Authority is responsible for collecting application and administration fees associated with the bond issuances. These funds support the ongoing operating expenses of the Authority and also provide additional funding to other programs administered by the Authority.

Since the program's inception, the Authority has facilitated the issuance of 162 bonds; however, no new bonds were issued in fiscal year 2014. With interest rates at low levels, bond financing is not as attractive and some of the previous years' bond activity had been tied to benefits in the Federal Stimulus Act.

Direct Assistance Programs

The following revolving loan programs provide loans, generally up to $1 million in value, to bridge the gap between private debt financing and private equity or, in the case of the Microloan Program, to provide direct loans to fund very small business financing needs which banks sometimes prefer not to offer. As borrowers repay the loan principal and interest, the Authority uses the proceeds to issue new loans. The remaining interest earned supports the Authority's ongoing operating expenses.

- The *Federal Economic Development Loan Fund Program (EDLF)* provides loans to new and expanding businesses or local or regional economic development authorities in qualified geographical areas that create or save jobs in Virginia, or provide economic and "quality of life" development within the community. Included within this program is the Virginia Defense Conversion Loan Fund Program, which provides loans to defense dependent Virginia businesses, which have suffered losses as a result of military downsizing, and are seeking to transition to private sector markets and diversify their operations. Since the program's inception, the program has issued 87 loans, with one new loan issued in fiscal year 2014.

- The *State Direct Loan Program* provides loans to a variety of Virginia businesses as market needs dictate and without the geographical restrictions of the Economic Development Loan Fund Program. Since the program's inception in 2007, the program has issued nine loans, with three new loans issued in fiscal year 2014.

- The *Small Business Microloan Program* is designed to assist Virginia's existing small businesses across the Commonwealth. Short-term loans are provided to help established businesses create new jobs and retain existing "at risk" jobs in Virginia. The underwriting process for the Microloan Program is not as intensive as other loan offerings. Credit decisions are based primarily on credit history of the owners and outside recommendations. Since the program's inception in 2012, the authority has issued 85 loans, with 31 new loans issued in fiscal year 2014. During the 2015 session of the General Assembly, House Bill 1757 was signed which will abolish the Providing Access to Capital for Entrepreneurs Program (see Indirect Assistance Programs section below for more information on this program) and merge it into the Small Business Microloan Program. In addition, the Small Business Microloan Program will be renamed the Small, Women-owned, and Minority-owned Business Loan Fund. This new legislation will be effective July 1, 2015 (fiscal year 2016).

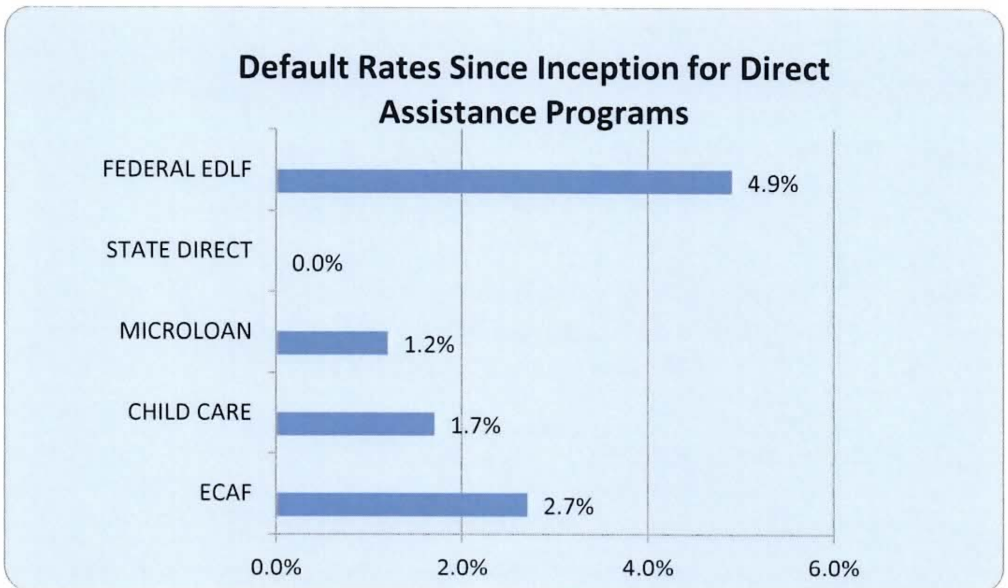
In addition to the economic development oriented loan programs described above, the Authority also administers two smaller direct assistance programs on behalf of other state agencies, which provide loans to specific types of businesses for restricted purposes.

- The *Child Care Financing Program* provides assistance to licensed home based daycare providers and childcare centers through installment loans. The borrower can use the loans to either enhance the quality of care, or meet or maintain state or local childcare requirements, including health, safety, and fire codes. The Authority administers this revolving loan program on behalf of the Department of Social Services. Since the program's inception in 1994, the Authority has issued 310 loans, with three new loans issued in fiscal year 2014.

- The *Small Business Environmental Compliance Assistance Fund (ECAF)* is a revolving loan program for small businesses that need equipment to comply with the Clean Air Act or for voluntary pollution prevention. The Authority administers this program on behalf of the Department of Environmental Quality (DEQ). Since the program's inception in 2000, the Authority has issued 43 loans. The Authority has issued no new loans in this program since 2009 and is currently only administering the remaining portfolio. The Authority is currently communicating with DEQ to determine the future of the program.

Direct Assistance Program Default Rates

Default rates since inception for direct assistance programs remained constant or declined in fiscal year 2014, with the exception of the Microloan Program, which experienced its first default during the year. With the direct assistance programs, the Authority performs the credit underwriting and approval of applicants for the direct assistance programs. For approved program participants, the Authority performs all loan closing, billing, accounting, reporting, and collection functions. The Authority works with both the bank and program participants to encourage timely payments. The Authority charges off loans when it can ascertain the amount of loss, or when a loan reaches a 120 day delinquency status and repayment appears highly unlikely. For non-bankruptcy cases, the Authority sends the loan to the Office of the Attorney General and to the Commonwealth's debt set-off program to facilitate collection. The following chart provides information on default rates since inception related to the Authority's direct assistance programs as of the end of fiscal year 2014.



Indirect Assistance Programs

The Authority's various indirect assistance programs provide guarantees, cash collateral, and loan loss reserve insurance to banks to assist them in making loans to small businesses. These programs mitigate a bank's risk, which enables it to make more loans.

- The *Virginia Capital Access Program (VCAP)* encourages banks to lend to small businesses by providing a form of loan portfolio insurance through loan loss reserve accounts. Loan enrollment premiums fund the program and payments come from the bank, borrower, or both, with a premium match by the Authority. The reserve account then offsets default losses as they occur. Since the program's inception, there have been 1,130 loans, with one new loan issued in fiscal year 2014.

- The *Tobacco Capital Access Program (TCAP)* is similar to the Virginia Capital Access Program, with the exception that it solely provides assistance to small businesses located within the Southside Tobacco Region. Since the program's inception, there have been 207 loans, with 18 new loans issued in fiscal year 2014. The Authority believes the increased activity of the last several years reflects the Southside region banks becoming more comfortable and familiar with the program.

  Within the Authority's agreements with participating Capital Access Program banks, the Authority states that it may withdraw (clawback) the money after 24 months of inactivity and after the last enrolled loan(s) have been repaid; however, there is no requirement that the Authority clawback under any certain timeframe. In fiscal year 2014, the Authority clawed back inactive VCAP and TCAP monies totaling $360,528 and $63,967, respectively. The Authority transferred the VCAP clawbacks to its operating account to refund the Authority for previous fundings that have occurred over the life of the program. In addition, the Authority transferred the TCAP clawback to the TCAP Fund.

- The *Loan Guaranty Program* provides participating banks deficiency guarantees for loans made to Virginia businesses that do not qualify for conventional bank financing. Borrowers work with participating Virginia banks to apply for this assistance. The program encourages the banks to work with borrowers as the banks have some guarantee of recouping a portion of the loan funds. Since the program's inception, there have been 254 loans, with eight new loans issued in fiscal year 2014.

