



OFFICE OF THE GOVERNOR  
AND  
THE GOVERNOR'S CABINET SECRETARIES

REPORT ON AUDIT  
FOR THE PERIOD  
JULY 1, 2015 THROUGH JUNE 30, 2017

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of the Office of the Governor and the Governor's Cabinet Secretaries for the period July 1, 2015, through June 30, 2017, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention;
- an instance of noncompliance with applicable laws and regulations that is required to be reported; and
- adequate corrective action with respect to the prior year audit finding.

For prior audits, we issued separate audit reports for the Office of the Governor, the Governor's Cabinet Secretaries, and the Division of Selected Agency Support Services. For the current audit, we have consolidated the information previously reported separately in the three aforementioned reports into this report.

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## AUDIT FINDING AND RECOMMENDATION

### **Improve Budget Transparency Regarding Cabinet Secretary Employees**

**Type:** Compliance

**Repeat:** No

The offices of the Cabinet Secretaries within the Office of the Governor have employees working on their behalf who are paid from the appropriations of other Commonwealth agencies and are not properly reported to the Department of Human Resources Management (DHRM). During our review, we found five employees that function as Cabinet Secretary employees who are supported by funding provided by the General Assembly to separate state agencies and were not properly reported. Section 2.2-607 of the Code of Virginia requires agencies that transfer employees without transferring the corresponding appropriations supporting the employee to report this information to DHRM. DHRM compiles the information on a quarterly basis in the “Quarterly Report on Existing and Completed Transfers of Staff among State Agencies” for reporting to the General Assembly. The March 2017 report listed 16 individuals working for the Governor’s Office, Lieutenant Governor’s Office, or Cabinet Secretaries that were funded by other agencies.

To facilitate the compilation of the transfer information in the report, DHRM currently requests information directly from agencies regarding the employees they have “loaned.” Most of the employees that meet this reporting criteria are performing tasks for the Cabinet Secretaries, but the request for information on “loaned” employees is directed to agency human resources representatives. While it is unclear why certain agencies failed to report applicable employees to DHRM, most of the agencies in question are large entities with many employees, increasing the risk that a transferred employee might be overlooked when submitting the information to DHRM. We noted that this practice is not unique to the current Governor’s administration, and extends to prior administrations as well.

By not reporting the employees appropriately, the total cost of operations for the impacted Cabinet Secretary offices is not completely transparent. Budget transparency is the full disclosure of all relevant fiscal information in a timely and systematic manner. It allows an informed citizen without specialized budget knowledge sufficient ease in understanding and following the budget process. A transparent budget process is clear, visible, and understandable to a citizen with an interest in the information. Budget transparency is critical, as the Appropriation Act is the Commonwealth’s primary tool for setting priorities and allocating resources.

To increase transparency of the costs of operations, Cabinet Secretaries should work to confirm that employees supported by funds from other agencies are reported properly to DHRM. The Office of the Governor should ensure that all Cabinet Secretaries are reporting sufficient information to the affected agencies to facilitate proper reporting of employees to DHRM.

## OFFICE OF THE GOVERNOR

The Governor of the Commonwealth of Virginia 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 (Support Services) in the Office of the Secretary of Administration (Administration) provides administrative support to the Governor's Office.

The Office of the Governor (Office) receives most of its funding through General Fund appropriations. The schedule below summarizes budget and actual activity for the last two years.

### Budget Analysis for Fiscal Years 2015-2017

Table 1

	2015	2016	2017
Original budget	\$4,698,065	\$4,708,332	\$5,297,846
Final budget	5,721,051	5,671,597	5,716,101
Actual expenses	5,033,070	5,024,382	5,137,357

The following schedule includes the detail adjustments to the Office's appropriations as well as a detailed breakdown of expenses. The majority of the expenses of the Office are payroll and fringe benefit expenses.

## Budget and Expense Analysis for Fiscal Years 2016 and 2017

Table 2

	2016	2017
Original appropriations	\$4,708,332	\$5,297,846
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	687,980	647,213
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	275,285	32,027
Transfer to the Secretary of Veterans and Defense Affairs to support office operations for the Secretary	-	(260,985)
<b>Total adjusted appropriations</b>	<b><u>5,671,597</u></b>	<b><u>5,716,101</u></b>
Expenses:		
Personal services	3,765,318	3,860,133
Contractual services	556,903	524,855
Continuous charges	543,443	579,103
Supplies and materials	137,805	155,266
Equipment	20,912	17,928
Transfer payments	-	72
<b>Total expenses</b>	<b><u>5,024,381</u></b>	<b><u>5,137,357</u></b>
<b>Unexpended balance</b>	<b><u>\$ 647,216</u></b>	<b><u>\$ 578,744</u></b>

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 Program includes most of the operations of the Office as shown in the following table. Funding for the other programs is discussed in more detail below.

