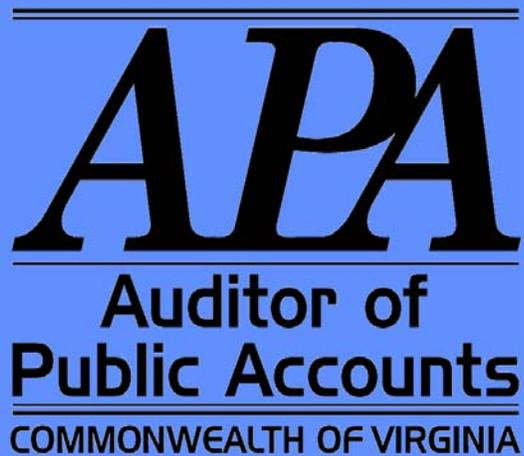


**THE GOVERNOR'S CABINET SECRETARIES**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2009, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations 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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## FINANCIAL INFORMATION BY CABINET SECRETARY

### Introduction

The audit of the Governor’s Cabinet Secretaries covers the agencies listed below. The Secretary of Administration’s Division of Selected Agency Support Services provides administrative support for the Cabinet Secretaries’ operations.

Secretary of Administration	Secretary of Health and Human Resources
Secretary of Agriculture and Forestry	Secretary of Natural Resources
Secretary of Commerce and Trade	Secretary of Public Safety
Secretary of Education	Secretary of Technology
Secretary of Finance	Secretary of Transportation

While most of Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth, some Secretaries also receive various special revenue funds, which we discuss in further detail throughout this report.

During fiscal year 2009, most of the Governor’s Cabinet Secretaries budgets decreased in accordance with the Governor’s budget reduction plans. The following table summarizes the budget and expenses for each Secretary.

### Budget and Expense Summary for Fiscal Year 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Administration	\$ 7,624,276	\$ 7,331,394	\$ 7,204,398
Secretary of Agriculture and Forestry	449,174	386,431	285,548
Secretary of Commerce and Trade	834,355	765,968	691,648
Secretary of Education	654,068	646,415	552,903
Secretary of Finance	657,466	15,889,765	15,622,336
Secretary of Health and Human Resources	1,804,722	762,930	565,693
Secretary of Natural Resources	670,332	722,102	655,401
Secretary of Public Safety	808,441	728,893	534,480
Secretary of Technology	545,683	675,683	617,394
Secretary of Transportation	<u>775,126</u>	<u>775,126</u>	<u>692,731</u>
Total	<u>\$14,823,643</u>	<u>\$28,684,707</u>	<u>\$27,422,532</u>

The report has a section for each Secretary that summarizes the purpose and funding of each of the Secretaries listed in the table above. The format of the information will vary based on the Secretaries’ funding sources and their responsibilities.

Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services. The Division provides financial and administrative support to:

Office of the Governor	Interstate Organization Contributions
Office of the Lieutenant Governor	Office for Substance Abuse Prevention
Offices of the Governor's Cabinet Secretaries	Office of Commonwealth Preparedness
Citizens Advisory Committee	Virginia-Israel Advisory Board

The Secretary's office also administers funding for the Virginia Public Broadcasting Board (VPBB). The VPBB serves as a conduit of state financial support of public radio and television stations. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$8,021,476	\$7,624,276
Final budget	\$7,944,638	\$7,331,394
Actual expenses	\$7,899,022	\$7,204,398

Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$7,624,276</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(323,130)
Re-appropriation of prior year's unexpended balance	31,905
Adjustment for the reduction in the state employee sickness and disability contribution rate	(1,202)
Adjustment for the implementation of VITA rates	(269)
Adjustment for savings from the reduction in printing expenses	<u>(186)</u>
Total adjusted appropriations	<u>7,331,394</u>
Expenses:	
Personal services	1,055,458
Contractual services	21,990
Continuous charges	59,735
Supplies and materials	31,130
Property and equipment	2,066
Public broadcasting grants	<u>6,034,019</u>
Total expenses	<u>7,204,398</u>
Unexpended balance	<u>\$ 126,996</u>

Secretary of Agriculture and Forestry

This Secretary provides policy guidance and direction on the conservation, protection, and development of Virginia's agricultural and forest resources, as well as consumer protection. The Secretary also oversees the Virginia Department of Agriculture and Consumer Services, the Department of Forestry, and the Virginia Agricultural Council.

