THE GOVERNOR’S CABINET SECRETARIES

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2011

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA
AUDIT SUMMARY

Our audit of the Governor’s Cabinet Secretaries for the year ended June 30, 2011, 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.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Audit Summary</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Information by Cabinet Secretary:</td>
<td></td>
</tr>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Budget and Expense Summary for Fiscal Year 2011</td>
<td>1</td>
</tr>
<tr>
<td>Secretary of Administration</td>
<td>2</td>
</tr>
<tr>
<td>Secretary of Agriculture and Forestry</td>
<td>3</td>
</tr>
<tr>
<td>Secretary of Commerce and Trade</td>
<td>4-6</td>
</tr>
<tr>
<td>Secretary of Education</td>
<td>7</td>
</tr>
<tr>
<td>Secretary of Finance</td>
<td>8</td>
</tr>
<tr>
<td>Secretary of Health and Human Resources</td>
<td>9</td>
</tr>
<tr>
<td>Secretary of Natural Resources</td>
<td>10</td>
</tr>
<tr>
<td>Secretary of Public Safety</td>
<td>11</td>
</tr>
<tr>
<td>Secretary of Technology</td>
<td>12</td>
</tr>
<tr>
<td>Secretary of Transportation</td>
<td>13</td>
</tr>
<tr>
<td>Secretary of Veterans Affairs and Homeland Security</td>
<td>14</td>
</tr>
</tbody>
</table>

| Independent Auditor’s Report | 15-16 |

| Agency Officials | 17 |
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 Natural Resources
Secretary of Agriculture and Forestry  Secretary of Public Safety
Secretary of Commerce and Trade  Secretary of Technology
Secretary of Education  Secretary of Transportation
Secretary of Finance  Secretary of Veterans Affairs and Homeland Security
Secretary of Health and Human Resources

While most 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.

The following table summarizes the budget and expenses for each Secretary.

<table>
<thead>
<tr>
<th></th>
<th>Original Budget</th>
<th>Final Budget</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretary of Administration</td>
<td>$1,050,376</td>
<td>$1,128,054</td>
<td>$1,110,155</td>
</tr>
<tr>
<td>Secretary of Agriculture and Forestry</td>
<td>340,384</td>
<td>399,101</td>
<td>345,085</td>
</tr>
<tr>
<td>Secretary of Commerce and Trade</td>
<td>624,806</td>
<td>698,954</td>
<td>659,341</td>
</tr>
<tr>
<td>Secretary of Education</td>
<td>4,738,220</td>
<td>4,767,626</td>
<td>4,701,598</td>
</tr>
<tr>
<td>Secretary of Finance</td>
<td>420,423</td>
<td>432,821</td>
<td>432,401</td>
</tr>
<tr>
<td>Secretary of Health and Human Resources</td>
<td>1,534,700</td>
<td>954,532</td>
<td>789,416</td>
</tr>
<tr>
<td>Secretary of Natural Resources</td>
<td>591,029</td>
<td>774,618</td>
<td>723,958</td>
</tr>
<tr>
<td>Secretary of Public Safety</td>
<td>548,664</td>
<td>727,672</td>
<td>651,028</td>
</tr>
<tr>
<td>Secretary of Technology</td>
<td>490,271</td>
<td>667,354</td>
<td>613,205</td>
</tr>
<tr>
<td>Secretary of Transportation</td>
<td>624,426</td>
<td>641,676</td>
<td>640,332</td>
</tr>
<tr>
<td>Secretary of Veterans Affairs and Homeland Security</td>
<td>1,041,376</td>
<td>1,261,897</td>
<td>1,207,416</td>
</tr>
<tr>
<td>Total</td>
<td>$12,004,675</td>
<td>$12,454,305</td>
<td>$11,873,935</td>
</tr>
</tbody>
</table>

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
Office of the Lieutenant Governor
Governor’s Cabinet Secretaries
Citizens Advisory Committee

Interstate Organization Contributions
Office for Substance Abuse Prevention
Virginia-Israel Advisory Board

The Secretary receives General Fund appropriations to fund office operations. Beginning in fiscal year 2011, activity for the Virginia Public Broadcasting Board is budgeted in the Secretary of Education, which accounts for the large decrease in expenses from the prior year. The following tables summarize the budget and expenses for fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$5,983,557</td>
<td>$1,050,376</td>
</tr>
<tr>
<td>Final budget</td>
<td>$6,258,878</td>
<td>$1,128,054</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$6,206,889</td>
<td>$1,110,155</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $1,050,376