## Expense Analysis for Fiscal Years 2016 and 2017 by Program

Table 3

	2016 Expenses	2017 Expenses
Administrative and Support Services	\$4,188,760	\$4,065,663
Historic and Commemorative Attraction	444,942	717,741
Governmental Affairs Services	390,679	353,953
<b>Total</b>	<b>\$5,024,381</b>	<b>\$5,137,357</b>

### *Historic and Commemorative Attraction Management*

This program covers the costs of operating the Executive Mansion. The majority of expenses under this program are personnel costs for staff at the Executive Mansion, which totaled \$325,219 in 2016 and \$569,637 in 2017. The increase in personnel costs between the years under review is related to a transfer of Executive Mansion operations and four positions from the Department of General Services to the Office at the beginning of fiscal year 2017.

### *Governmental Affairs Services*

Under this program, Office staff tracks federal legislation and pronouncements on behalf of the Commonwealth. This keeps the Commonwealth and its localities informed of any actions that may impact either entity. This program receives both General Fund appropriations and some Commonwealth Transportation funds. The majority of expenses are personnel costs, which totaled \$279,636 in 2016 and \$247,412 in 2017.

### *Disaster Planning and Operation*

In addition to the programs listed above, the Office also receives a “sum sufficient” General Fund appropriation under the Disaster Planning and Operation Program. 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 (Emergency Management) requests General Fund appropriations from the Disaster Planning and Operation program. The Appropriation Act originally includes these funds in its Central Appropriations section, which the Governor authorizes for transfer to the Department of Emergency Management. The Department of Planning and Budget transferred \$5.3 million in 2016 and \$8.7 million in 2017 in General Fund sum sufficient appropriations to the Emergency Management in response to hurricanes, winter storms, and other natural disasters that occurred in previous fiscal years.

## **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 Agriculture and Forestry  
Secretary of Commerce and Trade  
Secretary of the Commonwealth  
Secretary of Education  
Secretary of Finance

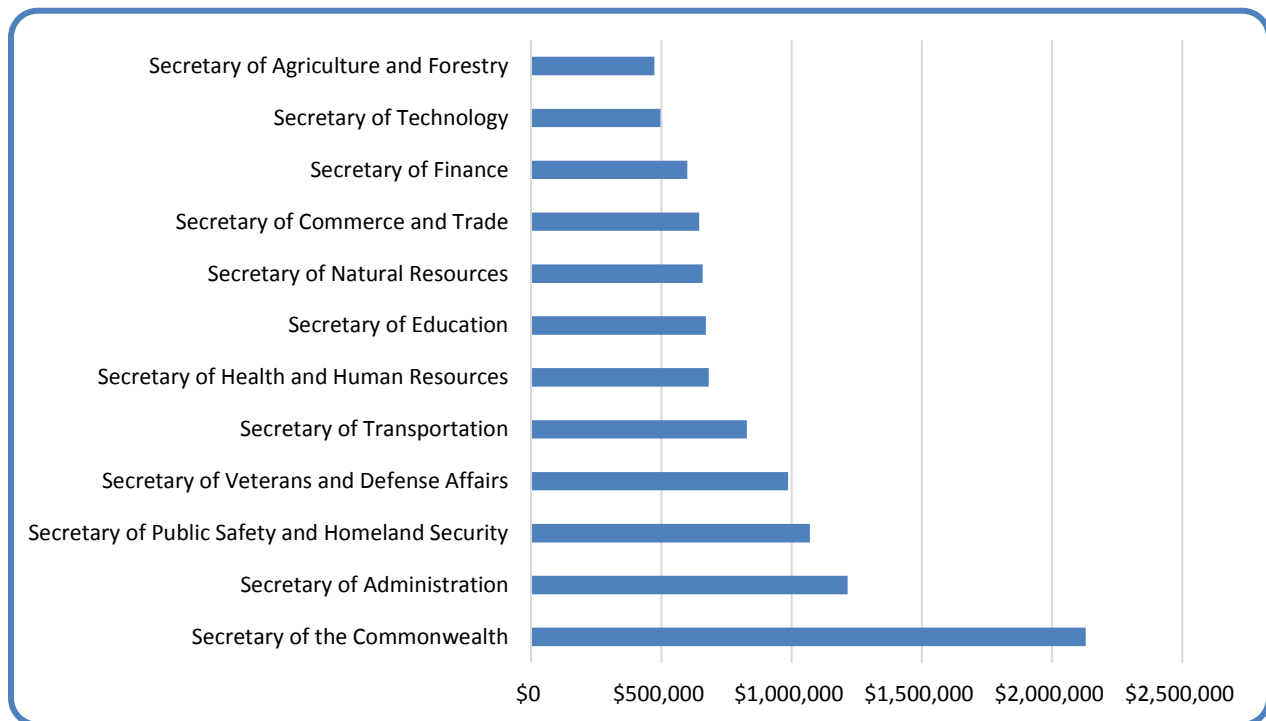
Secretary of Health and Human Resources  
Secretary of Natural Resources  
Secretary of Public Safety and Homeland Security  
Secretary of Technology  
Secretary of Transportation  
Secretary of Veterans and Defense Affairs

