



TOBACCO REGION REVITALIZATION COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Tobacco Region Revitalization Commission for the period July 1, 2014, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all significant respects, in the Commonwealth Accounting and Reporting System;
- one internal control finding requiring management's attention; however, we do not consider it to be a material weakness; 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

Develop Policies and Procedures Related to Administrative Processes

The Tobacco Region Revitalization Commission (Commission) does not have adequate written policies and procedures related to its administrative functions; specifically, financial reporting, training, and information technology (IT) information security. One employee, the Finance Director, performs many of these functions.

Without adequate written policies and procedures over the administrative functions, the Commission increases the likelihood that it will not meet its financial reporting requirements and deadlines, that required training will not be completed in a timely manner, and that IT information assets will not be adequately protected. This is especially true in the absence of the Finance Director. Therefore, we recommend the Commission develop written policies and procedures.

COMMISSION HIGHLIGHTS

In 1999, the Commission was established for the purposes of determining the appropriate recipients of monies in the Tobacco Indemnification and Community Revitalization Fund (the Tobacco Fund) and distributing those monies for the purposes of providing payments to tobacco farmers as compensation for losses associated with a decline in tobacco use and revitalizing tobacco dependent communities. In 2013, the Commission completed its mission of indemnifying tobacco farmers but the revitalization of tobacco dependent communities still remains the Commission's primary mission. Effective July 1, 2015, to reflect this change in operations, the name of the agency was formally changed from the Tobacco Indemnification and Community Revitalization Commission to the Tobacco Region Revitalization Commission.

Tobacco Endowment Activity

In 2002, The Tobacco Endowment, a special fund, was established to receive proceeds from the sale of the Commission's allocation of the Master Tobacco Settlement. Between fiscal years 2005 and 2007, a total of one billion dollars was placed into the Tobacco Endowment, which is held in trust by the Commonwealth's Department of Treasury and is managed by the Treasury Board. Annually, earnings from the Tobacco Endowment are distributed to the Tobacco Fund. Additionally, the Commission can request that up to 15 percent of the Tobacco Endowment's corpus be distributed to the Tobacco Fund. For fiscal year 2015, the Commission authorized a 15 percent corpus invasion, as shown in the table below. This unusually large invasion represented a change in the Commission's invasion policy. In previous years, the invasion made at year's end was for the prior year's operations; but, the invasion made in fiscal year 2015 was for both fiscal years 2015 and 2016 operations.

Tobacco Endowment Distribution Type

	Amount
Earnings from the Corpus	\$17,442,209
Corpus Invasion	47,040,788
Transfer to the Tobacco Fund	64,482,997

Source: Commonwealth Accounting and Reporting System for fiscal year 2015.

As of June 30, 2015, the Endowment's corpus was valued at \$266,564,468. Additionally, \$4,760,713 of undistributed earnings remained in the Tobacco Endowment's balance at year-end.

Sources of Monies for the Tobacco Fund

Monies available in the Tobacco Fund come from three distinct sources: Transfers in from the Tobacco Indemnification and Community Revitalization Endowment (the Tobacco Endowment, as described above), earnings on the Tobacco Fund's investments, and recoupment of grant funds advanced to recipients or grants which failed to meet agreed upon performance measures. The chart below indicates the amount of money available in fiscal year 2015 from each source.

Sources

	Amount
Transfer in from the Tobacco Endowment	\$64,482,997
Earnings from the Tobacco Fund Investments*	-
Grant Recoupments	4,751,455
Total	\$69,234,452

Source: Commonwealth Accounting and Reporting System for fiscal year 2015.

*For fiscal year 2015, the Commonwealth retained all earnings from the Tobacco Fund; therefore, these funds were not available for use by the Commission.

Uses of Monies from the Tobacco Fund

In fiscal year 2015, the Commission expended monies from the Tobacco Fund in two general categories; Administration and Community Revitalization. Administration expenses included payroll for Commission's staff; facility rentals fees; purchases of supplies; materials; equipment; payments for contracted services; and, other items that are normal and necessary to the Commission's operations. Community Revitalization expenses are payments made to recipients under the Commission's eight grant programs. A detailed list of grant recipients is included in the Commission's Annual Report to the Governor and General Assembly, located at <http://www.tic.virginia.gov/Publications%20and%20Reports.shtml>

Uses

	Amount
Commission Administration	\$ 1,655,976
Community Revitalization	74,656,909
Total	\$76,312,885

Source: Commonwealth Accounting and Reporting System for fiscal year 2015.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 28, 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 **Tobacco Region Revitalization Commission** (Commission) 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, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Commission'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 encompassed controls over the following significant cycles, classes of transactions, and account balances.

Contractual services expenses
Payroll expenses
Financial assistance and incentives payments
Cash receipting and collections of accounts receivable
Information system security

We performed audit tests to determine whether Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a matter involving internal control and the matter is described in the section entitled "Audit Finding and Recommendation." 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 Commission 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 July 5, 2016. Management's response to the findings identified in our audit is included in the section titled "Commission Response." We did not audit management's response and, accordingly, we express no opinion on it.

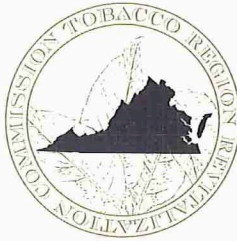
This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

KKH/clj

The Honorable Terry G. Kilgore
Chairman

The Honorable Frank M. Ruff
Vice Chairman



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TOBACCO REGION REVITALIZATION COMMISSION

July 5, 2016

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th St.
Richmond, VA 23219

Dear Ms. Mavredes,

Thank you for the opportunity for the Tobacco Region Revitalization Commission to provide a response to your FY 2015 audit. We agree with the findings made by your auditor, and further commend your staff for their cordiality and thoroughness. It has been a pleasure to work with your team.

In response to the single outstanding audit finding, we have hired a new Deputy Director, and one of his tasks is the creation of written policies and procedures related to financial reporting, training, and information technology (IT) information security. We fully anticipate the completion of this task by the beginning of the next calendar year.

Sincerely,

A handwritten signature in blue ink, appearing to read "Evan Feinman", is written over a faint, larger version of the same signature.

Evan Feinman
Executive Director

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COMMISSION OFFICIALS

Tobacco Region Revitalization Commission

Terry G. Kilgore, Chairman

Frank M. Ruff, Vice-Chairman

Gayle F. Barts	Cathy Lowe
Richard D. Brown	Daniel W. Marshall, III
Kathy J. Byron	Donald W. Merricks
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Todd P. Haymore	William M. Stanley, Jr.
John Holland	Richard L. Sutherland
Maurice Jones	Thomas C. Wright

Evan Feinman, Executive Director

Stephanie Kim, Finance Director