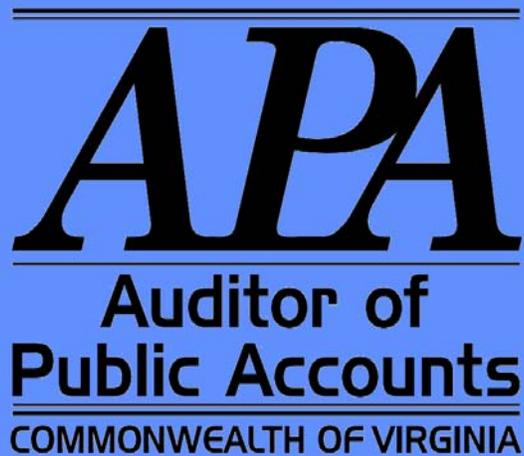


THE GOVERNOR'S CABINET SECRETARIES

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2007, 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 operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations.

During our audit of the Secretaries, we noted several budget transparency issues which primarily relate to the Secretary of Commerce and Trade. The Secretary's Office receives various transfers for economic development activities in accordance with the requirements in the Appropriations Act from the General Fund of the Commonwealth.

The Department of Accounts transfers these amounts out of the General Fund to other funds such as the Governor's Opportunity Fund and shows these funds as non-general funds. This process makes it difficult to follow the action of the Governor and General Assembly from the approved budget to the accounting reports due to a loss of transparency of over \$30 million in general funds.

In addition, there is a loss of transparency at the program level since the General Fund originally showed the funds supporting economic development programs. After the transfer, the accounting system shows the disbursement of these funds as an administrative expense. These accounting transactions affect the ability of the taxpayers to understand how the state is using its resources.

We have reported similar issues in our statewide report on the "Review of the Budget and Appropriation Processing Control System." In that report, issued in April 2007, we recommended these issues be addressed as part of the Commonwealth's development of a new enterprise application to serve both as a budget development and accounting system. However, given that the status of this system development effort is uncertain, we recommend that the Governor and Planning and Budget address this issue. One obvious solution would be to segregate general funds in the current accounting and reporting system; however, Planning and Budget and the Governor should examine this issue to see if there are any other alternative reporting solutions that would address these budget transparency issues.

- TABLE OF CONTENTS -

Pages

AUDIT SUMMARY

FINANCIAL INFORMATION BY CABINET SECRETARY:

Introduction	1
Budget and Expense Summary for Fiscal Year 2007	1
Discussion of Budget Transparency Issues Affecting the Secretary of Commerce and Trade	1-3
Secretary of Administration	4
Secretary of Agriculture and Forestry	5
Secretary of Commerce and Trade	6-8
Secretary of Education	9
Secretary of Finance	10
Secretary of Health and Human Resources	11
Secretary of Natural Resources	12
Secretary of Public Safety	13
Secretary of Technology	14
Secretary of Transportation	15
INDEPENDENT AUDITOR'S REPORT	16-17
AGENCY OFFICIALS	18

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.

In fiscal year 2007, the Governor’s Cabinet Secretaries received additional General Fund appropriations for salary and benefit increases. In addition, all of the Secretaries had a decrease in the 2007 budget for moving the July 3, 2006 payroll which the Commonwealth paid in fiscal year 2006 instead of 2007. The following table summarizes the budget and expenses for each Secretary.

Budget and Expense Summary for Fiscal Year 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Administration	\$ 7,671,276	\$ 7,734,238	\$ 7,669,165
Secretary of Agriculture and Forestry	4,904,497	4,171,153	4,144,052
Secretary of Commerce and Trade	836,869	899,249	884,066
Secretary of Education	712,553	855,279	746,791
Secretary of Finance	626,392	1,091,869	1,038,982
Secretary of Health and Human Resources	1,732,144	736,122	720,749
Secretary of Natural Resources	674,502	694,990	648,397
Secretary of Public Safety	736,645	753,664	731,858
Secretary of Technology	596,479	737,896	677,744
Secretary of Transportation	<u>685,500</u>	<u>685,500</u>	<u>685,476</u>
Total	<u>\$ 19,176,857</u>	<u>\$ 18,359,960</u>	<u>\$17,947,280</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.