While most Cabinet Secretaries receive the majority of their funding through appropriations 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 tables summarize the general costs of operations for each Secretary for fiscal year 2016 and fiscal year 2017. The Secretary of Commerce and Trade and the Secretary of Veterans and Defense Affairs provide significant grant payments, which are not reflected in the data presented below, but are discussed in greater detail in the sections of the report devoted to the respective Secretaries.

### Expense Summary for Fiscal Year 2016

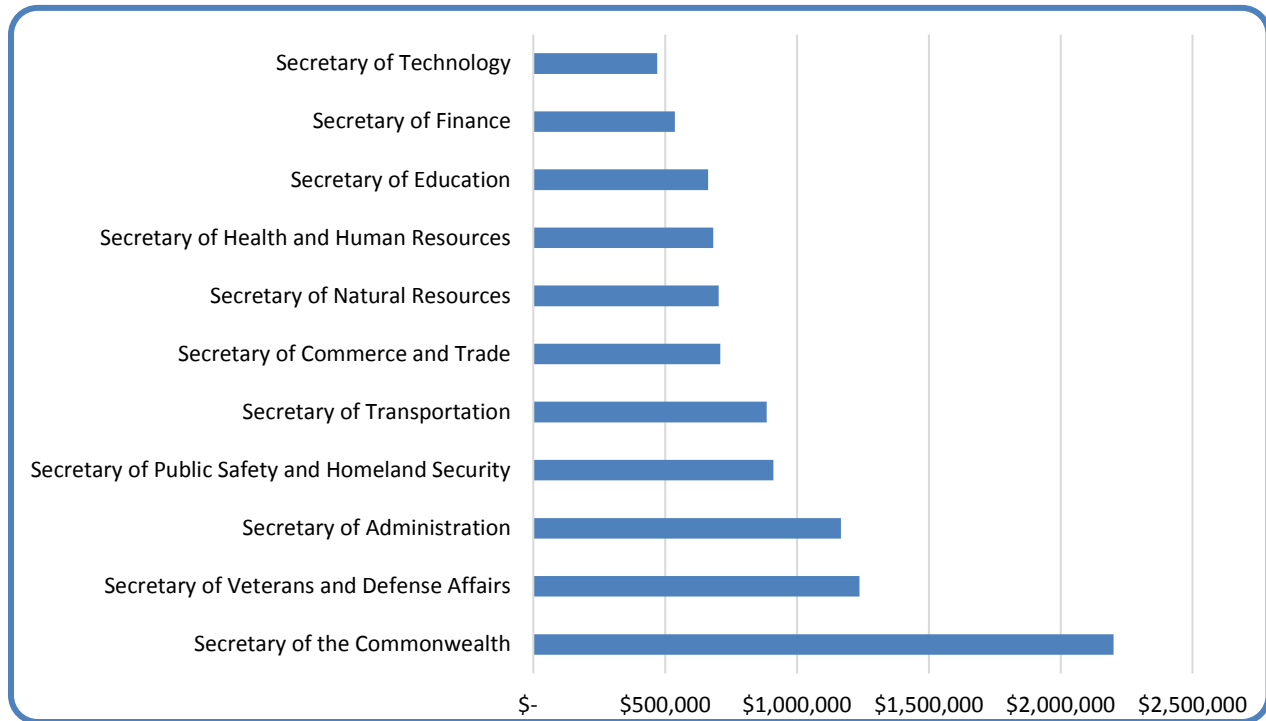
Chart 1





## Expense Summary for Fiscal Year 2017

Chart 2



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 (Division). The Division provides financial and administrative support to the following agencies:

Office of the Governor	Citizens Advisory Council
Office of the Lieutenant Governor	Interstate Organization Contributions
Governor's Cabinet Secretaries	Virginia-Israel Advisory Board

The Secretary receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2016 and 2017.

