



OFFICE OF THE GOVERNOR
AND
THE GOVERNOR'S CABINET SECRETARIES

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2023

Auditor of Public Accounts
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AUDIT SUMMARY

This report includes the results of our audit for the fiscal year ended June 30, 2023, for the Office of the Governor and the Cabinet Secretaries as listed below. The Division of Executive Administrative Services, within the Secretary of Administration's office, provides financial services and administrative support to these agencies.

Office of the Governor	Secretary of Health and Human Resources
Secretary of Administration	Secretary of Labor
Secretary of Agriculture and Forestry	Secretary of Natural and Historic Resources
Secretary of Commerce and Trade	Secretary of Public Safety and Homeland Security
Secretary of the Commonwealth	Secretary of Transportation
Secretary of Education	Secretary of Veterans and Defense Affairs
Secretary of Finance	

Our audit of the Office of the Governor and Cabinet Secretaries 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; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to one prior audit finding identified as complete in the [Findings Summary](#) included in the Appendix.

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FINANCIAL AND OPERATIONAL INFORMATION

This audit covers the Office of the Governor as well as the twelve Cabinet Secretaries. The Division of Executive Administrative Services, within the Secretary of Administration's office, has approximately seven staff who handle transaction processing and financial reporting responsibilities for the agencies. The individual agencies included within the scope of our audit are listed below:

Office of the Governor (including Interstate Organization Contributions and the Citizens' Advisory Council on Furnishing and Interpreting the Executive Mansion)

Cabinet Secretaries

- *Secretary of Administration*
- *Secretary of Agriculture and Forestry*
- *Secretary of Commerce and Trade, including Economic Development Incentive Payments*
- *Secretary of the Commonwealth*
- *Secretary of Education*
- *Secretary of Finance*
- *Secretary of Health and Human Resources*
- *Secretary of Labor*
- *Secretary of Natural and Historic Resources*
- *Secretary of Public Safety and Homeland Security*
- *Secretary of Transportation*
- *Secretary of Veterans and Defense Affairs*

The following report sections include detailed financial information on the operations of the Office of the Governor for fiscal year 2023. In addition, we have included a summary of operational expenses for each of the Cabinet Secretaries. There are some unique financial activities that are not included in the summary, primarily related to the Secretary of Commerce and Trade and the Secretary of the Commonwealth. Both Secretaries oversee certain statewide financial activities that are discussed separately later in this report.

Office of the Governor

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 Office of the Governor (Office) receives most of its funding through General Fund appropriations, and Table 1 on the following page summarizes the Office's budget and actual activity over the last two years.

Office of the Governor
Budget and Expense Summary for Fiscal Years 2022 and 2023

Table 1

	2022	2023
Original budget	\$7,513,717	\$10,257,726
Final budget	9,930,106	17,088,065
Actual expenses	8,160,422	10,515,738

Source: Commonwealth's accounting and financial reporting system

The Office's budget for 2023 increased by \$7.2 million during the year. Roughly \$2.8 million of this growth was due to an increase in General Fund appropriations to support the development of the Office of Diversity, Equity, and Inclusion and the addition of four new positions within the Office of the Chief Transformation Officer. Additionally, a budget adjustment of roughly \$4.3 million transferred General Funds from other Cabinet Secretaries to the Office; these funds will be transferred back to Cabinet Secretaries as needed for special initiatives in future fiscal years. The Office's overall expenses increased by \$2.4 million when compared to fiscal year 2022. These increases are primarily due to personnel costs associated with the addition of new positions previously discussed. Table 2 below details budget and expense activity for fiscal year 2023. The largest expense area is payroll and fringe benefit costs for the Office's 66 full-time employees. The Office did not expend all of its appropriation and ended the fiscal year with a balance of \$6.6 million; this was primarily due to the \$4.3 million budget adjustment discussed above and initiatives that were not completed during the fiscal year. Out of this amount, approximately \$2.2 million carried forward into fiscal year 2024.