The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$404,696	\$449,174
Final budget	\$469,067	\$386,431
Actual expenses	\$427,830	\$285,548

Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$449,174</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(103,518)
Re-appropriation of prior year's unexpended balance	41,237
Adjustment for the reduction in the state employee sickness and disability contribution rate	(414)
Adjustment for the implementation of VITA rates	<u>(48)</u>
Total adjusted appropriations	<u>386,431</u>
Expenses:	
Personal services	251,303
Contractual services	9,910
Continuous charges	23,193
Supplies and materials	729
Equipment	<u>413</u>
Total expenses	<u>285,548</u>
Unexpended balance	<u>\$100,883</u>

Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the General Fund operating budget and expenses for the Secretary for fiscal years 2008 and 2009.

General Fund Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$837,069	\$834,355
Final budget	\$823,182	\$765,968
Actual expenditures	\$795,999	\$691,648

General Fund Budget and Expenditure Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$834,355</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(94,553)
Re-appropriation of prior year's unexpended balance	27,183
Adjustment for the implementation of VITA rates	(243)
Adjustment for the reduction in the state employee sickness and disability contribution rate	<u>(774)</u>
Total adjusted appropriations	<u>765,968</u>
Expenditures:	
Personal services	608,204
Contractual services	40,366
Supplies and materials	3,587
Transfer payments	76
Continuous charges	38,198
Property and Equipment	<u>1,217</u>
Total expenditures	<u>691,648</u>
Unexpended balance	<u>\$ 74,320</u>

During fiscal year 2009, the Secretary of Commerce and Trade also received various General Fund transfers from Central Appropriations for specific purposes as required by the Appropriation Act. We discuss each of these transfers in more detail below.

Governor's Development Opportunity Fund

The Governor's Development Opportunity Fund (the Opportunity Fund) provides funds to attract economic development prospects and secure the expansion of existing industry in the Commonwealth. The Opportunity Fund receives a General Fund transfer from Central Appropriations, which allow the Governor to make grants to qualifying companies. These grants are contingent on the company meeting certain criteria required under the Code of Virginia, such as the creation of a certain number of jobs.

Several entities are involved in the process of awarding grants from the Opportunity Fund including the Virginia Economic Development Partnership (VEDP), the Secretary, and the Governor. VEDP conducts the initial reviews of the proposals for grants from the Opportunity Fund and the grants are subject to approval by the Secretary and the Governor.

Once the Governor has approved a grant or loan, the company will request the funds and the Opportunity Fund will disburse the monies to the locality, who then pays the funds to the company. The company has three years within which to meet the conditions of the grant. If it does not meet the terms of the grant, the company must return the funds to the Opportunity Fund. The following table summarizes activity in the Opportunity Fund for the last three fiscal years.

Summary of Opportunity Fund Activity (2007 – 2009)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Beginning cash balance	\$25,189,015	\$36,663,703	\$27,252,714
Transfer in General Funds	15,100,000	750,000	7,600,000
Interest earned	1,742,188	1,587,011	680,305
Amount repaid by companies	2,250,000	862,000	438,343
Payments to localities/companies	<u>(7,617,500)</u>	<u>(12,610,000)</u>	<u>(9,575,000)</u>
Ending cash balance	<u>\$36,663,703</u>	<u>\$27,252,714</u>	<u>\$26,396,363</u>

Over the last several years, the Opportunity Fund has accumulated a cash balance; as of June 30, 2009, the Fund had a cash balance of \$26.4 million. Of this balance amount, \$15 million represents funds committed to various companies but not yet paid, and \$5.1 million represents legal offers made to various companies where the company has not yet accepted or finalized the offer.

The cash balance is a result of the Commonwealth's funding approach of the Opportunity Fund, which the Code of Virginia requires. The Code of Virginia requires that the Governor cannot make future commitments unless the fund has a balance sufficient to pay them. Therefore, the Governor and the General Assembly must transfer funding into the Opportunity Fund before the Governor can make offers and commitments. Additionally, there is often a time lag of several years from the time when the Commonwealth makes its first commitment to the time when there is a requirement to make a payment.

Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Funds

The Secretary received General Funds for the Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Funds. The grants seek to encourage the manufacturing of semiconductor wafers. The fund received and spent a total of \$15,470,000 in accordance with the Appropriation Act in fiscal year 2009.

Virginia Investment Partnership Grant Fund

The Secretary received General Funds for payment to the Virginia Investment Partnership Grant Fund totaling \$476,722. The Virginia Investment Partnership Grant Fund awards investment performance grants in accordance with Section 2.2-5101 of the Code of Virginia. During the fiscal year, the Secretary spent over \$495,000 in investment performance grants.