### Budget and Expense Analysis for Fiscal Years 2016 and 2017

Table 4

	2016	2017
Original appropriations	\$1,193,718	\$1,281,613
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	139,370	196,277
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	<u>78,608</u>	<u>4,426</u>
Total adjusted appropriations	<u>1,411,696</u>	<u>1,482,316</u>
Expenses:		
Personal services	1,069,506	1,021,307
Continuous charges	89,611	89,799
Supplies and materials	38,196	29,604
Contractual services	17,847	24,138
Equipment	260	595
Transfer payments	-	<u>1,000</u>
Total expenses	<u>1,215,420</u>	<u>1,166,443</u>
Unexpended balance	<u>\$ 196,276</u>	<u>\$ 315,873</u>

As mentioned above, the Division of Selected Agency Support Services within the Secretary of Administration provides administrative services for several smaller board and commissions. An overview of these entities, including financial information for the audit period, is included here.

#### *Virginia-Israel Advisory Board*

The Virginia-Israel Advisory Board provides advice to the Governor on ways to improve economic and cultural links between the Commonwealth and the State of Israel, with a focus on the areas of commerce and trade, art and education, and general government. No members of the Board receive compensation for their services. The Board does not receive an original appropriation each year, but receives funding through a transfer from Economic Development Incentive Payments. The following tables summarize the budget and expenses for the Board in fiscal years 2016 and 2017.

### Budget Analysis for Fiscal Years 2016 and 2017

Table 5

	2016	2017
Original budget	\$ -	\$ -
Final budget	208,925	224,360
Actual expenses	195,083	195,518

### Expenses for Fiscal Years 2016 and 2017

Table 6

	2016	2017
Personal services	\$143,673	\$145,173
Contractual services	44,454	42,933
Continuous charges	4,277	3,389
Supplies and materials	2,679	3,023
<b>Total</b>	<b>\$195,083</b>	<b>\$194,518</b>

#### *Citizens' Advisory Council on Furnishing and Interpreting the Executive Mansion*

The Citizens' Advisory Council (Council) on Furnishing and Interpreting the Executive Mansion is an advisory council in the executive branch of state government and operates as a nonprofit charitable organization. The Council does not receive an original appropriation as its funding consists of carryover balances from the previous year. All donations are centralized and solicited by the Virginia Capitol Foundation. Receipts from the Capitol Foundation are deposited into the account of the Council with the Treasurer of Virginia.

The Council had a carryover balance of \$32,911 from fiscal year 2016, and approximately \$22,613 in fiscal year 2017. The following tables summarize the budget and expenses for the Council in fiscal years 2016 and 2017.

### Budget Analysis for Fiscal Years 2016 and 2017

Table 7

	2016	2017
Original budget	\$ -	\$ -
Final budget	32,911	22,613
Actual expenses	10,298	12,230

### Expenses for Fiscal Year 2016 and 2017

Table 8

	2016	2017
Contractual services	\$ 3,689	\$ 6,931
Supplies and materials	6,609	5,389
<b>Total</b>	<b>\$10,298</b>	<b>\$12,320</b>

#### *Interstate Organization Contributions*

Interstate Organization Contributions are memberships to the National Governor's Association and other national organizations paid with General Funds. The expenses for the Organization are the Commonwealth's dues to the national organizations. The following table summarizes the budget and expenses in fiscal years 2016 and 2017.

### Budget Analysis for Fiscal Year 2016 and 2017

Table 9

	2016	2017
Original budget	\$190,940	\$190,938
Final budget	190,940	190,938
Actual expenses	190,939	190,938

### Secretary of Agriculture and Forestry

The 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 table summarizes the budget and expenses for fiscal years 2016 and 2017.

### Budget and Expense Analysis for Fiscal Years 2016 and 2017

Table 10

	2016	2017
Original appropriations	\$360,009	\$381,457
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	3,212	11,446
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	17,781	1,716
Transfer from the Secretary of Commerce and Trade to support office operations	104,088	-
Transfer from the Secretary of Natural Resources to support office operations	-	95,854
Total adjusted appropriations	485,090	490,473
Expenses:		
Personal services	364,310	341,042
Contractual services	67,318	59,467
Continuous charges	24,561	27,229
Supplies and materials	17,455	6,548
Equipment	-	699
Total expenses	473,644	434,985
Unexpended balance	\$ 11,446	\$ 55,488

## **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 table summarizes the General Fund operating budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 11