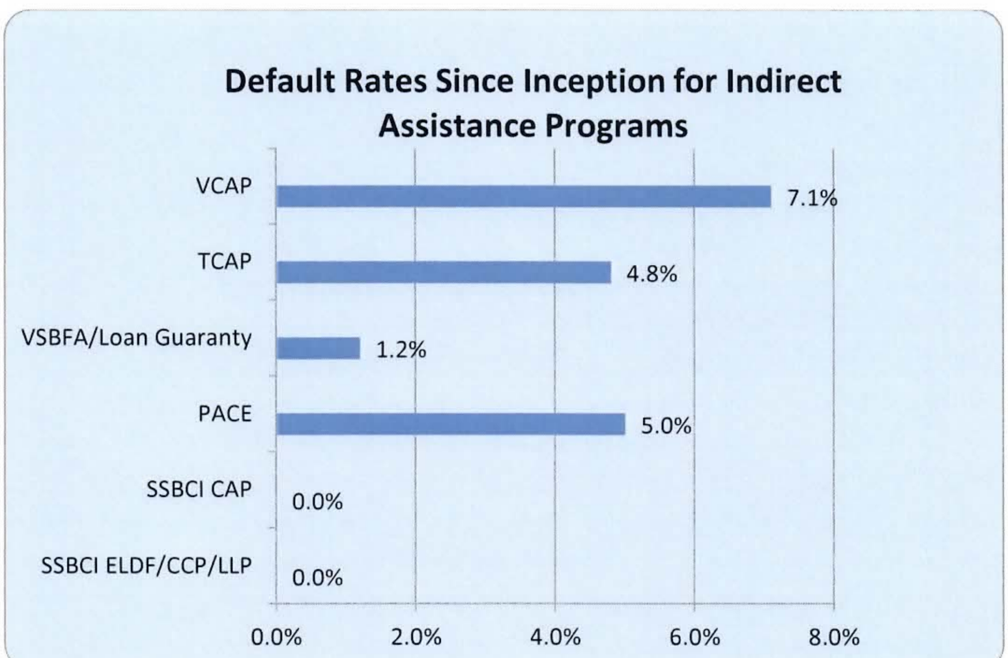
- The *Providing Access to Capital for Entrepreneurs (PACE) Program*, administered on behalf of the Department of Small Business and Supplier Diversity by the Authority, provides credit enhancements to participating banks through either loan portfolio insurance or loan guarantees. Participants must meet certain eligibility criteria established by the Department of Small Business and Supplier Diversity. Since the program's inception, there have been 56 loans, with no new loans issued in fiscal year 2014. As noted above, during the 2015 session of the General Assembly, House Bill 1757 was signed which will abolish the Providing Access to Capital for Entrepreneurs Program and merge it into the Small Business Microloan Program. This legislation will be effective July 1, 2015 (fiscal year 2016).

- The *State Small Business Credit Initiative (SSBCI)* strengthens state programs that support lending to small businesses. Under SSBCI, federal funds for programs that leverage private lending are used to help finance small businesses in the interest of expanding and creating jobs. In fiscal year 2014, the Authority received the second of three installments of funding from the U.S. Department of Treasury for the SBBCI program. The second installment of funding received totaled $5,924,554, equal to the first installment received in fiscal year 2012. SSBCI is administered through the new Cash Collateral Program (CCP) and Loan Participation Program (LLP) in addition to already existing programs such as VCAP and EDLF. Since the program's inception in 2013, there have been 99 loans issued, with 67 new loans issued in fiscal year 2014.

<u>Indirect Assistance Program Default Rates</u>

Over the last few years, the Authority anticipated economic conditions to have an impact on default rates in the TCAP and VCAP programs since they facilitate access to financing for riskier borrowers. During fiscal year 2014, defaults in loans for the programs have stabilized with the VCAP program remaining constant and the TCAP program experiencing a decrease since inception. With both TCAP and VCAP, the Authority enters into participation agreements with certain banks who then determine the creditworthiness of the program participants. The SSBCI program has not experienced any defaults since its inception in 2013. Participating banks are responsible for determining creditworthiness since they, not the Authority, underwrite the loans for approved participants.

Additionally, reserve accounts are set up with participating banks, which lessens the bank's loss in the event of a default. The following chart provides information on default rates since inception related to the Authority's indirect assistance programs for fiscal year 2014.



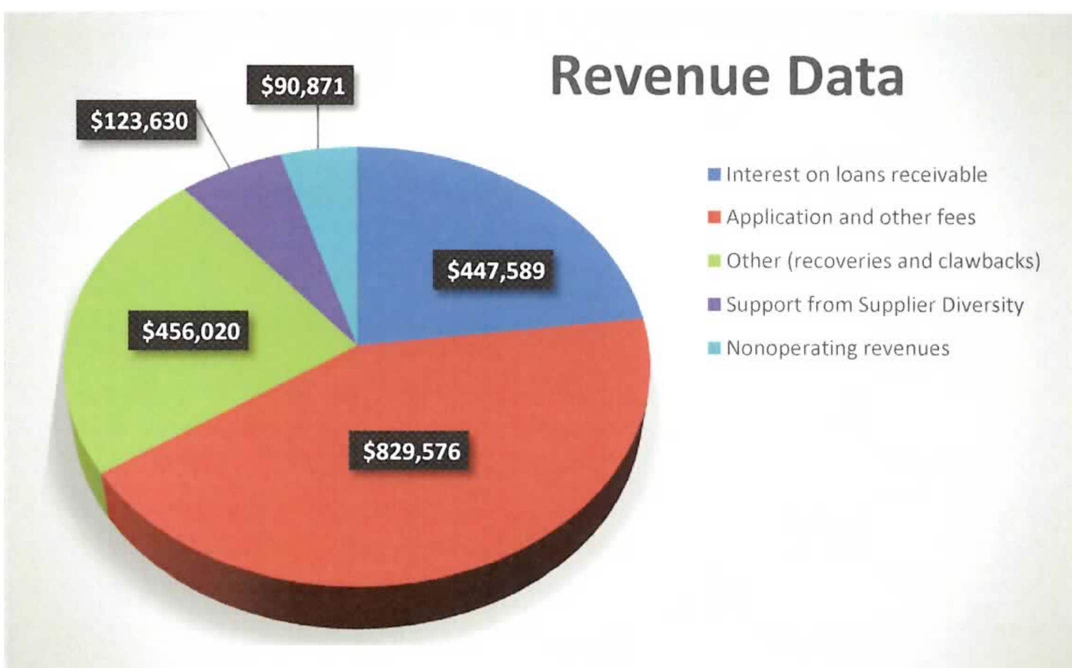
Operating Activities

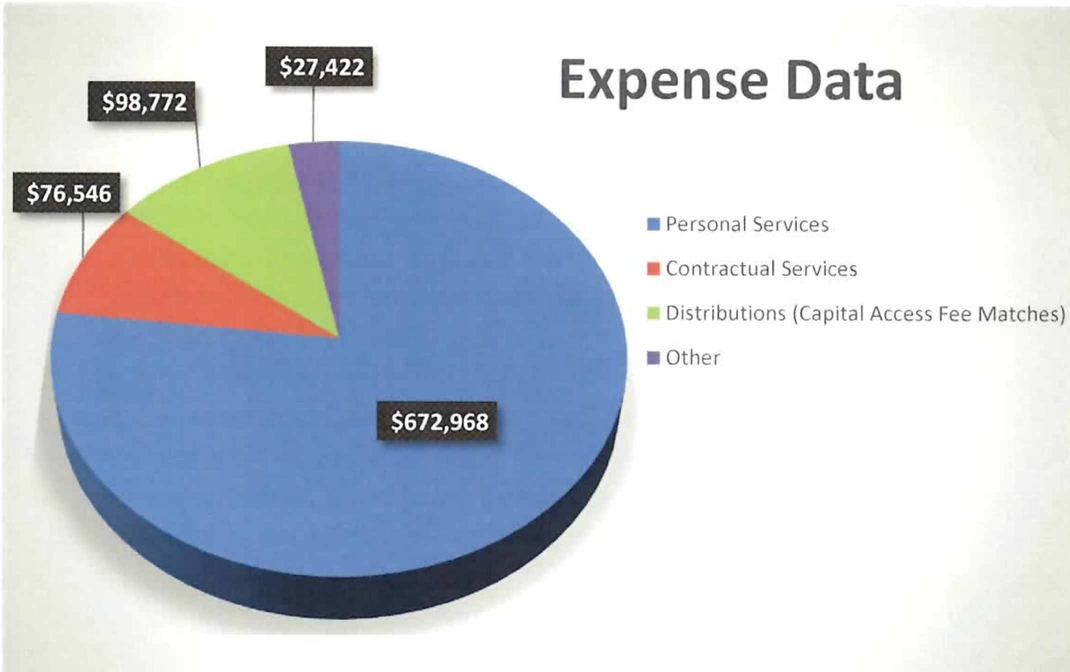
The Authority funds the majority of its operational expenses through the collection of annual bond fees, bond and loan application fees, and late payment penalties, as well as interest earned on the loans themselves and cash on hand. In addition, as mentioned previously, Supplier Diversity provides some financial support to the Authority to support the operating expenses. The Authority received $123,630 during fiscal year 2014 from Supplier Diversity. This is a line item in the annual state budget and covers just 16 percent of the Authority's administrative expenses.