Adjustments:
Re-appropriation of prior year’s unexpended balance 49,987
Transfer from Central Appropriations for bonuses and benefit changes 20,431
Adjustment for Workforce Transition Act expenses 8,467
Transfer to Central Appropriations for new VITA rate structure (997)
Transfer to VITA for operational efficiency savings (210)
Total adjusted appropriations 1,128,054

Expenses:
Personal services 983,433
Contractual services 17,219
Continuous charges 59,795
Supplies and materials 43,726
Equipment 2,580
Transfer Payments 3,402
Total expenses 1,110,155

Unexpended balance $17,899
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 fiscal years 2010 and 2011.

**Financial Summary for Fiscal Years 2010 and 2011**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$447,339</td>
<td>$340,384</td>
</tr>
<tr>
<td>Final budget</td>
<td>$343,232</td>
<td>$399,101</td>
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<tr>
<td>Actual expenses</td>
<td>$294,167</td>
<td>$345,085</td>
</tr>
</tbody>
</table>

**Budget and Expense Analysis for Fiscal Year 2011**

Original appropriations $340,384

Adjustments:

- Re-appropriation of prior year’s unexpended balance $46,815
- Transfer from Central Appropriations for bonuses and benefit changes $5,644
- Adjustment for Workforce Transition Act expenses $5,561
- Transfer from Central Appropriations for new VITA rate structure $697

Total adjusted appropriations $399,101

Expenses:

- Personal services $255,743
- Contractual services $55,469
- Continuous charges $22,436
- Supplies and materials $1,416
- Transfer payments $9,828
- Equipment $193

Total expenses $345,085

Unexpended balance $54,016
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 fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$831,041</td>
<td>$624,806</td>
</tr>
<tr>
<td>Final budget</td>
<td>$718,625</td>
<td>$698,954</td>
</tr>
<tr>
<td>Actual expenditures</td>
<td>$664,701</td>
<td>$659,341</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $624,806

Adjustments:
- Re-appropriation of prior year’s unexpended balance 48,924
- Adjustment for Workforce Transition Act expenses 13,299
- Transfer from Central Appropriations for bonuses and benefit changes 12,307
- Transfer to VITA for operational efficiency savings (98)
- Transfer to Central Appropriations for new VITA rate structure (284)

Total adjusted appropriations $698,954

Expenses:
- Personal services 525,496
- Contractual services 80,590
- Supplies and materials 2,729
- Continuous charges 38,326
- Transfer payments 9,819
- Equipment 2,381

Total expenses 659,341

Unexpended balance $39,613

In addition to the appropriations to fund office operations, the Secretary of Commerce and Trade also received General Fund appropriations for specific purposes as required by the Appropriation Act which we discuss in more detail below. The Secretary also received General Fund appropriations and made grant payments totaling $4.4 million for various programs including a
$3.4 million grant for the reimbursement of sales and use taxes paid by an entity for the purchase of certain computer equipment in accordance with Item 96 L. of Chapter 890 of the Appropriation Act. In addition, the Secretary received $5 million from the Tobacco Indemnification and Revitalization Commission for the Major Employment and Investment (MEI) grant fund and awarded grants, totaling $5 million from this fund in accordance with Section 2.2-2260 of the Code of Virginia.

**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 appropriation through the Secretary of Commerce and Trade, which allows 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.


<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning cash balance</td>
<td>$27,252,714</td>
<td>$26,396,363</td>
<td>$31,089,017</td>
</tr>
<tr>
<td>Transfer in General Funds</td>
<td>7,600,000</td>
<td>12,500,000</td>
<td>23,911,055</td>
</tr>
<tr>
<td>Transfer in Non-General Funds</td>
<td>-</td>
<td>230,000</td>
<td>-</td>
</tr>
<tr>
<td>Interest earned</td>
<td>680,305</td>
<td>167,126</td>
<td>-</td>
</tr>
<tr>
<td>Amount repaid by companies</td>
<td>438,343</td>
<td>775,528</td>
<td>621,025</td>
</tr>
<tr>
<td>Payments to localities/companies</td>
<td>(9,575,000)</td>
<td>(8,980,000)</td>
<td>(10,594,000)</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$26,396,363</td>
<td>$31,089,017</td>
<td>$45,027,097</td>
</tr>
</tbody>
</table>
Over the last several years, the Opportunity Fund has accumulated a cash balance; as of June 30, 2011, the Fund had a cash balance of $45 million. Of this balance amount, $15.6 million represents funds committed to various companies but not yet paid, and $23.3 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.