	2016	2017
Original appropriations	\$659,948	\$803,632
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	180,316	128,090
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	37,427	5,711
Transfer to the Sec. of Agriculture and Forestry	(104,088)	-
Transfer funding related to the Virginia International Trade Corporation	-	(100,000)
Total adjusted appropriations	<u>773,603</u>	<u>837,433</u>
Expenses:		
Personal services	541,030	546,847
Contractual services	56,728	90,751
Continuous charges	46,390	53,553
Supplies and materials	543	16,879
Equipment	<u>822</u>	<u>850</u>
Total expenses	<u>645,513</u>	<u>708,880</u>
Unexpended balance	<u>\$128,090</u>	<u>\$128,553</u>

In addition to the appropriations to fund office operations, the Secretary of Commerce and Trade received General and non-general fund appropriations for economic development incentive payments to various grants as required by the Appropriation Act, which are highlighted in the table below.

## Summary of Grants Disbursed Through the Secretary of Commerce and Trade

Table 12

Grant Name	2016	2017	Authorization
Commonwealth's Development Opportunity Fund (A)	\$19,811,842	\$30,595,658	§2.2-115
Advanced Shipbuilding Training Facility Fund	7,592,582	7,155,840	§59.1-284.23
Major Eligible Employer Grant	6,674,000	-	§2.2-5102
Virginia Jobs Investment Program Fund	5,664,917	6,902,244	§2.2-1611
Governor's Motion Picture Opportunity Fund	4,714,869	6,601,953	§2.2-2320
Economic Development Incentive Grant Fund	4,200,000	4,200,000	§2.2-5102.1
Semiconductor Memory or Logic Wafer Manufacturing Performance Grant	3,800,000	-	§59.1-284.14.1
Virginia Biosciences Health Research Consortium	2,500,000	3,300,000	Appropriation Act
Investment Performance Grant Sub-fund	1,600,224	2,647,310	§2.2-5101
Commonwealth Research Commercialization Fund	1,097,636	-	§2.2-2233.1
Line Item Grants included in the Appropriation Act	1,000,000	-	Appropriation Act
<b>Total</b>	<b>\$58,656,070</b>	<b>\$61,403,005</b>	

(A) Discussed in further detail in paragraphs below

### *Commonwealth's Development Opportunity Fund*

The Commonwealth's Development Opportunity Fund (Opportunity Fund) provides funds to attract economic development prospects and secure the expansion of existing industry within the Commonwealth. The Opportunity Fund's source of funding is General Funds appropriated by the General Assembly. This General Fund appropriation is deposited to the Opportunity Fund in the Office of the Secretary of Commerce and Trade (Secretary), which allows the Governor to make grants to support qualifying projects. 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. The Opportunity Fund cash balances are monitored by the Virginia Economic Development Partnership (Partnership) and Department of Planning and Budget. During periods of slow economic growth when the Opportunity Fund cash balances grow higher than what is required to meet commitments, accumulated balances in the Opportunity Fund are sometimes reduced by legislative action through inter-fund transfers, which revert Opportunity Funds cash back to the General Fund. 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.

The Partnership, the Secretary, and the Governor are all involved in the process of awarding grants from the Development Fund. The Partnership conducts the initial reviews of the proposals for

grants from the Opportunity Fund, and the grants are subject to ultimate approval by the Secretary and the Governor.

Once the Governor has approved an awarded, the locality will request the funds and the Opportunity Fund will disburse the monies to the locality, who then pays the funds to the company. The business generally 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 some or all of 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 (2015 - 2017)**

Table 13

	2015	2016	2017
Beginning cash balance	\$28,551,451	\$23,532,596	\$24,946,098
Net General Fund transfer	21,216,000	18,500,000	17,350,000
Amount repaid by companies	165,145	2,537,143	3,087,616
Interest earned	-	188,201	240,081
Payments to localities/companies	<u>(26,400,000)</u>	<u>(19,811,842)</u>	<u>(30,595,658)</u>
Ending cash balance	<u>\$23,532,596</u>	<u>\$24,946,098</u>	<u>\$15,028,137</u>

Over a period of several years, the Opportunity Fund accumulated a cash balance, though that balance has shown a downward trend in recent years. As of June 30, 2017, the Fund had a cash balance of \$15 million. At that date, the Fund had committed but not paid approximately \$14.9 million to various companies, leaving less than \$200,000 remaining as uncommitted funds. The following chart highlights the five-year trend of the Opportunity Fund's payments to companies, cash balances, and funds available for commitment after taking into account commitments, which have not been paid. The chart does not include preapproved offers since those contracts have not been finalized.