**Office of the Governor
Budget and Expense Analysis for Fiscal Year 2023**

Table 2

	2023
Original budget	\$10,257,726
Adjustments:	
Discretionary Balance carry forward	1,006,228
Transfer in of General funds for implementation of government transformation initiatives	683,000
Transfer of funds from the Cabinet Secretaries to the Office of the Governor to support special initiatives	4,333,099
Other administrative adjustments	<u>808,012</u>
Total adjusted budget	<u>17,088,065</u>
Expenses:	
Personal services	7,380,720
Contractual services	2,136,551
Continuous charges	514,717
Supplies and materials	227,925
Other expenses	<u>255,825</u>
Total expenses	<u>10,515,738</u>
Unexpended balance	<u>\$ 6,572,327</u>

Source: Commonwealth's accounting and financial reporting system

In addition to routine administrative programs, 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 through the Disaster Planning and Operation program. The Department of Planning and Budget did not transfer any General Fund appropriations from this program to Emergency Management in response to natural disasters during the fiscal year.

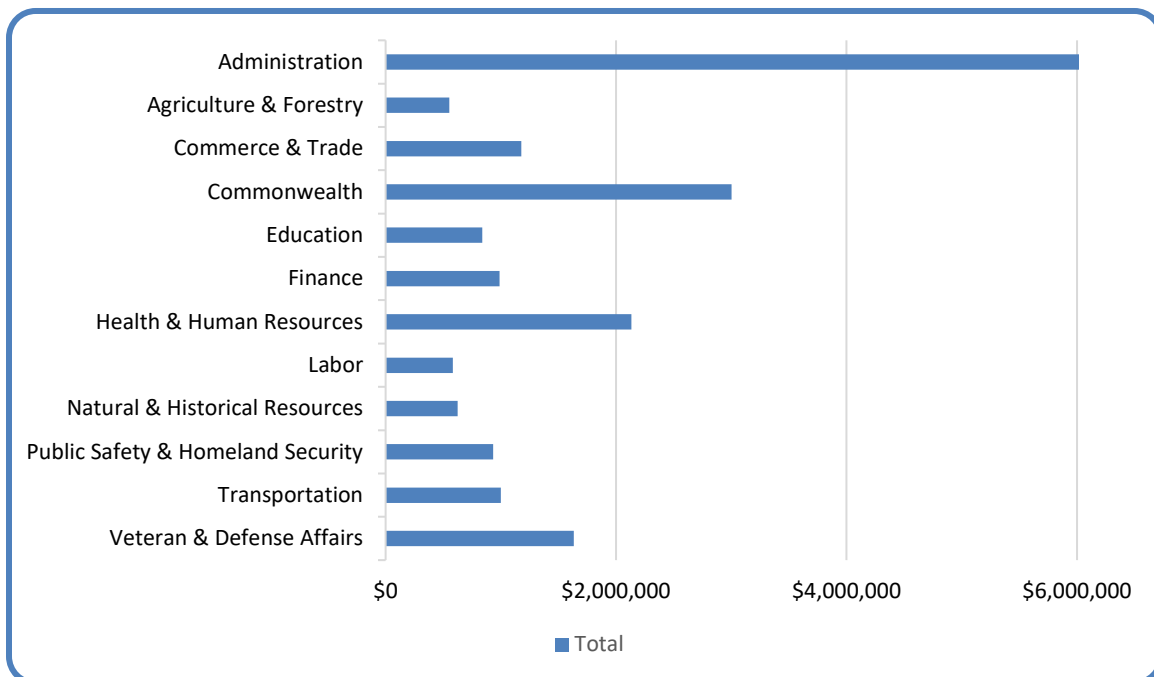
Cabinet Secretaries

The 12 Cabinet Secretaries oversee and manage various areas of state government, including executive branch agencies. In addition to oversight of state agencies, the Secretaries also assist the Governor in formulating policy and providing expertise and budget development guidance on the respective areas under the control of the individual Secretaries.