To ensure the principal within each program is available to support the program's goals, most have limitations as to the amount and timing of when the Authority can use their revenues to offset operating expenses. For example, only 50 percent of the current revenues generated from the Federal Economic Development Loan Fund Program can support operating costs.

The charts below present the Authority's operating activities for fiscal year 2014. Payroll costs make up the majority of the Authority's operating expenses. Distributions reflect transfers to banks in support of the loan loss reserve programs. The remaining income carries forward to cover future administrative costs or provide additional principal for the programs.

Operating Activities
For the fiscal year ending June 30, 2014




Expense Data
$27,422
$98,772
$76,546
$672,968
Personal Services
Contractual Services
Distributions (Capital Access Fee Matches)
Other

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 7, 2015

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 **Virginia Small Business Financing Authority (Authority)** for the year ended June 30, 2014. 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 and the Authority's internal accounting system and records, review the adequacy of the Authority's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Authority'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 focused primarily on policies and procedures over the administration of loan and loan guaranty programs, including controls over cash receipting and collections of accounts receivable. In addition, we reviewed certain controls over financial reporting.

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

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and its internal accounting system and records. The Authority 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 or other Authority financial records.

We noted certain matters involving internal control and its operation that we consider necessary to be reported to management and require corrective action. 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.

Exit Conference and Report Distribution

We discussed this report with management on April 10, 2015. Management's response to the findings identified in our audit is included in the section titled "Authority Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

ZLB/clj

VSBFA
Virginia Small Business
Financing Authority

P.O. Box 446
Richmond, VA 23218-0446
804-371-8254 / f 804-225-3384
sbsd.virginia.gov

April 28, 2015

The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for allowing me the opportunity to review your draft of the audit findings and recommendations. I am providing this management response to each of the audit findings and recommendations listed in the draft audit.

1. *Improve Controls over Financial Reporting Process* – Specifically cited: Lack of written policies and procedures over the financial reporting process; does not follow any specific accounting framework for its year-end financial report; the Authority references Governmental Accounting Standards Board (GASB) Statement 34 even though the report is not presented in accordance with governmental accounting standards; the Authority overstated its balance of loan loss reserve accounts by $338,199 in one of its program footnotes.

In response, I would point out that the Virginia Small Business Financing Authority (the "Authority") does include very detailed comments in each entry of its financial statement spreadsheet. Anyone who was required to compile the Authority's financial statements would have no difficulty in following our process as each entry is thoroughly explained in our comments embedded within our financial statement spreadsheet. The Authority's financial process is quite straightforward. The assets of the Authority consist of the following items: Cash held in bank accounts (these accounts are settled monthly and the process is described on the back of the bank statement), investments (managed by the state Treasury Department through the Local Government Investment Pool), notes receivable (our loans which are settled through our loan accounting and fund accounting processes), and a very small amount of accrued interest and fees. Liabilities consist of: Accounts payable (due to timing issues regarding outstanding checks), accrued payroll (which we get from Payroll Services), and funds held in restricted bank accounts for our Capital Access Programs (which are settled monthly). There are no capital assets, leases, inventory, prepaid items, or anything that is commonly found in much more complex financial statements. Ninety-one percent of the VSBFA's total operating expenses ($965,172) are for three items, payroll ($595,528), allowance for doubtful accounts ($213,094), and matching fees paid for our Virginia Capital Access Program ($98,772), reflecting that our income statement is also very simple and straightforward. I contend that the Authority does have the appropriate level of instruction and explanation in its financial statement process to meet the level of complexity and risk associated with its accounting framework. I would further contend that the Authority's accounting framework is consistent, understandable, and reliable as it follows the framework of the Commonwealth's Comprehensive Annual Financial Report (CAFR) and the Commonwealth's Accounting Policies and Procedures Manual (CAPP). However, if the APA believes that written policies and procedures are indeed required, then any guidance the APA can provide the Authority as to the scope and type of policies and procedures necessary would be greatly appreciated.

It is further mentioned in your memorandum that the Authority has misrepresented its statements by including a reference to GASB 34 when our statements are not required to be in accordance with GASB. The Authority included those GASB references only because they were discussion points with the Department of Accounts and we were striving for the maximum amount of clarity. Further, the Authority has included these GASB references in its financial statements since 2005. Previous auditors and previous readers of our financial statements have never brought to our attention any confusion or belief that the Authority was misrepresenting its financial statements by including this reference. If the references cause the reader to believe we are misrepresenting our financial reporting, we will gladly remove those references from future financial statements; however, I do not believe that the inclusion of the GASB reference should mislead a user of the report or should be construed as the Authority attempting to mislead the user.

It is also recommended that the Authority "should apply a more rigorous financial reporting review process to detect and correct significant errors prior to report issuance." While the footnote error mentioned was indeed made, this was a typographical error that in no way impacted the financial condition of the Authority. While I appreciate the APA catching the typographical error, I do not believe it to be material since the correct figure was shown in our actual financial statements. Therefore, there was no misrepresentation of our actual financial condition and I do not believe that this should have been included in our audit finding. While we have two of our seven staff members read these financial statements thoroughly prior to publishing, we will employ a more rigorous review system in the future in order to avoid future such occurrences.

2. *Strengthen Controls over Off-CARs Disbursements* – Specifically cited: The Authority did not complete and approve an internal purchase request form for eight out of ten purchases for goods and services reviewed; Issues found with supporting documentation in two out of 35 disbursements reviewed.

During the first half of FY '14, the Authority was a part of the Department of Business Assistance (DBA) and subject to DBA's policies and procedures. DBA's procurement policy read, in part, as follows, "*The Department of Business Assistance is authorized to procure goods & printing up to its delegated $50,000 dollar limit. And $100,000 dollar limit for Services. Division Directors are responsible for the approval and compliance of purchases up to $5000. Purchases above $5,000 will be coordinated with the Director / Senior Operations Manager and the Department of Purchases and Supply to ensure compliance prior to the issuance of a Purchase Order or Contract by the Senior Operations Manager or agency Director.*" As the Executive Director of the Authority, I was considered to be a "Division Director" within DBA and therefore had the authority to approve purchases up to $5,000. None of the items cited in the audit were of an amount exceeding $650. Further, the vast majority of the expenditures made by the Authority were paid for with funds derived from revenues earned by the Authority, not DBA general funds. Prior to the dissolution of DBA, §2.2-2284 of the Code of Virginia provided the Executive Director of the VSBFA the authority to "*approve all accounts for allowable expenses for the Authority or of any employee or consultant or other person providing services to the Board, and for expenses incidental to the operation of the Authority subject to approval of the Director of the Department of Business Assistance.*" Now that the Department of Small Business and Supplier Diversity (DSBSD) has been formed, the Code language remains except that DBA has been replaced with DSBSD. As these expenses were paid for with Authority funds, not DBA funds, and as I had the authority to approve those purchases under the agency policy approved by the Director of DBA, it is my belief that I was following agency policy and that the finding is unjustified. Further, I contend that an internal purchase request form was not required since I was the approving authority and my approval of the purchase was reflected in my signature on the check for payment. In those instances where the Executive Director is the sole required approving authority, no additional front-end approval form, such as an internal purchase request form is necessary to "assess the reasonableness of a purchase" as your audit states. There is no increase in the risk of the approval of "inappropriate or fraudulent transactions" because the Executive Director of the Authority must still review the appropriateness of the transaction prior to obligation. Until the check has been signed and sent, the transaction is not complete. In spite of my belief that the Authority's actions were within policy, going forward, every effort will be made to stress to the new Department of Small Business and Supplier Diversity, of which the Authority is now a part, the importance of having a clear procurement policy. When DSBSD drafts such a policy, I assure you the Authority will follow it as we have always done.