**Opportunity Fund Trends (2013 - 2017)**

Chart 3



## **Secretary of the Commonwealth**

The Secretary of the Commonwealth performs the following duties:

- Serves as custodian of the Governor's official records;
- Handles services of process on some defendants in civil actions, processes extraditions, and restores civil rights;
- Registers and regulates lobbyists;
- Appoints and regulates notaries public;
- Researches and coordinates recommendations for gubernatorial appointments to boards and commissions;
- Compiles and publishes the Report on the Secretary of the Commonwealth;
- Maintains conflict of interest statements filed by state officials; and
- Maintains the Governor's Executive Journal and papers.

The Secretary primarily receives General Fund appropriations. During the period under review, the Secretary also received funding through the Commonwealth's Technology Trust Fund to provide for technology improvements to improve tracking of notary process fees, service of process fees, and various other fees. The Technology Trust Fund receives \$10 of the total \$45 fee the Secretary assesses when commissioning notaries public. The Secretary collects and deposits the rest of the fees directly in the General Fund of the Commonwealth. Fee collections for all revenue sources totaled approximately \$3 million in fiscal year 2016 and \$3.1 million in fiscal year 2017.

The following tables summarize the budget and expenses for the Secretary in fiscal year 2016 and 2017. The table includes the Technology Trust Fund appropriation for both fiscal years, funded by the \$10 technology fee discussed above. The Technology Trust Fund appropriation was used for system enhancements to the Customer Relationship Management System, and was provided as an administrative budget adjustment during fiscal year 2016, but was included in the Secretary's base budget for fiscal year 2017. The table below does not include the remaining fee collections since they are not available to the Secretary to fund operations.



# Budget and Expense Analysis for Fiscal Years 2016 and 2017

Table 14

	2016	2017
Original appropriations	\$1,952,085	\$2,160,703
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	142,417	129,465
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	85,230	13,729
Appropriation for information technology costs to host and support an application	<u>85,800</u>	<u>-</u>
Total adjusted appropriations	<u>2,265,532</u>	<u>2,303,897</u>
Expenses:		
Personal services	1,426,190	1,487,712
Contractual services	527,312	538,598
Continuous charges	144,743	150,560
Supplies and materials	22,653	21,476
Equipment	5,101	1,343
Transfer payments	<u>2,918</u>	<u>668</u>
Total expenses	<u>2,128,917</u>	<u>2,200,357</u>
Unexpended balance	<u>\$ 136,615</u>	<u>\$ 103,540</u>

## **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 following table summarizes the General Fund operating budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 15

	2016	2017
Original appropriations	\$634,296	\$674,735
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	4,721	3,916
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	<u>36,041</u>	<u>977</u>
Total adjusted appropriations	<u>675,058</u>	<u>679,628</u>
Expenses:		
Personal services	607,309	587,468
Continuous charges	39,524	50,843
Contractual services	23,458	22,961
Supplies and materials	776	1,398
Equipment	<u>75</u>	<u>81</u>
Total expenses	<u>671,142</u>	<u>662,751</u>
Unexpended balance	<u>\$ 3,916</u>	<u>\$ 16,877</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 following table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 16

	2016	2017
Original appropriations	\$453,785	\$ 488,354
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	56,271	35,248
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	31,146	904
Transfer from the Secretary of Technology to support office operations	93,729	104,752
Funding for intervention and remediation efforts for localities undergoing fiscal distress	-	<u>500,000</u>
Total adjusted appropriations	<u>634,931</u>	<u>1,129,258</u>
Expenses:		
Personal services	566,876	504,678
Continuous charges	24,193	25,181
Contractual services	8,237	5,728
Supplies and materials	377	1,286
Equipment	-	<u>299</u>
Total expenses	<u>599,683</u>	<u>537,172</u>
Unexpended balance	<u>\$ 35,248</u>	<u>\$592,086</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 primarily receives General Fund appropriations to fund office operations. The following table summarizes budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 17

	2016	2017
Original appropriations	\$ 823,257	\$ 742,324
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	78,472	191,580
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	50,188	4,755
Transfer to the Secretary of Public Safety and Homeland Security	(78,401)	-
Provides funding to develop an implementation plan to realign the public behavioral health system	<u>-</u>	<u>236,156</u>
Total adjusted appropriations	<u>873,516</u>	<u>1,174,815</u>
Expenses:		
Personal services	593,842	606,395
Continuous charges	59,328	58,648
Contractual services	28,297	16,582
Supplies and materials	<u>469</u>	<u>649</u>
Total expenses	<u>681,936</u>	<u>682,274</u>
Unexpended balance	<u>\$191,580</u>	<u>\$ 492,541</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 primarily receives General Fund appropriations to fund office operations. The following table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 18

