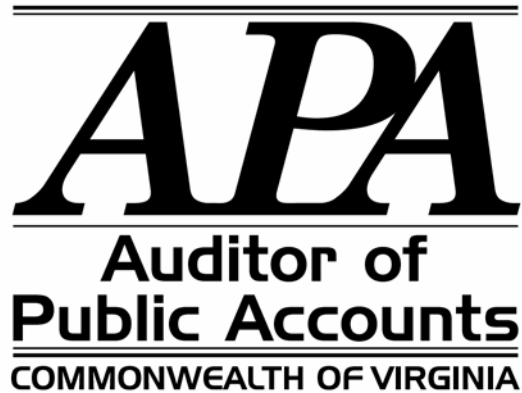


OFFICE OF THE GOVERNOR

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit of the Office of the Governor for the year ended June 30, 2006, 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.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY BACKGROUND AND FINANCIAL INFORMATION	1-3
INDEPENDENT AUDITOR'S REPORT	4-5
OFFICE OF THE GOVERNOR	6

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Governor has responsibility for managing the executive branch of the government, serving as Chief of State, and acting as the Commander-in-Chief of the Virginia National Guard. The Division of Selected Agency Support Services in the Office of the Secretary of Administration provides administrative support to the Governor's Office.

The Governor's Office (Office) receives its funding through General Fund appropriations. Our previous reports have highlighted that the Office's approved budget was not reflective of the level of actual expenses. Both the Governor and the 2005 General Assembly addressed this funding issue in the amended 2004-2006 biennial budget by appropriating amounts to fully fund operations for fiscal year 2006. As a result, the Office's original budget for fiscal year 2006 is significantly higher than previous years, as shown in the table below. The 2006 budget also included a \$50,000 salary increase for the Governor effective January 2006 as approved by the General Assembly. The proposed budget for 2007 includes additional increases because the Office will absorb the Virginia Liaison Office and the Office of Commonwealth Preparedness, both of which were separate agencies in fiscal year 2006.

Budget Analysis for Fiscal Years 2002-2006

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Proposed 2007</u>
Original budget	\$ 2,379,597	\$ 2,427,764	\$ 1,971,396	\$ 2,036,258	\$ 3,575,758	\$ 4,865,455
Final budget	\$ 3,721,386	\$ 3,783,643	\$ 3,443,546	\$ 3,625,305	\$ 4,074,511	-
Actual expenses	\$ 3,694,344	\$ 3,739,769	\$ 3,442,112	\$ 3,589,879	\$ 4,067,243	-

During 2006, the Office received additional General Fund appropriations for severance payments related to the change in administrations as well as salary increases. The following table includes these increases, along with other adjustments, which details 2006 budget and expense activity. The majority of the expenses of the Office are payroll and fringe benefit expenses for its 37 employees.

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$3,575,758</u>
Adjustments to appropriations:	
Re-appropriation of prior year's balance	35,426
Increase for WTA and severance payments for change in administration	109,738
Adjustment for salary and benefit increases	183,230
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	126,287
Increase rent plan funding per Item 506, AA of Chapter 2	70,936
Other adjustments	<u>(26,864)</u>
Total adjusted appropriations	<u>4,074,511</u>
Expenses:	
Personal services	3,232,401
Contractual services	352,728
Supplies and materials	143,243
Transfer payments	1,227
Continuous charges	294,906
Property and equipment	<u>42,738</u>
Total expenses	<u>4,067,243</u>
Unexpended balance	<u>\$ 7,628</u>

The Office receives its funding and records transactions under four separate programs, the largest of which is Administrative and Support Services. The Administrative and Support Services Programs records most of the operations of the Office as shown in the following table; however, the Office does receive funding for three other programs discussed in more detail below.

Budget and Expense Analysis for Fiscal Year 2006 by Program

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Administrative and support services	\$3,113,738	\$3,579,863	\$3,579,680
Executive discretion	50,000	66,074	64,423
Historic landmarks and facilities management	<u>412,020</u>	<u>428,574</u>	<u>423,140</u>
Total	<u>\$3,575,758</u>	<u>\$4,074,511</u>	<u>\$4,067,243</u>

Executive Discretion

This program records expenses deemed discretionary by the Chief of Staff or Division of Selected Agency Services.

Historic Landmarks and Facilities Management

This program covers the costs of operating the Executive Mansion. The majority of expenses under this program are payroll expenses for five employees on staff at the Executive Mansion. These payroll expenses totaled approximately \$318,000 in 2006.

Disaster Planning and Operation

The Office also receives a “sum sufficient” General Fund appropriation under the Disaster Planning and Operation program, which we did not include in the previous table. In any given year, various natural disasters can strike Virginia, resulting in the Governor declaring numerous localities as disaster areas. To address damage and recovery from the disasters, the Department of Emergency Management requests and receives General Fund appropriations from the Disaster Planning and Operation program. The Appropriation Act originally includes these funds in Central Appropriations, which the Governor authorizes and then transfers to the Department of Emergency Management. During fiscal year 2006, the Office transferred \$8.81 million to Emergency Management through this program to address disaster recovery related to natural disasters, such as Hurricane Isabel and Tropical Storm Gaston.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

August 31, 2006

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 **Office of the Governor** for the year ended June 30, 2006. 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 Office's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

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

We performed audit tests to determine whether the Office's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws 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 Office properly stated, in all material respects, the financial amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Office 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 September 22, 2006.

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 public record.

AUDITOR OF PUBLIC ACCOUNTS

LCW:sks
sks: 24

OFFICE OF THE GOVERNOR

As of June 30, 2006

Timothy M. Kaine, Governor

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director