**Virginia Investment Partnership Grant Fund**

The Secretary received $1,795,381 and spent $1,715,381 in General Funds for payments from the Virginia Investment Partnership Grant Fund. The Virginia Investment Partnership Grant Fund awards investment performance grants in accordance with Section 2.2-5101 of the Code of Virginia.

**Governor’s Motion Picture Opportunity Fund**

The Governor can use these funds to attract film industry production activity to the Commonwealth. During the year, the Governor’s Motion Picture Opportunity Fund received $1,000,000 in General Funds and $279,217 in revenues generated by a digital media fee, and made payments of $2,364,500.

**Semiconductor Memory or Logic Manufacturing Performance Grant Fund**

The Secretary received and spent $1,600,000 in General Funds for payments from the Semiconductor Memory or Logic Manufacturing Performance Grant Fund, which awards grants in accordance with Section 59.1-284.14.1 of the Code of Virginia.
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. In fiscal year 2011 the Secretary’s office began administering funding for the Virginia Public Broadcasting Board (VPBB), which resulted in an increase in budgeted and actual expenses over the prior year. The VPBB serves as a conduit of state financial support of public radio and television stations. The Secretary of Education receives funding primarily from General Fund appropriations. The following tables summarize the General Fund operating budget and expenses for fiscal years 2010 and 2011.

**Financial Summary for Fiscal Years 2010 and 2011**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$651,203</td>
<td>$4,738,220</td>
</tr>
<tr>
<td>Final budget</td>
<td>$630,094</td>
<td>$4,767,626</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$572,316</td>
<td>$4,701,598</td>
</tr>
</tbody>
</table>

**Budget and Expense Analysis for Fiscal Year 2011**

Original appropriations $4,738,220

Adjustments:
- Adjustment for Workforce Transition Act expenses $11,544
- Transfer from Central Appropriations for bonuses and benefit changes $10,133
- Re-appropriation of prior year’s unexpended balance $8,278
- Transfer to VITA for operational efficiency savings $(171)
- Transfer to Central Appropriations for new VITA rate structure $(378)
  Total adjusted appropriations $4,767,626

Expenses:
- Personal services $510,608
- Contractual services $25,525
- Continuous charges $31,881
- Public broadcasting grants $4,127,079
- Supplies and materials $5,611
- Equipment $894
  Total expenses $4,701,598

Unexpended balance $66,028
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 following tables summarize the budget and expenses for fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$654,846</td>
<td>$420,423</td>
</tr>
<tr>
<td>Final budget</td>
<td>$462,596</td>
<td>$432,821</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$462,506</td>
<td>$432,401</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $420,423

Adjustments:
- Transfer from Central Appropriations for bonuses and benefit changes $9,562
- Adjustment for Workforce Transition Act expenses $2,899
- Re-appropriation of prior year’s unexpended balance $89
- Transfer to VITA for operational efficiency savings $(152)

Total adjusted appropriations $432,821

Expenses:
- Personal services $415,814
- Contractual services $10,165
- Continuous charges $4,420
- Supplies and materials $2,002

Total expenses $432,401

Unexpended balance $420

In addition to the appropriations to fund office operations, the Secretary of Finance also received General Fund appropriations and made payments of $6,601,031 related to the 2005 Base Realignment and Closure Commission (BRAC). In order to address and coordinate BRAC implementation, the 2005 General Assembly established the Virginia National Defense Industrial Authority (VNDIA) to assist Virginia installations and communities in implementing and responding to BRAC recommendations. The Secretary’s office processes VNDIA payments to affected localities and other entities as specified in the Appropriation Act.
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 primarily receives General Fund appropriations to fund office operations. The original budget for fiscal years 2010 and 2011 includes $950,000 and $900,000 respectively, to fund child advocacy center initiatives. The Secretary transfers these funds to the Department of Social Services for child advocacy centers. Fiscal year 2011 expenses increased over the prior year due to the assignment of the Director of Health Reform Initiative position to the Secretary’s Office beginning in 2011, and the Secretary receives funding for this position from federal fund appropriations. The following tables summarize budget and expenses for fiscal years 2010 and 2011.