	2016	2017
Original appropriations	\$656,303	\$687,130
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	190,221	169,710
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	27,866	4,034
Transfer to the Secretary of Public Safety and Homeland Security	(45,245)	-
Transfer to the Secretary of Agriculture and Forestry	-	(95,854)
Appropriation to support the Chesapeake Bay Restoration Contribution Fund	-	10,000
Total adjusted appropriations	<u>829,145</u>	<u>775,020</u>
Expenses:		
Personal services	597,153	635,669
Continuous charges	40,253	38,902
Contractual services	17,381	18,056
Transfer payments	-	10,000
Supplies and materials	3,727	275
Equipment	920	-
Total expenses	<u>659,434</u>	<u>702,902</u>
Unexpended balance	<u>\$169,711</u>	<u>\$ 72,118</u>

The Secretary is also responsible for managing the Chesapeake Bay Restoration Contribution fund. This fund receives a transfer from the Department of Taxation quarterly with voluntary contributions made by citizens of the Commonwealth. State agencies then submit requests to receive money for Chesapeake Bay restoration projects. After approval by both the Secretary and the Department of Planning and Budget, the Secretary transfers cash to the requesting state agency. No transfers were made during fiscal year 2016, and \$10,000 was transferred during fiscal year 2017. As of June 30, 2017, this fund now has a balance of \$276,239 remaining for future projects.

## **Secretary of Public Safety and Homeland Security**

The Secretary provides management and direction of public safety agencies and provides program coordination, policy planning, and budget formulation activities.

In addition, 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, local governments, and first responders on emergency prevention, preparedness, response, and recovery issues. The Secretary receives General Fund appropriations to fund office operations and federal funds through the Department of Emergency Management related to payroll reimbursements for one employee within this Secretariat. The following table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 19

	2016	2017
Original appropriations	\$1,128,513	\$1,214,527
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	9,609	28,497
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	51,626	3,604
Transfer of funding from the Secretary of Natural Resources to support office operations	45,245	-
Transfer of funding from the Secretary of Health and Human Resources to support office operations	<u>78,401</u>	<u>-</u>
Total adjusted appropriations	<u>1,313,394</u>	<u>1,246,628</u>
Expenses:		
Personal services	946,354	794,214
Continuous charges	94,047	86,162
Contractual services	24,933	25,802
Supplies and materials	4,235	2,694
Equipment	<u>1,091</u>	<u>1,132</u>
Total expenses	<u>1,070,660</u>	<u>910,004</u>
Unexpended balance	<u>\$ 242,734</u>	<u>\$ 336,624</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 the 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 table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 20

	2016	2017
Original appropriations	\$516,574	\$553,182
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	152,089	110,145
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	31,579	899
Transfer to the Secretary of Finance	<u>(93,729)</u>	<u>(104,752)</u>
Total adjusted appropriations	<u>606,513</u>	<u>559,474</u>
Expenses:		
Personal services	404,498	392,923
Continuous charges	46,052	44,297
Contractual services	41,115	30,666
Supplies and materials	4,703	1,806
Transfer payments	<u>-</u>	<u>816</u>
Total expenses	<u>496,368</u>	<u>470,508</u>
Unexpended balance	<u>\$110,145</u>	<u>\$ 88,966</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. The following table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 21

	2016	2017
Original appropriations	\$832,014	\$888,357
Adjustments:		
Non-general Fund revenue adjustments to support office operations	-	12,750
Total adjusted appropriations	<u>832,014</u>	<u>901,107</u>
Expenses:		
Personal services	790,057	810,139
Contractual services	34,624	42,251
Continuous charges	3,220	32,509
Supplies and materials	908	642
Equipment	<u>95</u>	<u>-</u>
Total expenses	<u>828,904</u>	<u>885,541</u>
Unexpended balance	<u>\$ 3,110</u>	<u>\$ 15,566</u>



## **Secretary of Veterans and Defense Affairs**

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 following table summarizes the budget and expenses for fiscal years 2016 and 2017.