Sincerely,

Scott E. Parsons

Scott E. Parsons
Executive Director
Virginia Small Business Financing Authority

Cc: Tracey Jeter, Director, Department of Small Business and Supplier Diversity
Gail Letts, Chairman of the Board of Directors, Virginia Small Business Financing Authority

APPENDIX A – APA COMMENTS TO AUTHORITY'S RESPONSE

Below is our response to certain aspects of the Authority's response that require additional clarification:

<u>Improve Controls over Financial Reporting Process</u>

- *I contend that the Authority does have the appropriate level of instruction and explanation in its financial statement process to meet the level of complexity and risk associated with its accounting framework. I would further contend that the Authority's accounting framework is consistent, understandable, and reliable as it follows the framework of the Commonwealth's Comprehensive Annual Financial Report (CAFR) …*

The Authority provides the Department of Accounts (DOA) the information it needs to present the Commonwealth's CAFR in accordance with the generally accepted accounting principles (GAAP) framework, but the Authority does not present its own statements within the same framework as the CAFR. For example, the Authority presents a condensed statement of net position instead of providing the line items making up those amounts. In its fiscal year 2014 financial report, the Authority did not recognize the liability associated with Governmental Accounting Standards Board (GASB) Statement 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, in part, because it does not produce GAAP financial statements. In addition, the Authority does not plan to recognize its proportionate share of the Commonwealth's net pension liability in fiscal year 2015 in accordance with GASB Statement 68 - *Accounting and Financial Reporting for Pensions*. The objective of the finding is not to prescribe what the Authority must present, but is rather to encourage a policy that establishes what should be presented and how it should be presented.

- *… however, I do not believe that the inclusion of the GASB reference should mislead a user of the report or should be construed as the Authority attempting to mislead the user.*

As our report indicates, the <u>Code of Virginia</u> does not require the Authority's special-purpose financial statements to be in accordance with GAAP. However, we believe the information reported should be presented in a manner that is reliable and does not unintentionally mislead users of the report. We understand that the Authority has made a good faith effort to represent its financial activities as clearly as possible, but believe the report is misleading nonetheless. GASB Statement 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* establishes financial reporting standards for state and local governments, including requirements for how to present Management's Discussion and Analysis (MD&A), basic financial statements, and notes to the financial statements. The Authority's financial report asserts that the Authority follows GASB Statement 34 and uses terminology required in the statement, such as MD&A, basic financial statements, and notes to the financial statements, yet does not present its information in accordance with the standard. Therefore, we believe users of the Authority's financial report may assume that they are GAAP level financial statements, when in fact they are not.

Strengthen Controls over Off-CARS Disbursements

- *DBA's procurement policy read, in part, as follows, "The Department of Business Assistance is authorized to procure goods and printing up to its delegated $50,000 dollar limit. And $100,000 dollar limit for Services. Division Directors are responsible for the approval and compliance of purchases up to $5,000. Purchases above $5,000 will be coordinated with the Director/Senior Operations Manager and the Department of Purchases and Supply to ensure compliance prior to the issuance of a Purchase Order or Contract by the Senior Operations Manager or agency Director." As the Executive Director of the Authority, I was considered to be a "Division Director" within DBA and therefore had the authority to approve purchases up to $5,000.*

The applicable policy requirement on which we based our recommendation reads, *"An internal purchase request form is to be used internally within the Department of Business Assistance to initiate and ensure accountability for a purchase, as well as to ensure a purchase is appropriately authorized and approved. Unless specifically requested by the vendor, a purchase order is not required for a purchase under $5,000 (unless a mandatory source is used – check the contract). To account for purchases, a Purchase Order, or other control-number will be provided by cost center managers. Purchase logs will be maintained by each division for the issuance of purchase orders, contracts, and internal purchase requests. Internal Purchase Requests are to be submitted to the Director of Administration for approval prior to purchases."* Regardless of who is responsible for approving purchases less than $5,000, it does not preclude the Authority from following the policy requirement to initiate an internal purchase request. Our review found that this requirement was followed in certain circumstances, but not in others. We acknowledge that the policy could be clearer and that management may make future policy decisions to change this requirement based on its evaluation of associated risk.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Scott Parsons, Executive Director

BOARD OF DIRECTORS

Gail Letts, Chairman
James Thomas, Vice Chairman

Neil Amin	Tonya Mallory
Shawn Boyer	Monica Rao
Nicholas Jordan	Doña Storey

Prescott Sherrod

The Honorable Manju Ganeriwala, ex-officio voting member

Tracey Jeter, ex-officio voting member

Scott Parsons, Secretary and Treasurer

Exhibit B

Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

Virginia Small Business Finance Authority

Audit Report

June 30, 2015



VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

Our audit of the Virginia Small Business Financing Authority for the fiscal year ended June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Authority's internal accounting system and records;

- no matters involving internal control and its operation necessary to bring to management's attention; and

- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

AGENCY HIGHLIGHTS

The Virginia Small Business Financing Authority (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 Authority's 11-member Board of Directors.

During fiscal year 2014, the Department of Business Assistance and the Department of Minority Business Enterprise merged to form the Department of Small Business and Supplier Diversity (Supplier Diversity). The Director of Supplier Diversity appoints the Authority's Executive Director, who oversees the Authority's operations. The Authority's staff, who are also Supplier Diversity employees, but paid entirely by the Authority's revenues, support the Authority by marketing the Authority's programs and services, reviewing program applications, conducting credit analyses, monitoring the progress of projects that have received funding, servicing loan receivables, administering the Authority's fund and bank accounts, and preparing the Authority's financial statements and reporting to state and federal funding sources. The Authority is included as part of Supplier Diversity's general fund appropriations; however, various fees and interest earnings cover the majority of the Authority's administrative expenses.

The exact nature and number of programs administered by the Authority have continually changed over time based on market need and funding resources available. The Authority's financing programs fall into three broad categories: bonds, direct assistance, and indirect assistance. This report will broadly discuss activity in these three categories below. For more information about the individual programs and financial activity of the Authority, please see the Authority's Financial Statements which are located on Virginia's Legislative Information System website under the "Reports to the General Assembly" section.

Through the bond program, the Authority provides Virginia businesses and 501(c)3 non-profits with access to low cost bond financing which they would otherwise not be able to obtain on their own. The direct assistance programs provide loans to qualified Virginia businesses and 501(c)3 organizations, while the indirect assistance programs provide support to Virginia businesses through loan guarantees, cash collateral, and loan insurance programs. The goal of these programs is to encourage economic development through either job creation or retention by small businesses while striving to recapture public funds over time for future credit requests.

Bond Programs

The Industrial Development Bond Program is a financing vehicle in which the Authority serves as a conduit issuer of tax-exempt and taxable industrial development bonds for qualifying businesses and 501(c)3 entities. The Authority also has the ability, through specific language in the Code of Virginia, to assist Virginia's transportation initiatives through the issuance of bonds for qualified private-sector companies working with the Virginia Department of Transportation in public-private partnerships. The nature of the entity and consideration of the Commonwealth's available allocation of private activity bonds determine whether or not the bond issuance will be tax-exempt.