Discussion of Budget Transparency Issues Affecting the Secretary of Commerce and Trade

Through the Appropriation Act (Act) and general law, the Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints of the Act. Planning and Budget commonly refers to these budgetary changes as administrative adjustments. As part of our audit of the Cabinet Secretaries, we reviewed the administrative adjustments made during the year. Our analysis of these adjustments highlights several budget transparency issues that affect the Secretary of Commerce and Trade.

Budget transparency allows any informed citizen sufficient ease in understanding and following the budget process without having any special training. This term describes a budget process which is clear, visible, and understandable to a citizen with an interest in the information. We believe the following practices affect the transparency of the budget and the Governor and Planning and Budget, in conjunction with the legislature, should consider how best to address these issues.

First, significant transfers of General Funds to other funds occur after the budget’s approval for various programs under the Secretary of Commerce and Trade, such as the Governor’s Opportunity Fund. As a result, these General Funds lose their identity, making it difficult to identify the source of funds for these programs in the accounting records. These transfers occur to comply with various requirements in the Appropriation Act, which require setting aside and spending these funds from a separate fund.

While the intention of the requirement is the segregation of these funds to track and monitor their activity, this practice creates a disconnect between the budgeting and accounting for these programs. There are several issues contributing to this practice; first, the legislature frequently creates these separate or segregated funds as part of the budget process with the intent to isolate the accounting for certain funds. Second, the current accounting structure does not allow for a mechanism to separately account for these funds without moving them to a special revenue fund, which loses their classification as General Funds.

Furthermore, while these transfers move funds from the General Fund to other funds, they also move funds between programs. The Governor and General Assembly, during the consideration and adoption of the budget, intended that funds would support economic development related programs, however, after their transfer, the accounting records show them as administrative programs. This further complicates the issue for a taxpayer who is trying to determine how much of the Commonwealth’s resources are spent on economic development activities.

To further illustrate these issues, the following table details how various programs under the Secretary of Commerce and Trade, originally budgeted as economic development, now appear as administrative programs in the accounting records.

Description	2007 Amount	How it is recorded in the budget?		How it is recorded in the accounting records?	
		General Funds	Other Funds	Non-general funds	Administrative program
Governor’s Opportunity Fund	\$15,100,000	General Funds	Governor’s Opportunity Fund program	Non-general funds	Administrative program
Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund	\$14,220,000	General Funds	Economic Development Assistance program	Non-general funds	Administrative program
Governor’s Motion Picture Opportunity Fund	\$1,250,000	General Funds	Economic Development Assistance program	Non-general funds	Administrative program
Virginia Investment Partnership Grant Fund	\$425,000	General Funds	Economic Development Assistance program	Non-general funds	Administrative program
Total	\$30,995,000				

We have reported similar issues in our statewide report on the “Review of the Budget and Appropriation Processing Control System.” In that report, issued in April 2007, we recommended these issues be addressed as part of the Commonwealth’s development of a new enterprise application to serve both as a budget development and accounting system. However, given that the status of this system development effort is uncertain, we recommend that the Governor and Planning and Budget address this issue. One obvious solution would be to segregate general funds in the current accounting and reporting system; however, Planning and Budget and the Governor should examine this issue to see if there are any other alternative reporting solutions that would address these budget transparency issues.

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 2006 and 2007.

Financial Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 7,582,054	\$7,671,276
Final budget	\$ 7,776,537	\$7,734,238
Actual expenses	\$ 7,729,484	\$7,669,165

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 7,671,276</u>
Adjustments:	
Re-appropriation of prior year's balance	47,053
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(40,837)
Transfer from Central Accounts for salary increase and benefits	46,624
Transfer for Virginia Public Broadcasting Board payments	<u>10,122</u>
Total adjusted appropriations	<u>7,734,238</u>
Expenses:	
Personal services	994,292
Contractual services	39,300
Continuous charges	54,507
Supplies and materials	46,611
Property and equipment	4,007
Public broadcasting grants	<u>6,530,448</u>
Total expenses	<u>7,669,165</u>
Unexpended balance	<u>\$ 65,073</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 fiscal year 2007 budget included \$4.5 million for the Virginia Horse Center Foundation (Foundation). Of this amount, the Secretary transfers \$783,080 to the Department of Historic Resources for a portion of the Foundation's debt payment. The remaining appropriation of approximately \$3.7 million was transferred directly to the Foundation in fiscal year 2007.