The nature of administrative office operations for most of the Secretaries' offices is similar, but the funding sources may vary. The majority of the Secretaries receive General Fund appropriations to fund office operations, but a few Secretaries also receive special revenue funds for various purposes. Generally, the most significant administrative expense for the Secretaries are payroll and fringe benefits costs for their office personnel. Chart 1 below summarizes the total administrative costs of operations for each Secretary for fiscal year 2023.

Operational Expense Summary by Cabinet Secretary for Fiscal Year 2023

Chart 1



Source: Commonwealth's accounting and financial reporting system

While most of the Cabinet Secretaries' offices spend \$1.0 million or less annually for operations, there are four offices that have unique functions resulting in larger expenses in comparison to other offices. Expenses for the Secretary of Administration primarily relate to costs for the Office of Data Governance and Analytics, which includes the related personnel costs, maintenance of a statewide data dictionary, and data cataloging activities that are funded through fees paid by state agencies. The Secretary of the Commonwealth has several unique responsibilities that require a larger professional staff than some of the other secretaries, and this is discussed in greater detail later in the report. The Secretary of Veterans and Defense Affairs operates the State Military Community Infrastructure Program, which provides state matching dollars for localities to receive federal grant funding. Finally, the Secretary of Health and Human Resources has initiated a significant project related to the transformation and redesign of behavioral health statewide, which has resulted in additional contractual service expenses.

In addition to managing office operations, there are two Secretaries that also oversee significant financial programs or operations within the state that warrant separate discussion. The Secretary of Commerce and Trade is involved in statewide economic development activities, and the Secretary of the Commonwealth collects various fees, which are deposited to the General Fund of the Commonwealth. Financial activity related to these activities is not included in Chart 1 but is discussed in greater detail in the following sections.

Secretary of Commerce and Trade

The Secretary of Commerce and Trade oversees various economic development programs in the Commonwealth. The Secretary's office works closely with the Governor and other agencies in implementing the programs intended to increase job creation and business development. The majority of these programs are funded with General Fund appropriations, which are initially appropriated in the Economic Development Incentive Payments (EDIP) section of the Appropriation Act, under the Secretary of Commerce and Trade.

The General Assembly is responsible for setting the requirements for how the funds are to be used. Funds from EDIP are transferred to the Secretary's Office when the specific requirements have been met and economic development incentive payments are ready to be processed. Due to the nature of economic development programs, it can take several years before the specific requirements are met. As a result, there are times when there is a delay between when funds are appropriated and when they are spent.

In fiscal year 2023, the General Assembly appropriated more than \$155.4 million in economic development program funding to EDIP. In turn, EDIP transferred about \$204.4 million to the Secretary's Office to support various economic development programs approved by the General Assembly, which included some carry forward funding from prior years. Table 3 on the following page shows the specific programs to which the funds were transferred and the related expenses in fiscal year 2023.

Summary of Economic Development Services Program Activity
Secretary of Commerce and Trade
Fiscal Year 2023

Table 3

Type of Program	Amounts Transferred from EDIP	Expenses
Virginia Business Ready Sites Program	\$109,000,000	\$ 9,882,852
Major Headquarters Workforce Grant	42,500,000	-
Commonwealth's Development Opportunity	19,750,000	4,394,563
Advanced Shipbuilding Production Facility Grant	8,000,000	8,000,000
Technology Development Grant	5,625,000	5,625,000
Virginia Jobs Investment Program	4,669,833	1,833,350
Governor's Motion Picture Opportunity	4,000,000	1,500,000
Pharmaceutical Manufacturing Grant	2,993,750	2,993,750
Investment Performance Grant	2,910,000	2,450,000
Shipping and Logistics Headquarters Grant	1,359,500	-
Advanced Production Grant	1,300,000	-
Virginia Economic Development Incentive Grant	1,200,000	1,000,000
Governor's New Airline Service Incentive	825,000	69,812
Truck Manufacturing Grant	300,000	-
Total	<u>\$204,433,083</u>	<u>\$37,749,327</u>