The private sector provides the bond financing, not the Authority or the Commonwealth; and the respective small business or non-profit has responsibility for debt service. As such, the Authority takes on no risk as a result of this program. The Authority is responsible for collecting application and administration fees associated with the bond issuances. These funds support the ongoing operating expenses of the Authority and also provide additional funding to other programs administered by the Authority. The Authority has facilitated the issuance of 169 bonds since the program's inception, including 7 bonds in fiscal year 2015 issued for a total of $206,221,000.

Direct Assistance Programs

The following revolving loan programs provide loans, generally in amounts up to $1 million, to bridge the gap between private debt financing and private equity or, in the case of the Microloan Program, to provide direct loans to fund very small business financing needs which banks sometimes prefer not to offer. As borrowers repay the loan principal and interest, the Authority uses the proceeds to issue new loans. The remaining interest earned supports the Authority's ongoing operating expenses.

- Federal Economic Development Loan Fund Program (EDLF)
- State Direct Loan Program
- Small Business Microloan Program

  Note: During the 2015 session of the General Assembly, House Bill 1757 was signed which will abolish the Providing Access to Capital for Entrepreneurs Program (see Indirect Assistance Programs section below for more information on this program) and merge it into the Small Business Microloan Program. In addition, the Small Business Microloan Program will be renamed the Small, Women-owned, and Minority-owned Business Loan Fund. This new legislation will be effective July 1, 2015 (fiscal year 2016).

In addition to the economic development oriented loan programs described above, the Authority also administers two smaller direct assistance programs on behalf of other state agencies, which provide loans to specific types of businesses for restricted purposes, as follow.

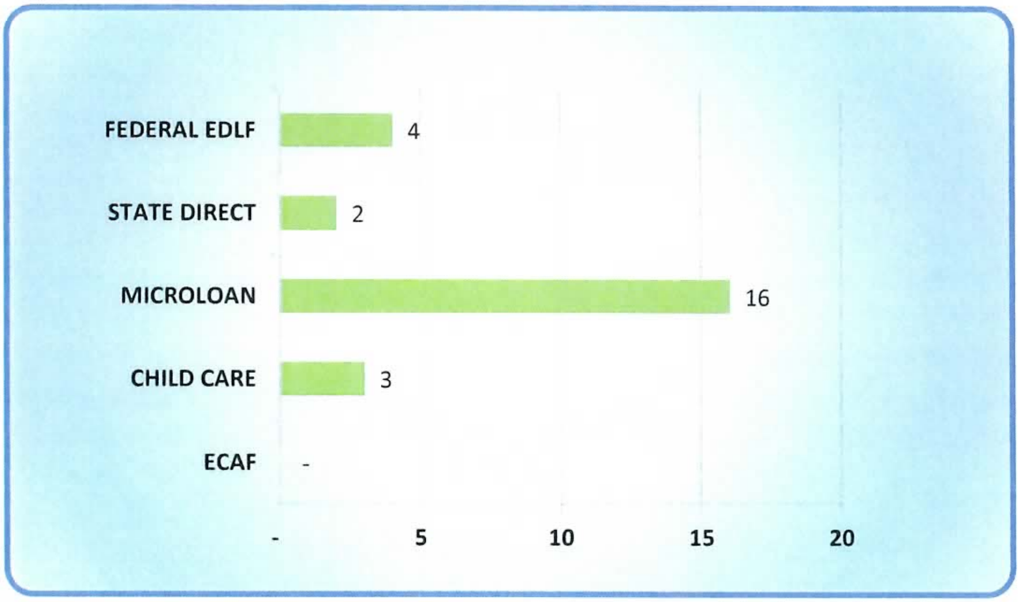
- Child Care Financing Program
- Small Business Environmental Compliance Assistance Fund (ECAF)

  Note: The Authority administers this program on behalf of the Department of Environmental Quality (DEQ). The Authority has issued no new loans in this program since 2009, and as of December 2015 this program has been discontinued and the remaining cash on hand has been transferred back to DEQ. The Authority will continue to service the one outstanding loan remaining from this program, which matures in 2020. Cash collections on that loan will be transferred to DEQ semi-annually.

Charts 1 and 2 provide information on the dollar value and number of new loans issued by the Authority related to direct assistance programs during fiscal year 2015. In total the Authority issued $5,290,751 of new loans in fiscal year 2015.

Number of New Loans
Fiscal Year 2015

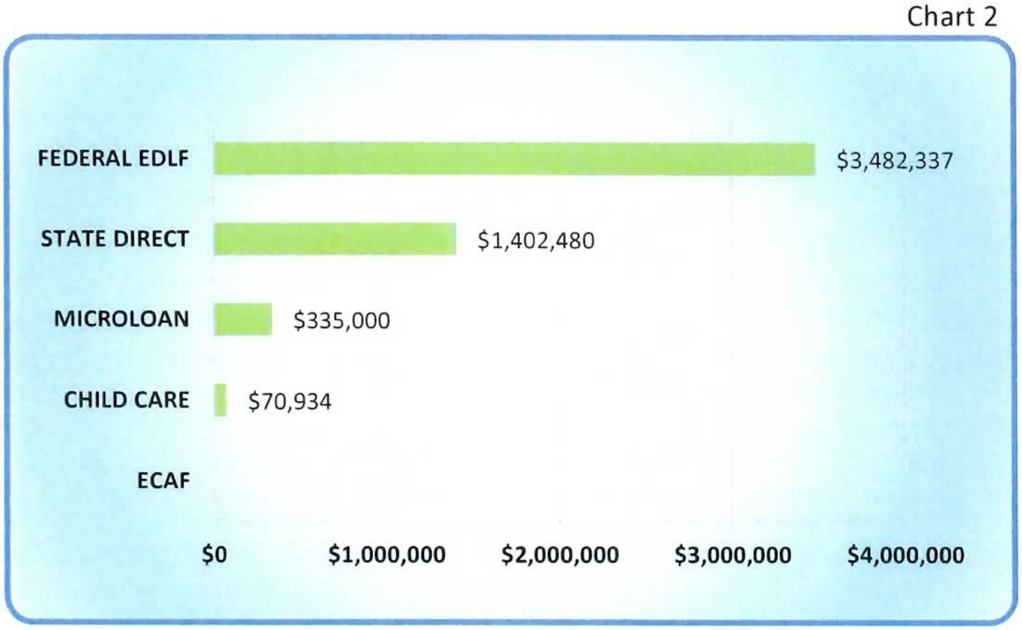
Chart 1



Source: Authority LA Pro System

Amount of Loans Disbursed
Fiscal Year 2015

Chart 2



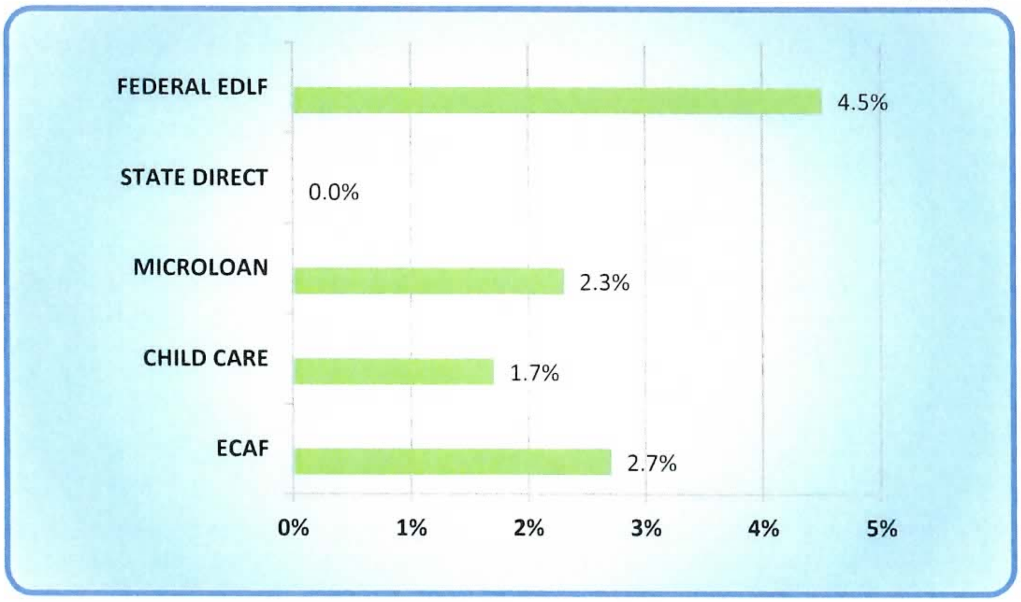
Source: Authority LA Pro System

Direct Assistance Program Default Rates

Default rates since inception for direct assistance programs remained constant or declined in fiscal year 2015, with the exception of the Microloan Program. The Microloan Program experienced its second and third default during the year and experienced a slight increase in the default rate. The Authority performs the credit underwriting and approval of applicants for the direct assistance programs. For approved program participants, the Authority performs all loan closing, billing, accounting, reporting, and collection functions. The Authority works with both the bank and program participants to encourage timely payments. The Authority charges off loans when it can ascertain the amount of loss, or when a loan reaches a 120-day delinquency status and repayment appears highly unlikely. For non-bankruptcy cases, the Authority sends the loan to the Office of the Attorney General and to the Commonwealth's debt set-off program to facilitate collection. Chart 3 provides information on default rates since inception related to the Authority's direct assistance programs as of the end of fiscal year 2015.

