



GOVERNOR'S CABINET SECRETARIES
AS ADMINISTERED BY
THE DIVISION OF SELECTED AGENCY SERVICES

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2014

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
FINANCIAL INFORMATION BY CABINET SECRETARY:	
Introduction	3
Secretary of Administration	4
Secretary of Agriculture and Forestry	5
Secretary of Commerce and Trade	6-9
Secretary of Education	9-10
Secretary of Finance	10-11
Secretary of Health and Human Resources	11-12
Secretary of Natural Resources	12-13
Secretary of Public Safety and Homeland Security	13-14
Secretary of Technology	15
Secretary of Transportation	15-16
Secretary of Veterans and Defense Affairs	16-18
INDEPENDENT AUDITOR'S REPORT	19-20
AGENCY RESPONSE	21-25
AGENCY OFFICIALS	26

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Oversight of Federal Action Contingency Trust Funds

The Secretary of Veterans and Defense Affairs (Secretary) does not have sufficient controls in place to ensure that Federal Action Contingency Trust (FACT) Funds expensed to projects associated with the federal government's Base Realignment and Closure Commission (BRAC) Recommendation are used in accordance with the Appropriation Act or in accordance with executed grant agreements. During fiscal year 2014, the Secretary did not sufficiently monitor the submission of certified quarterly expense reports, designate authorized representatives of grantees, receive and review audit reports, and for one recipient did not execute a grant agreement. Additionally, in 2013, the Secretary made the decision to no longer place liens on properties purchased with FACT funds. Previously, the Secretary used the liens to ensure it was aware when recipients sold these properties to ensure it received 50 percent of the proceeds in accordance with the Appropriation Act.

Chapter 806 of the 2013-2014 Appropriation Act requires the following monitoring activities for FACT Fund recipients to ensure that BRAC grant awards are used for authorized purposes in compliance with applicable laws and regulations:

- **Item 459.05.A** appropriates \$1,286,504 from non-general funds to the U.S. Navy Master Jet Base (City of Virginia Beach) and mandates these funds shall only be expensed by purchasing property.
- **Item 459.05.B** mandates the Secretary "shall develop an annual grant application" which at a minimum should require the grantee to report expenditures each quarter, retain invoices etc., provide a 50 percent cash match for each property purchased, return excess state grant, and split all proceeds from the sale of any properties.
- **Item 459.05.C.1** requires that prior to the distribution of any funds, any grantee seeking funding shall submit a grant application to the Secretary.
- **Item 459.05.C.2** mandates that payments to grantees shall be made in quarterly installments and after initial payments the Secretary shall make additional payments to the grantee based on quarterly expenditure reports and ensure that the Grantee's matching funding is being expensed at the appropriate rate. Finally, this item requires the Secretary to limit surplus state funding at the local level by withholding quarterly payments as necessary.
- **Item 459.05.D** states the Commonwealth shall have the right to make inspections and copies of the books and records of the Grantee at any time and that the Grantee shall undergo an audit for the grant period and provide a copy of the audit report to the Secretary.
- **Item 469J.1.C** mandates that the FACT Funds appropriated to assist the Virginia locality with the U.S. Air Force base (City of Hampton) shall only be used to purchase properties from willing sellers.

To assist in performing its monitoring activities, the Secretary established a FACT Fund Memorandum of Agreement with the City of Hampton, executed on July 22, 2013, requiring the City to comply with various reporting and accounting requirements. However, the Secretary did not establish an equivalent grant agreement or Memorandum of Agreement with the City of Virginia Beach, as the Chief of Staff authorized the release of \$7.5 million. Since the Secretary did not establish an agreement with the City of Virginia Beach or properly monitor \$10.5 million expensed to BRAC grant recipients as required in the Appropriations Act, there is an increased risk that recipients are not properly obtaining and expensing matching funds, returning to the Commonwealth its share of proceeds from the sale of properties, or using the funds for the intended purposes prescribed by the General Assembly.