Financial Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 540,000	\$4,904,497
Final budget	\$ 466,662	\$4,171,153
Actual expenses	\$ 420,013	\$4,144,052

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 4,904,497</u>
Adjustments:	
Re-appropriation of prior year's balance	46,649
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(15,614)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	18,701
Transfer to the Department of Historic Resources for a portion of the VA Horse Center Foundation's debt service payment	<u>(783,080)</u>
Total adjusted appropriations	<u>4,171,153</u>
Expenses:	
Personal services	373,493
Contractual services	3,747,282
Continuous charges	22,138
Supplies and materials	<u>1,139</u>
Total expenses	<u>4,144,052</u>
Unexpended balance	<u>\$ 27,101</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 2006 and 2007.

The final budget in 2007 is less than 2006 because the Secretary received a smaller transfer of funds to cover costs associated with developing legal strategies and paying legal fees relating to the base realignment and closure study. The final budget includes \$46,868 to cover costs associated with developing legal strategies regarding the Naval Air Station Oceana in Virginia Beach.

General Fund Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 797,149	\$ 836,869
Final budget	\$ 1,131,303	\$ 899,249
Actual expenditures	\$ 1,121,274	\$ 884,066

General Fund Budget and Expenditure Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 836,869</u>
Adjustments:	
Re-appropriation of prior year's balance	9,997
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(31,769)
Transfer from Central Appropriations for salary, benefits, and mileage reimbursement	34,994
Transfer from Central Appropriations for developing legal strategies regarding Naval Air Station Oceana in Virginia Beach	46,868
Other adjustments	<u>2,290</u>
Total adjusted appropriations	<u>899,249</u>
Expenditures:	
Personal services	762,497
Contractual services	83,215
Supplies and materials	1,244
Continuous charges	36,680
Equipment	<u>430</u>
Total expenditures	<u>884,066</u>
Unexpended balance	<u>\$ 15,183</u>

During fiscal year 2007, 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 (2005 – 2007)

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Beginning cash balance	\$ 19,010,454	\$ 25,501,452	\$25,189,015
Transfer in General Funds	13,877,758	9,000,000	15,100,000
Interest earned	799,501	1,089,734	1,742,188
Amount repaid by companies	-	2,730,329	2,250,000
Payments to localities/companies	<u>(8,186,261)</u>	<u>(13,132,500)</u>	<u>(7,617,500)</u>
Ending cash balance	<u>\$ 25,501,452</u>	<u>\$ 25,189,015</u>	<u>\$36,663,703</u>

Over the last several years, the Opportunity Fund has accumulated a large cash balance; as of June 30, 2007, the Fund had a cash balance of \$36.6 million. Of this balance amount, \$16 million represents funds committed to various companies but not yet paid; the remaining \$20 million represents legal offers made to various companies where the company has not yet accepted or finalized the offer.

The large 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 between when the Commonwealth makes its first commitment and when there is a requirement to make a payment. Another factor in the large cash balance at year end is that the amount transferred in for 2007 represents the resources allocated for the entire 2007 – 2008 biennium; an additional transfer for fiscal 2008 was not part of the proposed budget.

Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund

The Secretary received General Funds for the Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund. The grants seek to encourage the manufacturing of semiconductor wafers. The fund received and spent a total of \$14,220,000 in accordance with the Appropriation Act.

Virginia Investment Partnership Grant Fund

The Secretary received General Funds for payment to the Virginia Investment Partnership Grant Fund totaling \$425,000. 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 over \$405,000 was awarded in investment performance grants.

Governor's Motion Picture Opportunity Fund

The Secretary received General Funds for payment to the Governor's Motion Picture Opportunity Fund totaling \$1,250,000. The Governor can use these funds to attract film industry production activity to the Commonwealth. The Governor awarded \$100,000 during the fiscal year, the remaining balance remains in the fund for future motion picture opportunities.