Default Rates Since Inception for Direct Assistance Programs

Chart 3



Source: Calculated from Authority Internal Records

Indirect Assistance Programs

The Authority's various indirect assistance programs as listed below provide guarantees, cash collateral, and loan loss reserve insurance to banks to assist them in making loans to small businesses. These programs mitigate a bank's risk, which enables it to make more loans.

- Virginia Capital Access Program (VCAP)
- Tobacco Capital Access Program (TCAP)

- Loan Guaranty Program
- Providing Access to Capital for Entrepreneurs (PACE) Program

  Note: In September 2015, the remaining cash in this program was transferred and combined with new funding from the General Assembly for the new Small, Women-owned, Minority-owned Business Loan Fund.

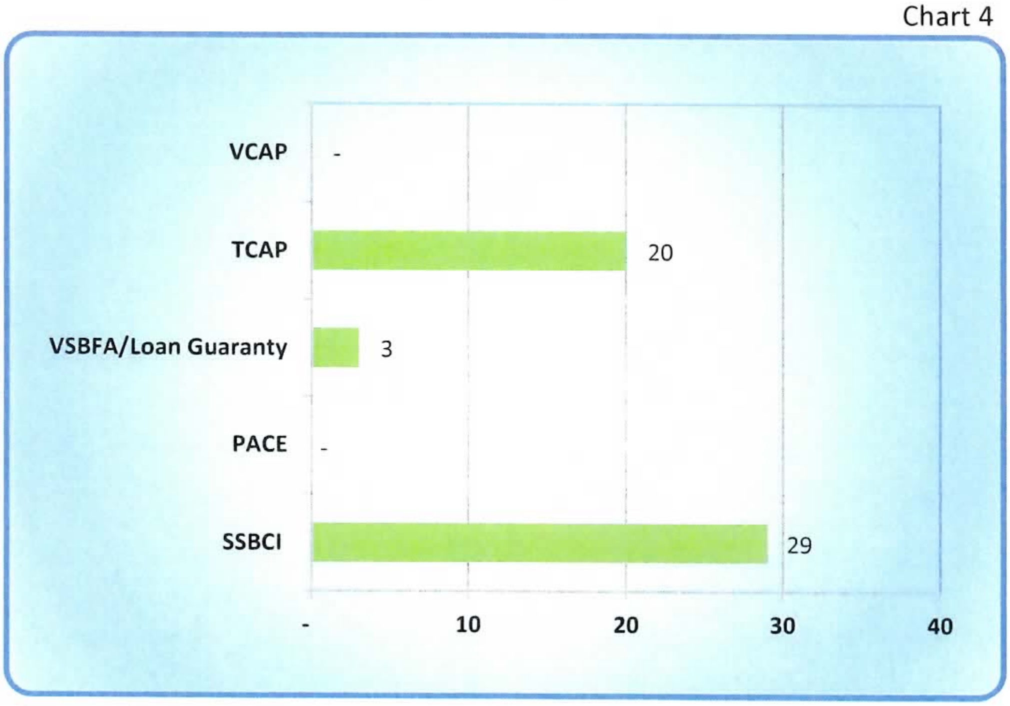
- State Small Business Credit Initiative (SSBCI)

  Note: Under SSBCI, federal funds for programs that leverage private lending are used to help finance small businesses in the interest of expanding and creating jobs. In fiscal year 2015, the Authority received the third and final installment in funding from the U.S Department of Treasury for the SSBCI program. The third installment received was in the amount of $6,104,803, and in total the Authority has received $17,953,191 in funding from the U.S Department of Treasury.

Chart 4 provides information on the number of new loans supported by the Authority related to indirect assistance programs during fiscal year 2015.

Number of New Loans Supported
Fiscal Year 2015

Chart 4



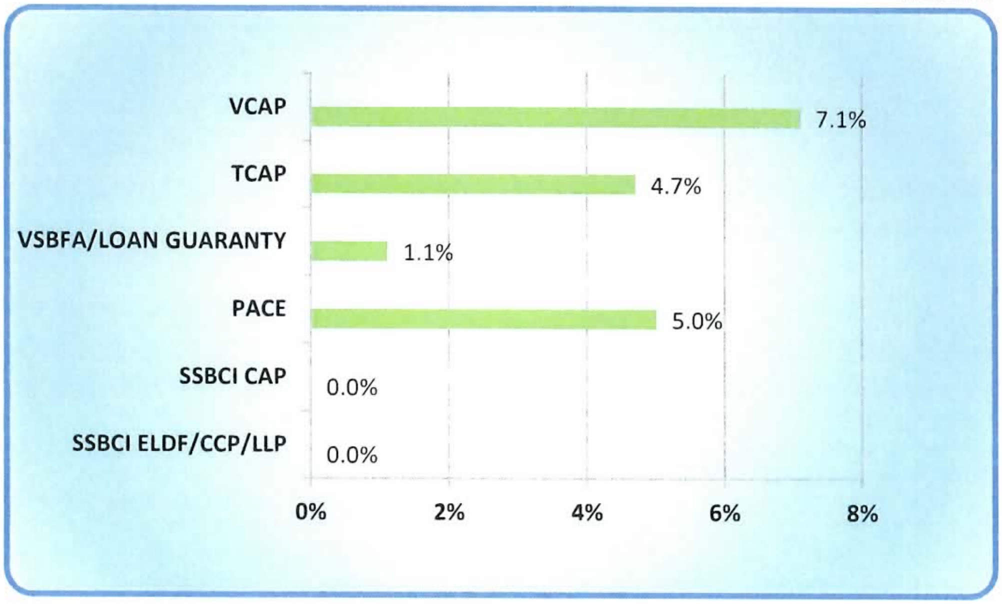
Source: Authority LA Pro System

Indirect Assistance Program Default Rates

Chart 5 provides information on default rates since inception related to the Authority's indirect assistance programs. All program default rates remained constant or slightly decreased in 2015.

Default Rates Since Inception for Indirect Assistance Programs

Chart 5



Source: Calculated from Authority Internal Records

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 29, 2016

The Honorable Terence R. McAuliffe
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 **Virginia Small Business Financing Authority** (Authority) for the year ended June 30, 2015. 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 and the Authority's internal accounting system and records, review the adequacy of the Authority'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 Authority'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 focused primarily on policies and procedures over the administration of loan and loan guaranty programs, including controls over cash receipting and collections of accounts receivable. In addition, we reviewed certain controls over financial reporting.

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

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and its internal accounting system and records. The Authority 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 Authority internal system and financial records.

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.

The Authority 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 September 14, 2016.