Governor's Motion Picture Opportunity Fund

The Governor can use these funds to attract film industry production activity to the Commonwealth. The Governor awarded \$200,000 during the fiscal year. During the fiscal year, the fund spent a total of \$170,000.

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary of Education receives funding primarily from General Fund appropriations. The following tables summarize the General Fund budget for fiscal years 2008 and 2009, as well as expenses for fiscal years 2008 and 2009.

General Fund Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$712,739	\$654,068
Final budget	\$775,791	\$646,415
Actual expenses	\$759,494	\$552,903

General Fund Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$654,068</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(23,315)
Re-appropriation of prior year's unexpended balance	16,296
Adjustment for the reduction in the state employee sickness and disability contribution rate	<u>(634)</u>
Total adjusted appropriations	<u>646,415</u>
Expenses:	
Personal services	491,717
Contractual services	23,686
Continuous charges	33,244
Supplies and materials	2,759
Equipment	<u>1,497</u>
Total expenses	<u>552,903</u>
Unexpended balance	<u>\$ 93,512</u>

Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary of Finance receives General Fund appropriations to fund office operations. The original 2009 budget increased during the year due to funding approved by the General Assembly for the implementation and response to recommendations of the 2005 Base Realignment and Closure Commission (BRAC).

In order to address and coordinate BRAC implementation, the 2005 General Assembly appropriated \$25 million for BRAC payments and established the Virginia National Defense Industrial Authority (VNDIA). VNDIA assists Virginia installations and communities in meeting the requirements of BRAC. The Secretary's office processes VNDIA payments to affected localities. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$ 626,592	\$ 657,466
Final budget	\$7,105,838	\$15,889,765
Actual expenses	\$7,084,332	\$15,622,336

Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$ 657,466</u>
Adjustments:	
Budget reductions accordance with Governor's plan	(90,599)
Re-appropriation of prior year's unexpended balance	21,505
Adjustment for the reduction in the state employee sickness and disability contribution rate	(698)
Adjustment for grant payments associated with the 2005 Base Realignment and Closure Commission	15,302,229
Adjustment for the implementation of VITA rates	<u>(138)</u>
Total adjusted appropriations	<u>15,889,765</u>
Expenses:	
Personal services	530,217
Contractual services	9,852
Continuous charges	26,851
Supplies and materials	2,245
Transfer Payments (includes BRAC payments)	<u>15,053,171</u>
Total expenses	<u>15,622,336</u>
Unexpended balance	<u>\$ 267,429</u>

Secretary of Health and Human Resources

The Secretary acts on behalf of the Governor in the management and direction of health and human resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The original budget for fiscal years 2008 and 2009 includes \$1 million to fund child advocacy center initiatives. The Secretary transfers these funds to the Department of Social Services for child advocacy centers. The following tables summarize budget and expense information for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$1,732,144	\$1,804,722
Final budget	\$ 808,212	\$ 762,930
Actual expenses	\$ 716,088	\$ 565,693

Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$1,804,722</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(133,058)
Re-appropriation of prior year's unexpended balance	92,123
Adjustment for the reduction in the state employee sickness and disability contribution rate	(702)
Adjustment for the implementation of VITA rates	(155)
Transfer to the Department of Social Services for child advocacy centers	<u>(1,000,000)</u>
Total adjusted appropriations	<u>762,930</u>
Expenses:	
Personal services	505,674
Contractual services	13,055
Continuous charges	43,325
Supplies and materials	477
Transfer payments	2,112
Equipment	<u>1,050</u>
Total expenses	<u>565,693</u>
Unexpended balance	<u>\$ 197,237</u>

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of natural resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The original budget includes general funds totaling \$69,370 for the Council on Indians Support Services. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

General Fund Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$649,702	\$670,332
Final budget	\$749,502	\$722,102
Actual expenses	\$679,148	\$655,401

General Fund Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$670,332</u>
Adjustments:	
Re-appropriation of prior year's unexpended balance	70,354
Budget reductions in accordance with Governor's plan	(17,745)
Adjustment for the reduction in the state employee sickness and disability contribution rate	(662)
Adjustment for the implementation of VITA rates	<u>(177)</u>
Total adjusted appropriations	<u>722,102</u>
Expenses:	
Personal services	585,335
Contractual services	32,078
Continuous charges	34,828
Supplies and materials	1,915
Equipment	<u>1,245</u>
Total expenses	<u>655,401</u>
Unexpended balance	<u>\$ 66,701</u>