Transfer for the Russell County Industrial Development Authority

The Secretary received \$1 million of General Funds for the Economic Development Assistance Program to the Russell County Industrial Development Authority for the construction of the Southwest Virginia Technology Development Center.

Transfer to SRI International

The Secretary received a \$3 million from the Higher Education Research Initiative for an incentive payment to SRI International to locate its East Coast Center of Excellence in the Harrisonburg area. The Governor has the authority to spend this money to provide an incentive for the location of a research-related entity along the Interstate 81 corridor.

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 fiscal year 2007 budget is less than the prior year because the Secretary received \$630,000 to develop a post-secondary educational opportunity in Southside Virginia. The 2007 budget does not include any Central Appropriations transfers relating to that opportunity. The Secretary's unexpended balance in fiscal year 2007 is primarily comprised of unexpended money for the School Efficiency Review program, started in the Warner Administration. The following tables summarize the General Fund budget for fiscal years 2006 and 2007, as well as expenses for fiscal year 2007.

General Fund Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 672,385	\$ 712,553
Final budget	\$ 1,461,166	\$ 855,279
Actual expenses	\$ 1,321,932	\$ 746,791

General Fund Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 712,553</u>
Adjustments:	
Re-appropriation of prior year's balance	139,234
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(25,035)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	<u>28,527</u>
Total adjusted appropriations	<u>855,279</u>
Expenses:	
Personal services	597,746
Contractual services	97,779
Continuous charges	40,042
Supplies and materials	2,674
Equipment	1,290
Transfer Payments	<u>7,260</u>
Total expenses	<u>746,791</u>
Unexpended balance	<u>\$ 108,488</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 final budget is larger in 2007 due to a Central Appropriations transfer for grant payments to assist localities with funding needs associated with the implementation and response to recommendations of the 2005 Base Realignment and Closure Commission (BRAC). The following tables summarize the budget and expenses for the Secretary for fiscal years 2006 and 2007.

Financial Summary for Fiscal Years 2006 and 2007

	2006	2007
Original budget	\$ 580,969	\$ 626,392
Final budget	\$ 654,567	\$ 1,091,869
Actual expenses	\$ 617,262	\$ 1,038,982

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 626,392</u>
Adjustments:	
Re-appropriation of prior year's balance	37,305
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(18,635)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	25,498
Transfer to Treasury Board to cover financial advisory services for the VA Horse Center	(8,040)
Transfer from Central Appropriations for grant payments associated with the 2005 base realignment	<u>429,349</u>
Total adjusted appropriations	<u>1,091,869</u>
Expenses:	
Personal services	551,843
Contractual services	29,023
Continuous charges	25,645
Supplies and materials	1,536
Equipment	1,586
Transfer Payments	<u>429,349</u>
Total expenses	<u>1,038,982</u>
Unexpended balance	<u>\$ 52,887</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 2006 and 2007 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 2006 and 2007.

Financial Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 1,689,724	\$1,732,144
Final budget	\$ 841,207	\$ 736,122
Actual expenses	\$ 840,822	\$ 720,749

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 1,732,144</u>
Adjustments:	
Re-appropriation of prior year's balance	385
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(26,719)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	30,312
Transfer to the Department of Social Services for child advocacy centers	<u>(1,000,000)</u>
Total adjusted appropriations	<u>736,122</u>
Expenses:	
Personal services	654,490
Contractual services	22,059
Continuous charges	40,787
Supplies and materials	2,628
Equipment	<u>785</u>
Total expenses	<u>720,749</u>
Unexpended balance	<u>\$ 15,373</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 \$66,689 for the Council on Indians Support Services. The following tables summarize the budget and expenses for the Secretary for fiscal years 2006 and 2007.

General Fund Summary for Fiscal Years 2006 and 2007

	2006	2007
Original budget	\$ 604,795	\$ 674,502
Final budget	\$ 698,374	\$ 694,990
Actual expenses	\$ 682,522	\$ 648,397

General Fund Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 674,502</u>
Adjustments:	
Re-appropriation of prior year's balance	15,852
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(23,228)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	<u>27,864</u>
Total adjusted appropriations	<u>694,990</u>
Expenses:	
Personal services	576,473
Contractual services	34,029
Continuous charges	32,667
Supplies and materials	1,256
Transfer Payments	3,150
Equipment	<u>822</u>
Total expenses	<u>648,397</u>
Unexpended balance	<u>\$ 46,593</u>

The Secretary also receives special revenue funds for the Chesapeake Bay Clean-Up Program. Individual taxpayers donate money by designating on their tax returns their donation to the program. The Department of Taxation collects the donations and transfers the money to the Secretary. The Secretary has the authority to transfer funds from this account when the Chesapeake Bay Local Assistance Department demonstrates a need for the funding.