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

KJS/alh

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Scott Parsons, Executive Director

BOARD OF DIRECTORS

Gail Letts, Chairman
James Thomas, Vice Chairman

Neil Amin	Tonya Mallory
John Hopper	Monica Rao
Nicholas Jordan	Doña Storey

Prescott Sherrod

Manju Ganeriwala, State Treasurer
Ex-officio voting member

Tracey Jeter, Director
Department of Small Business and Supplier Diversity
Ex-officio voting member

Exhibit C

Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

ARMICS Certification Letter

September 26, 2016

Terry McAuliffe
Governor

Todd Haymore
Secretary of Commerce & Trade

COMMONWEALTH of VIRGINIA

Department of Small Business and Supplier Diversity

Tracey G. Wiley
Director

September 26, 2016

Assistant Director, Financial Reporting- Quality Assurance
Virginia Department of Accounts
P.O. Box 1971
Richmond, VA 23218-1971

RE: ARMICS Certification, Department of Small Business and Supplier Diversity (350)

To Whom It May Concern:

The Department of Small Business and Supplier Diversity's management is responsible for establishing and maintaining an effective system of internal control. The Department of Small Business and Supplier Diversity has completed its control assessment of significant fiscal processes at the transaction level.

Department of Small Business and Supplier Diversity's management is responsible for the integrity and objectivity of the financial transactions and other information provided to the State Comptroller. We believe the data provided for inclusion in the Commonwealth's Comprehensive Financial Report (CAFR) are accurate in all material respects and that all disclosures necessary to obtain a thorough understanding of the Department of Small Business and Supplier Diversity financial activities have been included.

The Department of Small Business and Supplier Diversity utilizes the Department of Accounts-Payroll Service Bureau as a service provider for the following fiscal processes that are significant to the Department of Small Business and Supplier Diversity: Payroll. The Department of Small Business and Supplier Diversity utilizes the Department of Human Resource Management- Shared Service Center as a service provider for all Human Resource transactions that are significant to the Department of Small Business and Supplier Diversity

We have received assurance from both Payroll Service Bureau and the Department of Human Resource Management that they have adequately assessed the effectiveness of their internal control in accordance with the Agency Risk Management and Internal Control Standards issued by the Office of the Comptroller as applicable to the processes used to provide services to the Department of Small Business and Supplier Diversity results of the Payroll Service Bureau and Department of Human Resource Management's internal control assessment in accordance with ARMICS, no significant weaknesses were found in the design or operation of the internal controls applicable to the processes

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or services conducted on behalf of the Virginia Department of Small Business and Supplier Diversity, agency 350.

The basis for these conclusions relates to our assessment of the internal controls operating within the Department of Small Business and Supplier Diversity. The Department of Small Business and Supplier Diversity conducted an assessment of the effectiveness of its internal controls in accordance with the *Agency Risk Management and Internal Control Standards* issued by the Office of the Comptroller. Based on the results of this evaluation, the Department of Small Business and Supplier Diversity can provide reasonable assurance that internal control over the recording of financial transactions in the General Ledger, compliance with the agency's financial reporting requirements, compliance with applicable laws and regulations, and stewardship over the Commonwealth's assets as of June 30, 2016, was operating effectively and no significant weaknesses were found in the design or operation of the internal controls at the agency and transaction levels.

Although no significant weaknesses were identified as a result of the ARMICS process, a list of other Internal Control weaknesses were identified and are attached to this certification. No formal corrective action plan is required for these weaknesses in accordance with ARMICS. The Department of Small Business and Supplier Diversity will correct these deficiencies by June 30, 2017.

Department of Small Business and Supplier Diversity Agency Name	350 Agency Number
Tracey G. Wiley Agency Head Name	Jennifer L. Mayton Chief Fiscal Officer Name
[signature] 9/28/16 Agency Head Signature Date	Jennifer L. Mayton 9/29/16 Chief Fiscal Officer Signature Date

Terry McAuliffe
Governor

Todd Haymore
Secretary of Commerce & Trade

COMMONWEALTH of VIRGINIA

Department of Small Business and Supplier Diversity

Tracey G. Wiley
Director

Virginia Department of Small Business and Supplier Diversity

Report on Agency Risk Management and Internal Controls Standards: Agency Level Control Assessment
Fiscal Year 2016

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Introduction

The Office of Comptroller's Directive 1-08 dated May 12, 2008 requires the implementation and annual assessment of agency internal control systems in order to provide reasonable assurance of the integrity of fiscal processes related to the submission of transactions to the Commonwealth's general ledger, submission of financial statement directive materials, compliance with laws and regulations, and stewardship over the Commonwealth's assets.

DSBSD has conducted a Stage II Process and Transaction level control assessment. These assessments are to be utilized in the annual Agency Risk Management Internal Control Standard (ARMICS) assessment for 2016.

The Stage I Agency Level Control Assessment needs to completed and presented to DSBSD Agency Management. Because there have been major changes to agency senior level management and office culture a full agency assessment will be conducted in state fiscal year 2017. No significant weaknesses or other deficiencies were identified in prior years that need to be addressed at this time. Control assessment will be completed on an ongoing basis with Agency Level review being conducted as needed or at least every 5 years with transactional level review being conducted annually.

This report addresses the methodology employed to document and test DSBSD's fiscal control processes and observations gleaned during the execution of the Stage II – Process and Transaction Level Control Assessment.

Methodology

The Stage II Process and Transaction Level Assessment involved a comprehensive review and documentation of the agencies fiscal processes. Key control points were identified, tests were developed and conducted and results of the tests were documented. These activities included the following:

- **Risk Weighting:** A risk weight scale was developed by which the level of potential financial loss could be determined should a significant breach of process controls occur. The weighting was driven directly by the dollar volume each process is designed to manage. The risk weight chart developed and utilized for this review is as follows:

Risk Weight Scale	Risk Level
$ 500K and over	4
$100K to $499.9K	3
$10K to $99.9K	2
Less than 10K	1

- **Documentation Collection:** Documentation was obtained from the Administration/Operations division as it relates to process and transaction level policies and procedures. Based on the documentation collected, key controls were identified and test scripts were developed with which the actual processes would be tested, control artifacts observed and test results recorded.
- **Process and Flow Chart Development:** Concurrent with document collection and review, process flow charts for each transaction level process were drawn that reflected the current state of the process along with the division positions responsible for executing the process and related controls.
- **Process Controls Testing:** Utilizing the test scripts and the flow charts, each process was tested. Process records and control artifacts were provided and observed to demonstrate and document the steps in each process and the controls applied. The actual sampling of records tested for each process depended on the risk weight of the process as well the number of transactions completed in a given monthly, quarterly or yearly cycle. The sample size of the test both in the number of transactions and dollars represented along with the results of the control tests were recorded on the test scripts.

Results and Observations

A total of 8 fiscal administration processes and 2 Grant administration processes were reviewed, documented and tested. Based on the results of testing conducted we found no significant observations with respect to the DSBSD – Administration/Operations process and transaction level control environment.

Process Control and Procedural Enhancements

No evaluation of ARMICS was conducted in state FY15 the agency was responsible for submission of quarterly correction action plans. No correction action plans were ever submitted to DOA.

For FY16 the following enhancements have been identified and will be implemented in FY17:

Payroll:
Pay Action Worksheets, for both new hires and current employees, will be submitted by the Director's Executive Secretary to DHRM and DSBSD Accountant to ensure payroll verification.

DHRM will submit a summary of activity effecting payroll prior to payroll certification.

PSB will submit LWOP worksheets for verification of amounts to be used in certifying payroll.

VSDP folders will be created for each employee. This will be used to verify payroll activity and allow for easy retrieval during audits.

A folder will be created for each employee and all payroll documentation will be maintained in that folder for easy retrieval during audits.

Accounts Payable:

Creation of a purchase order log and tracking of payments from a Cardinal download will be posted against open purchase orders.

Appropriation:

Accountant will begin to reconcile cash monthly. Fiscal Officer will reconcile appropriation and budget execution adjustments monthly.

Procurement:

Agency will institute a new procurement process in FY17. This process will allow cost code managers to act as designees for the agency head on all procurement requests. Staff will ensure proper documentation and signatures going forward. Training will be conducted with buyers for consistency.

Grants:

Agency will ensure signature of Fiscal Officer on Cardinal Transmittal forms showing the voucher was approved for payment into the system.