Secretary of Public Safety

The Secretary acts on behalf of the Governor in the management and direction of public safety agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$736,845	\$808,441
Final budget	\$775,423	\$728,893
Actual expenses	\$673,360	\$534,480

Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$808,441</u>
Adjustments:	
Budget reductions in accordance with Governor's plan	(180,950)
Re-appropriation of prior year's unexpended balance	102,063
Adjustment for the reduction in the state employee sickness and disability contribution rate	<u>(661)</u>
Total adjusted appropriations	<u>728,893</u>
Expenses:	
Personal services	476,554
Contractual services	6,781
Continuous charges	48,054
Supplies and materials	1,641
Equipment	1,397
Transfer Payments	<u>53</u>
Total expenses	<u>534,480</u>
Unexpended balance	<u>\$194,413</u>

Secretary of Technology

The Secretary develops, monitors, and directs the Commonwealth's technology strategy and assists in technology-based innovation and economic development. The Secretary oversees two agencies: Virginia's Center for Innovative Technology and the Virginia Information Technologies Agency (VITA).

The Secretary's primarily funding comes from General Funds. The following tables summarize the budget and expenses for the Secretary for fiscal years 2008 and 2009.

General Fund Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$596,893	\$545,683
Final budget	\$972,509	\$675,683
Actual expenses	\$853,709	\$617,394

General Fund Budget and Expense Analysis for Fiscal Year 2009

Original appropriations per Chapter 879	<u>\$545,683</u>
Adjustments:	
Re-appropriation of prior year's unexpended balance	64,823
Transfer from Virginia Employment Commission for its portion of consultant cost for the Unemployment Insurance Modernization project	47,500
Budget reductions in accordance with Governor's plan	(16,735)
Transfer from Central Appropriations to provide for the Productivity Investment Fund award to the Local Government Council	35,055
Adjustment for the reduction in the state employee sickness and disability contribution rate	(531)
Adjustment for the implementation of VITA rates	<u>(112)</u>
Total adjusted appropriations	<u>675,683</u>
Expenses:	
Personal services	435,812
Contractual services	145,644
Continuous charges	35,652
Supplies and materials	<u>286</u>
Total expenses	<u>617,394</u>
Unexpended balance	<u>\$ 58,289</u>

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary receives all operating funds directly from the Transportation Trust Funds. At year end, the Virginia Department of Transportation transfers Transportation Trust Funds equal to the Secretary's expenses. The following table summarizes the budget and expenses for the Secretary for fiscal years 2008 and 2009.

Financial Summary for Fiscal Years 2008 and 2009

	<u>2008</u>	<u>2009</u>
Original budget	\$685,500	\$775,126
Final budget	\$769,892	\$775,126
Actual expenses	\$769,863	\$692,731

General Fund Budget and Expense Analysis for Fiscal Year 2009

Original and final appropriations	<u>\$775,126</u>
Expenses:	
Personal services	640,119
Contractual services	15,754
Continuous charges	33,765
Supplies and materials	2,470
Equipment	<u>623</u>
Total expenses	<u>692,731</u>
Unexpended balance	<u>\$ 82,395</u>



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

September 17, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2009. 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 Secretaries' internal controls, and test compliance with applicable laws and regulations.

## Audit Scope and Methodology

The Secretaries' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

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.

Expenses  
Appropriations  
Revenues

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

### Conclusions

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

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Division of Selected Agency Support Services has taken adequate corrective action with respect to the audit finding reported in the prior year that is not repeated in this letter.

### Exit Conference and Report Distribution

We discussed this report with management on September 21, 2009.

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

TMO:alh

GOVERNOR'S CABINET SECRETARIES

As of June 30, 2009

Viola O. Baskerville, Secretary of Administration

Robert S. Bloxom, Secretary of Agriculture and Forestry

Patrick O. Gottschalk, Secretary of Commerce and Trade

Dr. Thomas R. Morris, Secretary of Education

Richard D. Brown, Secretary of Finance

Marilyn B. Tavenner, Secretary of Health and Human Resources

L. Preston Bryant, Jr., Secretary of Natural Resources

John W. Marshall, Secretary of Public Safety

Leonard M. Pomata, Secretary of Technology

Pierce Homer, Secretary of Transportation

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director