**Financial Summary for Fiscal Years 2010 and 2011**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$1,801,650</td>
<td>$1,534,700</td>
</tr>
<tr>
<td>Final budget</td>
<td>$ 645,843</td>
<td>$ 954,532</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$ 523,779</td>
<td>$ 789,416</td>
</tr>
</tbody>
</table>

**Budget and Expense Analysis for Fiscal Year 2011**

Original appropriations       $1,534,700

Adjustments:
- Transfer to Department of Social Services for child advocacy centers (900,000)
- Transfer from Department of Medical Assistance Services for salary and benefits for the Director of Health Reform Initiative and other expenses 190,516
- Re-appropriation of prior year’s unexpended balance 111,664
- Transfer from Central Appropriations for bonuses and benefit changes 9,541
- Transfer from Central Appropriations for new VITA rate structure 4,338
- Adjustment for Workforce Transition Act expenses 3,951
- Transfer to VITA for operational efficiency savings (178)

Total adjusted appropriations 954,532

Expenses:
- Personal services 713,292
- Contractual services 51,381
- Continuous charges 9,961
- Supplies and materials 3,061
- Transfer payments 11,412
- Equipment 309

Total expenses 789,416

Unexpended balance 165,116
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 primarily receives General Fund appropriations to fund office operations. During fiscal year 2011, the Secretary received $100,000 in federal funds through the Department of Conservation and Recreation to fund the Assistant Secretary position established to lead the Commonwealth’s Chesapeake Bay restoration efforts. 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 fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$667,714</td>
<td>$591,029</td>
</tr>
<tr>
<td>Final budget</td>
<td>$724,484</td>
<td>$774,618</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$719,427</td>
<td>$723,958</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $591,029

Adjustments:
- Transfer of federal funds from Department of Conservation and Recreation $100,000
- Adjustment for Workforce Transition Act expenses $66,416
- Transfer from Central Appropriations for bonuses and benefit changes $13,371
- Re-appropriation of prior year’s unexpended balance $4,551
- Transfer to VITA for operational efficiency savings $(116)
- Transfer to Central Appropriations for new VITA rate structure $(633)

Total adjusted appropriations $774,618

Expenses:
- Personal services $665,451
- Contractual services $20,640
- Continuous charges $35,685
- Supplies and materials $963
- Equipment $1,219

Total expenses $723,958

Unexpended balance $50,660
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 fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$805,651</td>
<td>$548,664</td>
</tr>
<tr>
<td>Final budget</td>
<td>$626,604</td>
<td>$727,672</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$566,002</td>
<td>$651,028</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $548,664

Adjustments:
- Transfer from Department of Corrections to fund Coordinator of Offender Re-entry position $150,000
- Re-appropriation of prior year’s unexpended balances $12,902
- Transfer from Central Appropriations for bonuses and benefit changes $10,268
- Adjustment for Workforce Transition Act expenses $6,013
- Transfer to Central Appropriations for new VITA rate structure $(175)

Total adjusted appropriations $727,672

Expenses:
- Personal services $572,357
- Contractual services $23,655
- Continuous charges $48,652
- Supplies and materials $4,666
- Equipment $1,698

Total expenses $651,028

Unexpended balance $76,644
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 oversee two agencies: Virginia’s Center for Innovative Technology and the Virginia Information Technologies Agency (VITA).

The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$543,501</td>
<td>$490,271</td>
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<tr>
<td>Final budget</td>
<td>$668,698</td>
<td>$667,354</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$611,040</td>
<td>$613,205</td>
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</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$490,271</td>
</tr>
</tbody>
</table>

Adjustments:

- Transfer from Central Appropriations to fund Productivity Investment Fund Executive Director position $82,500
- Re-appropriation of prior year’s unexpended balance $54,958
- Adjustment for Workforce Transition Act expenses $22,004
- Transfer from Central Appropriations for website development $9,532
- Transfer from Central Appropriations for bonuses and benefit changes $9,458
- Transfer to Central Appropriations for new VITA rate structure $(341)
- Transfer to VITA for operational efficiency savings $(1,028)

Total adjusted appropriations $667,354

Expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal services</td>
<td>546,392</td>
</tr>
<tr>
<td>Contractual services</td>
<td>34,093</td>
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<tr>
<td>Continuous charges</td>
<td>32,233</td>
</tr>
<tr>
<td>Equipment</td>
<td>411</td>
</tr>
<tr>
<td>Supplies and materials</td>
<td>76</td>
</tr>
</tbody>
</table>

Total expenses $613,205

Unexpended balance $54,149
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. The following tables summarize the budget and expenses for fiscal years 2010 and 2011.