Unexpended special revenue fund balance as of July 1, 2006	\$ 140,786
Chesapeake Bay Clean-Up special revenues	171,451
Transfers to the Chesapeake Bay Local Assistance Department	<u>(-)</u>
Total available resources	<u>\$ 312,237</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 2006 and 2007.

Financial Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 684,495	\$ 736,645
Final budget	\$ 665,639	\$ 753,664
Actual expenses	\$ 649,268	\$ 731,858

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 736,645</u>
Adjustments:	
Re-appropriation of prior year's balance	16,371
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(26,219)
Transfer from Central Accounts for salary, benefits, and mileage reimbursement	<u>26,867</u>
Total adjusted appropriations	<u>753,664</u>
Expenses:	
Personal services	665,673
Contractual services	15,946
Continuous charges	46,772
Supplies and materials	2,639
Equipment	<u>828</u>
Total expenses	<u>731,858</u>
Unexpended balance	<u>\$ 21,806</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 Secretary's budget increased during the year due to additional funds for various initiatives. The original budget includes over \$53,000 that the Secretary did not receive. In previous fiscal years the Secretary received money from VITA as a supplement to fund their operations. The Secretary no longer receives this amount but the original budget still includes this amount. The following tables summarize the budget and expenses for the Secretary for fiscal years 2006 and 2007.

General Fund Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 505,882	\$ 596,479
Final budget	\$ 552,348	\$ 737,896
Actual expenses	\$ 537,990	\$ 677,744

General Fund Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 596,479</u>
Adjustments:	
Re-appropriation of prior year's balance	14,358
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	(22,872)
Transfer from Central Accounts for salary and benefits	22,936
Transfer from Department of Health to fund the Electronic Health Record Initiative	52,500
Transfers from Central Appropriations for consulting fees for the opportunity assessment on Identity Management, and VITA consulting services	49,495
Transfer from Central Appropriations to hire Director of the Enterprise Solutions Group Office	<u>25,000</u>
Total adjusted appropriations	<u>737,896</u>
Expenses:	
Personal services	552,065
Contractual services	94,175
Continuous charges	30,423
Supplies and materials	421
Equipment	<u>660</u>
Total expenses	<u>677,744</u>
Unexpended balance	<u>\$ 60,152</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 2006 and 2007.

Financial Summary for Fiscal Years 2006 and 2007

	<u>2006</u>	<u>2007</u>
Original budget	\$ 637,877	\$ 685,500
Final budget	\$ 664,364	\$ 685,500
Actual expenses	\$ 622,287	\$ 685,476

Budget and Expense Analysis for Fiscal Year 2007

Original appropriations per Chapter 3	<u>\$ 685,500</u>
Adjustments:	
None noted	<u> -</u>
Total adjusted appropriations	<u>685,500</u>
Expenditures:	
Personal services	625,267
Contractual services	23,811
Continuous charges	32,383
Supplies and materials	2,647
Equipment	1,239
Transfer Payments	<u>129</u>
Total expenditures	<u>685,476</u>
Unexpended balance	<u>\$ 24</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 29, 2007

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

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, VA

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2007. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on 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 materiality and control 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.

Expenditures
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 Office's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

The Division of Selected Agency Support Services within the Secretary of Administration provides financial and administrative support to the Governor's Cabinet Secretaries. We found that the Division properly stated, in all material respects, the financial amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Division 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 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.

Exit Conference and Report Distribution

We discussed this report with management on October 31, 2007.

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

LCW/wdh

GOVERNOR'S CABINET SECRETARIES

As of June 30, 2007

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

Jody M. Wagner, 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

Aneesh P. Chopra, Secretary of Technology

Pierce Homer, Secretary of Transportation

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director