Exhibit D

Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

Budget Bill

Virginia Small Business Finance Authority

Executive Director Transfer between Funds Authority

2016 Session

Budget Bill - HB30 (Chapter 780)

Bill Order » Office of Commerce and Trade » Item 123

Department of Small Business and Supplier Diversity

Item 123	First Year - FY2017	Second Year - FY2018
Economic Development Services (53400)	**$7,667,752**	**$7,668,059**
Minority Business Enterprise Procurement Reporting and Coordination (53406)	$544,350	$544,350
Minority Business Enterprise Outreach (53407)	$1,113,982	$1,114,090
Minority Business Enterprise Certification (53414)	$430,155	$430,155
Business Information Services (53418)	$1,522,619	$1,522,619
Administrative Services (53422)	$769,636	$769,835
Financial Services for Economic Development (53423)	$3,287,010	$3,287,010
Fund Sources:		
General	$5,166,421	$5,166,620
Special	$801,201	$801,201
Commonwealth Transportation	$1,535,130	$1,535,238
Trust and Agency	$100,000	$100,000
Dedicated Special Revenue	$65,000	$65,000

Authority: Title 2.2, Chapters 16.1 and 22, Code of Virginia.

A. The Department of Small Business and Supplier Diversity, in conjunction with the Department of General Services, the Virginia Employment Commission, and the Virginia Department of Transportation, is authorized to conduct analyses of the availability of minority business enterprises in Virginia and the utilization of such businesses by the Commonwealth of Virginia, localities, or private industry in the acquisition of goods and services. The department also is authorized to receive and accept from the United States government, or any agency thereof, and from any other source, private or public, any and all gifts, grants, allotments, bequests or devises of any nature that would assist the department in conducting such analyses or otherwise strengthen its services to minority business enterprises. The Director, Department of Planning and Budget, is authorized to establish a nongeneral fund appropriation for the purposes of expending revenues that may be received for this effort.

B.1. Out of the amounts in this Item, $629,981 the first year and $629,981 the second year from the general fund shall be deposited to the Small Business Jobs Grant Fund pursuant to § 2.2-1615, Code of Virginia.

2. By April 1 of each year, the department shall report to the Governor and the Secretary of Commerce and Trade the expenditures of the Small Business Jobs Grant Fund and anticipated needs for small business development in order to monitor the effective use of these funds.

C. Out of the amounts in this Item, $1,000,000 the first year and $1,000,000 the second year from the general fund shall be deposited to the Small Business Investment Grant Fund pursuant to § 2.2-1616, Code of Virginia. The department shall aggressively market the program and shall report to the Governor and the Secretary of Commerce and Trade on the status of the program by November 1 of each year.

D. Out of the amounts in this Item, $500,000 the first year and $500,000 the second year from the general fund shall be provided to support the Business One-Stop Program.

E.1. Out of the amounts in this Item, $163,690 from the general fund and $966,201 from nongeneral funds the first year and $163,690 from the general fund and $966,201 from nongeneral funds the second year shall be provided for the Virginia Small Business Financing Authority. The general fund amount shall be used to support operating expenses of the authority.

2. To meet changing financing needs of small businesses, the Executive Director, Virginia Small Business Financing Authority, with the approval of the Director, Department of Small Business and Supplier Diversity, may transfer moneys between funds managed by the authority. These include the Virginia Small Business Growth Fund (§ 2.2-2310, Code of Virginia); the Virginia Export Fund (§ 2.2-2309, Code of Virginia); and the Insurance or Guarantee Fund (§ 2.2-2290, Code of Virginia). The Executive Director, Virginia Small Business Financing Authority, shall report, by fund, the transfers made by January 1 of each year to the Chairmen of the Senate Finance and House Appropriations Committees.

3. The Virginia Small Business Financing Authority is authorized to insure additional loans for eligible small businesses, pursuant to § 2.2-2290, Code of Virginia, up to an aggregate amount not to exceed four times the principal amount in the Insurance or Guarantee Fund, or up to an aggregate amount of $15,000,000. In the event that the authority is called upon to pay on guaranties of loans of more than 10 percent of the aggregate amount of all outstanding insured loans, the authority shall not insure any further loans and shall immediately notify the Governor and the Chairmen of the House Appropriations and Senate Finance Committees. Pursuant to § 4-1.03 of this act, the Director, Department of Planning and Budget, is authorized to transfer a sum sufficient to the Insurance or Guarantee Fund in the event the amount in the fund falls below the amount needed to honor any guarantee.

4. For the I-95 HOV/HOT Lanes project as evidenced by the Comprehensive Agreement approved pursuant to the Public-Private Transportation Act of 1995, the maximum fee and/or premium charged by the Virginia Small Business Financing Authority pursuant to §§ 2.2-2285 and 2.2-2291, Code of Virginia, for acting as the conduit issuer for any bond financing is not to exceed $25,000 per annum.

F. The Department of Small Business and Supplier Diversity shall include employment services organizations within the development and operation of any state procurement program or program goal and targets for small, women-owned, and minority-owned businesses consistent with requirements in the Code of Virginia requiring the Department to certify employment service organizations.

Exhibit E

Virginia Department of Small Business & Supplier Diversity (SBSD)

Review Report

Letter dated January 11, 2016

VSBFA Executive Director to the Senate Finance Committee on Transfer between Funds

VSBFA
Virginia Small Business Financing Authority

P.O. Box 446
Richmond, VA 23218-0446
804-371-8254 / f 804-225-3384
sbsd.virginia.gov

January 11, 2016

The Honorable Walter A. Stosch
Co - Chairman
Senate Finance Committee
10th Floor, General Assembly Building
Richmond, Virginia 23219

The Honorable Charles J. Colgan
Co - Chairman
Senate Finance Committee
10th Floor, General Assembly Building
Richmond, Virginia 23219

The Honorable Chris S. Jones
Chairman
House Appropriations Committee
9th Floor, General Assembly Building
P.O. Box 406
Richmond, Virginia 23219

Dear Chairman Stosch, Chairman Colgan and Chairman Jones:

Pursuant to Item 107 D (Special Session 1, 2004), the Executive Director of the Virginia Small Business Financing Authority (VSBFA) *"...with the approval of the Director of the Department of Small Business and Supplier Diversity may transfer moneys between funds managed by the Authority. These include the Virginia Small Business Growth Fund (§2.2-2310, Code of Virginia); the Virginia Export Fund (§ 2.2-2309, Code of Virginia); and the Insurance or Guarantee Fund (§ 2.2-2290, Code of Virginia). The Executive Director of the Virginia Small Business Financing Authority shall report, by fund, the transfers made by January 1 of each year to the Chairmen of the Senate Finance and House Appropriations Committees."* The activity listed on the following page is in fulfillment of that requirement.

In Fiscal Year 2015, the Virginia Small Business Financing Authority (VSBFA) had the following transfers between these funds:

$6,104,083 was allocated from U.S. Treasury's State Small Business Credit Initiative (SSBCI) and placed in the VSBFA's operating account and has been used for its mandated purpose of providing credit enhancements to Virginia's financial institutions when making business purpose loans to qualifying small businesses;

A total of $590,220 was transferred from the following funds administered by the VSBFA for the purpose of meeting payroll obligations:

$50,000 transferred from the Virginia Department of Social Services' Child Care Financing Program per the Memorandum of Understanding with DSS.

$45,000 transferred from the Tobacco Commission's Tobacco Capital Access Program per the Memorandum of Understanding with VTIC.

$77,912 transferred from the Department of Environmental Quality's Environmental Compliance Assistance Fund per the Memorandum of Understanding with DEQ.

$5,000 transferred from the legacy Department of Minority Business Enterprise's P.A.C.E. Program per the Memorandum of Understanding with legacy DMBE.

$320,822 transferred from the VSBFA's operating account.

$91,486 transferred from the U.S. Economic Development Administration's Economic Development Loan Fund per the VSBFA's approved plan filed with U.S. EDA.

Please feel free to contact me should have any questions.

Respectfully,

Scott E. Parsons

Scott E. Parsons
Executive Director
Virginia Small Business Financing Authority

Cc: Ms. Tracey G. Wiley, Director, Department of Small Business and Supplier Diversity
Ms. Gail Letts, Board Chairman, Virginia Small Business Financing Authority