Financial Summary for Fiscal Years 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original budget</td>
<td>$775,126</td>
<td>$624,426</td>
</tr>
<tr>
<td>Final budget</td>
<td>$775,126</td>
<td>$641,676</td>
</tr>
<tr>
<td>Actual expenses</td>
<td>$593,976</td>
<td>$640,332</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations                                          $624,426

Adjustments:
  Adjustment for Workforce Transition Act expenses               17,250

Total adjusted appropriations                                    641,676

Expenses:
  Personal services                                             596,871
  Contractual services                                          33,612
  Continuous charges                                            5,087
  Supplies and material                                          4,618
  Equipment                                                     69
  Transfer payments                                             75

Total expenses                                                  640,332

Unexpended balance                                              $ 1,344
Secretary of Veterans Affairs and Homeland Security

The General Assembly passed legislation during the 2011 session creating the Secretary of Veterans Affairs and Homeland Security. As part of this legislation, activity that was previously reported under the Office of Commonwealth Preparedness is now organized under this Secretary along with the Department of Veterans Services and Virginia War Memorial.

The Secretary works with federal, state, and local officials, as well as the private sector, to develop a coordinated security and preparedness strategy and implementation plan. The Secretary serves as the liaison between the Governor and the federal government as well as local governments and first responders on emergency prevention, preparedness, response, and recovery issues. In addition, the Secretary monitors and enhances efforts to provide assistance and support to veterans living in the Commonwealth. The Secretary also promotes industrial and economic development of localities in or adjacent to United States government military and other national or Commonwealth defense activities.

The Secretary receives a General Fund appropriation and federal funds through the Department of Emergency Management. The following tables summarize the budget and expenses for fiscal year 2011.

Financial Summary for Fiscal Year 2011

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Original Budget</th>
<th>Final Budget</th>
<th>Actual Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund appropriations</td>
<td>$473,958</td>
<td>$494,479</td>
<td>$494,479</td>
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<tr>
<td>Federal Funds</td>
<td>567,418</td>
<td>767,418</td>
<td>712,937</td>
</tr>
<tr>
<td>Total</td>
<td>$1,041,376</td>
<td>$1,261,897</td>
<td>$1,207,416</td>
</tr>
</tbody>
</table>

Budget and Expense Analysis for Fiscal Year 2011

Original appropriations $1,041,376

Adjustments:
- Transfer from Department of Emergency Management to fund the Base Realignment and Closure Coordinator position 200,000
- Re-appropriation of prior year’s unexpended balance 9,500
- Transfer from Central Appropriations for bonuses and benefit changes 9,104
- Transfer from Central Appropriations for new VITA rate structure 1,917

Total adjusted appropriations $1,261,897

Expenses:
- Personal services 1,068,274
- Contractual services 59,038
- Continuous charges 41,192
- Equipment 23,225
- Supplies and materials 15,619
- Transfer payments 68

Total expenses 1,207,416

Unexpended balance $54,481
November 18, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit and Review Commission

We have audited the financial records and operations of the Governor’s Cabinet Secretaries for the year ended June 30, 2011. 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 agencies’ 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, including payroll
- Grant payments
- Revenues
- Appropriations

We performed audit tests to determine whether the agencies’ 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 Office’s 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 Office records the agencies 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 controls and its operation that we consider necessary to be reported to management. The result 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.

Exit Conference and Report Distribution

We discussed this report with management on November 18, 2011.

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

SAH/alh
GOVERNOR’S CABINET SECRETARIES

As of June 30, 2011

Lisa Hicks-Thomas, Secretary of Administration

Todd P. Haymore, Secretary of Agriculture and Forestry

James S. Cheng, Secretary of Commerce and Trade

Gerard T. Robinson, Secretary of Education

Richard D. Brown, Secretary of Finance

Dr. William A. Hazel, Jr., Secretary of Health and Human Resources

Douglas W. Domenech, Secretary of Natural Resources

Marla Graff Decker, Secretary of Public Safety

James D. Duffey, Jr., Secretary of Technology

Sean T. Connaughton, Secretary of Transportation

Terrie L. Suit, Secretary of Veterans Affairs and Homeland Security

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director