**Budget and Expense Analysis for Fiscal Years 2016 and 2017**

Table 22

	2016	2017
Original appropriations	\$1,041,252	\$1,476,546
Adjustments:		
Discretionary re-appropriation of prior year unexpended General Fund cash balances	398,677	557,717
Transfer from Central Appropriations for employee salary increases in fiscal year 2016, benefit changes, and other amounts	17,399	388
Transfer from the Office of the Governor to support office operations	-	260,985
Transfer to the Department of Veterans Services based on recommendations from the Virginia Veteran and Family Support working group	-	(393,494)
Funding to support efforts related to the Commission on Military Installations and Defense Activities' recommendations	<u>175,000</u>	<u>-</u>
Total adjusted appropriations	<u>1,632,328</u>	<u>1,902,142</u>
Expenses:		
Personal services	768,592	774,906
Contractual services	39,901	422,167
Transfer payments	136,945	-
Continuous services	35,411	37,539
Supplies and materials	4,457	2,531
Equipment	1,175	-
Total expenses	<u>986,481</u>	<u>1,237,143</u>
Unexpended balance	<u>\$ 645,847</u>	<u>\$ 664,999</u>

During the audit period, the Secretary contracted with a consultant to implement the recommendations resulting from the Governor's Commission on Military Installations and Defense Activities. The recommendations and resulting contractual arrangement is devoted to protecting the Commonwealth's current level of federal military installations and defense activities, and increase the capacity for additional military and defense activities going forward. The Secretary spent \$225,000 for these purposes in fiscal year 2016, and more than \$650,000 in fiscal year 2017.

In addition to routine office operations such as personal services expenses that are shown in Table 22 above, the Secretary received approximately \$5.1 million in General Funds and another \$2.6 million in non-general funds in fiscal year 2016 for the Military Strategic Response Fund (MSRF) and Federal Action Contingency Trust (FACT) Fund, which both support local implementation of federal Base Realignment and Closure Commission (BRAC) recommendations. In fiscal year 2017, the Secretary received about \$2.6 million in General Funds for similar purposes. Specifically, the purpose of these funds is to provide for economic development incentive to limit the adverse economic impacts of closure, relocation, or realignment of federal military or security installations or other federal agencies located in Virginia. The Secretary administered grant payments of approximately \$3.9 million to the City of Virginia Beach, \$945,000 to the City of Hampton, and \$673,000 to the City of Chesapeake during fiscal year 2016 primarily for the purpose of purchasing properties in support of the BRAC Program. While the Secretary received about \$2.6 million in General Funds for similar purposes in fiscal year 2017, it did not make any similar payments to impacted local governments as requests for reimbursement were not made during 2017.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

September 29, 2017

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Office of the Governor and the Governor's Cabinet Secretaries** (Office) for the period July 1, 2015, through June 30, 2017. 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's accounting and financial reporting system; review the adequacy of the Office's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

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

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenses, including payroll  
Small purchase charge card transactions  
Appropriations  
Cash receipts  
At-will employee leave

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Office's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

We used a non-statistical sampling approach. Our samples were designed to support conclusions about our audit objectives. We applied an appropriate sampling methodology to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes to test in each sample and, when appropriate, projected our results to the population.

### **Conclusions**

We found that the Office properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. We noted one issue with compliance with applicable laws, regulations, contracts, and grant agreements that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

The Agency has taken adequate corrective action with respect to the audit finding reported in the prior year.

### **Exit Conference and Report Distribution**

We discussed this report with management on October 2, 2017. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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



AUDITOR OF PUBLIC ACCOUNTS

ZLB/clj



# **COMMONWEALTH of VIRGINIA**

**Office of the Governor  
Richmond 23219**

Secretary of Administration  
Division of Selected Agency  
Support Services

October 4, 2017

Martha S. Mavredes, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Mavredes:

We have reviewed your report on our audit for the period July 1, 2015 through June 30, 2017, that identified a compliance matter.

We agree with and respect the finding. We will, in the very near future, correct the reporting efforts to insure that budget transparency concerns, and proper reporting standards are met.

We appreciate the efforts of the audit team, and the constructive advice offered to us throughout the process.

Sincere Regards,

A handwritten signature in blue ink, reading "Dennis M. Johnson".

Dennis M. Johnson  
Director, Division of Selected Agency Support Services

## OFFICE OF THE GOVERNOR AND GOVERNOR'S CABINET SECRETARIES

As of June 30, 2017

Terence R. McAuliffe, Governor

Paul Reagan, Chief of Staff

Nancy Rodrigues, Secretary of Administration

Dr. Basil Gooden, Secretary of Agriculture and Forestry

Todd P. Haymore, Secretary of Commerce and Trade

Kelly Thomasson, Secretary of the Commonwealth

Dr. Dietra Trent, Secretary of Education

Richard D. Brown, Secretary of Finance

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

Molly Joseph Ward, Secretary of Natural Resources

Brian J. Moran, Secretary of Public Safety and Homeland Security

Karen R. Jackson, Secretary of Technology

Aubrey L. Layne, Jr., Secretary of Transportation

John C. Harvey, Jr., Secretary of Veterans and Defense Affairs

### DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director