Source: Commonwealth's accounting and financial reporting system

Many of the economic development programs in Table 3 are targeted to specific industries; however, the Commonwealth's Development Opportunity Fund (Opportunity Fund) is not limited to any specific business sector. The Governor is given greater discretion in awarding these funds, which are generally contingent on companies meeting certain criteria, such as the creation of a certain number of jobs. The Virginia Economic Development Partnership (Partnership), the Secretary, and the Governor are involved in the process of awarding grants from the Opportunity Fund. The Partnership conducts the initial reviews of the grant proposals, but the grants are subject to final approval by the Secretary and the Governor.

In fiscal year 2023, the General Assembly appropriated \$19.8 million to the Opportunity Fund. Table 4 on the next page summarizes financial activity in the Opportunity Fund for fiscal year 2023. The amount shown in the table as "Amount repaid by companies" reflects situations where economic development funds were "clawed back" from a company because they did not meet the required criteria.

**Summary of Commonwealth's Development Opportunity Fund Activity
Fiscal Year 2023**

Table 4

	2023
Beginning cash balance	\$ 77,802,043
General Fund appropriations	19,750,000
Amount repaid by companies	7,549,125
Interest earned	1,583,501
Payments to localities/companies	<u>(4,394,563)</u>
Ending cash balance	<u>\$ 102,290,106</u>

Source: Commonwealth's accounting and financial reporting system

The Partnership and the Department of Planning and Budget monitor the Opportunity Fund cash balance and compare it to the Opportunity Fund's commitments. The cash balance in the Opportunity Fund has been growing in recent years due primarily to a shift to post-performance grants where payments are made after a business has met certain benchmarks. Prior to this change, payments were made before the completion of any performance metrics, which sometimes resulted in companies having to pay back funds if they did not meet the agreed upon metrics. Of the cash balance remaining in the Opportunity Fund at the end of fiscal year 2023, approximately \$55.4 million is committed to approved projects leaving an uncommitted balance of nearly \$46.9 million.

Secretary of the Commonwealth

The Secretary of the Commonwealth has a broad range of duties and responsibilities, including serving as the custodian of the Governor's official records; handling services of process on some defendants in civil actions, extraditions, and civil rights restorations; registering and regulating lobbyists; appointing and regulating notaries public; and researching and coordinating recommendations for gubernatorial appointments to boards and commissions.

As part of these duties, the Secretary is responsible for collecting several different fees that generally get deposited to the General Fund. The most significant of these fees are fees for commissioning notaries public and service of process fees. Service of process fees are generated by the initiation of certain legal proceedings within Virginia's judicial system. Fees collected by the Secretary's office totaled approximately \$3.3 million in fiscal year 2023, as shown below in Table 5.

Secretary of the Commonwealth Fee Collections for Fiscal Year 2023

Table 5

Fees Collected	
Notary Commission Fees	\$1,404,191
Service of Process Fees	954,622
Technology Fee – Notary Commission Fees	402,435
Lobbyist Registration Fees	274,808
Certificates of Authentication Fees	263,479
Other Fees	<u>22</u>
Total Fees Collected	<u>\$3,299,557</u>

Source: Commonwealth's accounting and financial reporting system



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 7, 2024

The Honorable Glenn Youngkin
Governor of Virginia

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 year ended June 30, 2023. 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. See the [Findings Summary](#) included in the Appendix for a listing of prior audit findings and the status of follow-up on management's corrective action.

Audit Scope and Methodology

The Office's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, 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 and small purchase charge card transactions
- Economic development payments
- System access controls
- Appropriations
- Cash receipts (Secretary of the Commonwealth)

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, and tested details of transactions to achieve our audit objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples, and when appropriate, we 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. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Office 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 June 20, 2024. 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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action	First Issued
Improve Policies and Procedures over Expenses	Closed	2022