In 2005, the General Assembly established the Virginia National Defense Industrial Authority (VNDIA) and tasked this entity with administering the Military Strategic Response Fund (MSRF), which was a previous iteration of the BRAC Program. VNDIA reviewed grant documentation and project progress and, based on this review, approved or disapproved payment of funds on a reimbursement basis. In fiscal year 2012, VNDIA ceased to exist and the Department of Veterans Affairs assumed responsibility for the administration of BRAC Grants. Chapter 2 of the 2013-2014 Appropriations Act created the FACT Fund which continued to fund BRAC Projects administered by the Secretary of Veterans and Defense Affairs. Due to time constraints, the Secretary no longer continued the practice of requiring expenditure support for review in the manner that VNDIA administered the MSRF grant and no longer expensed funds on a reimbursement basis.

The Secretary should develop and implement a grant agreement with all recipients and evaluate the Appropriation Act monitoring requirements and incorporate these requirements into policies and procedures to ensure compliance. This should at a minimum include requiring grant recipients to submit certified quarterly expense reports by an authorized representative of the grantee, requesting and reviewing grant recipient audits, and ensuring that recipients use the funds for their intended purposes.

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 and Homeland Security
Secretary of Education	Secretary of Technology
Secretary of Finance	Secretary of Transportation
Secretary of Veterans and Defense Affairs	

While most Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth, some Secretaries also receive various special revenue funds, which we discuss in further detail throughout this report.

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

Budget and Expense Summary for Fiscal Year 2014

	Original Budget	Final Budget	Expenses
Secretary of Administration	\$1,061,775	\$1,256,892	\$1,201,356
Secretary of Agriculture and Forestry	344,602	358,604	347,641
Secretary of Commerce and Trade	632,413	753,560	526,169
Secretary of Education	1,207,073	857,564	828,594
Secretary of Finance	425,362	551,939	449,538
Secretary of Health and Human Resources	640,954	850,398	724,740
Secretary of Natural Resources	628,181	724,831	530,781
Secretary of Public Safety and Homeland Security	556,377	801,852	705,769
Secretary of Technology	495,706	563,656	458,001
Secretary of Transportation	814,573	907,061	865,238
Secretary of Veterans and Defense Affairs	1,588,239	2,472,437	1,484,813
Total	\$8,395,255	\$10,098,794	\$8,122,640

The report has a section for each Secretary that summarizes the purpose and funding of each of the Secretaries listed in the table above. The format of the information will vary based on the Secretaries' funding sources and their responsibilities.

Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services. The Division provides financial and administrative support to 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 tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$1,060,567	\$1,061,775
Final budget	1,105,074	1,256,892
Actual expenses	1,079,283	1,201,356

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$1,061,775
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	111,133
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	58,193
Discretionary reappropriation of prior year unexpended General Fund cash balances	25,791
Total adjusted appropriations	1,256,892
Expenses:	
Personal services	1,048,604
Continuous charges	63,564
Supplies and materials	54,169
Contractual services	19,575
Equipment	15,316
Transfer payments	128
Total expenses	1,201,356
Unexpended balance	\$ 55,536

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 tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$344,234	\$344,602
Final budget	381,643	358,604
Actual expenses	380,626	347,641

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$344,602
Adjustments:	
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	12,986
Discretionary reappropriation of prior year unexpended General Fund cash balances	1,016
Total adjusted appropriations	358,604
Expenses:	
Personal services	267,199
Contractual services	41,904
Continuous charges	33,532
Supplies and materials	3,553
Transfer payments	1,453
Total expenses	347,641
Unexpended balance	\$ 10,963

Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the General Fund operating budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$631,721	\$632,413
Final budget	656,406	753,560
Actual expenditures	608,632	526,169

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$632,413
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	50,004
Discretionary reappropriation of prior year unexpended General Fund cash balances	47,773
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	23,370
Total adjusted appropriations	\$753,560
Expenses:	
Personal services	467,502
Continuous charges	40,158
Contractual services	16,594
Equipment	1,043
Supplies and materials	872
Total expenses	526,169
Unexpended balance	\$227,391

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. Approximately 93 percent of the grants shown in the table were funded with General Funds and the remainder with non-general funds.

Summary of Grants Disbursed Through the Secretary of Commerce and Trade

Grant Name	Amount Funded	Amount Disbursed	Code of Virginia Section
Governor's Development Opportunity Fund ^(A)	\$11,811,055	\$11,311,798	§2.2-115
Semiconductor Memory or Logic Wafer Manufacturing Performance Grant	5,400,000	5,400,000	§59.1-284.14.1
Major Eligible Employer Grant ^(C)	5,000,000	5,000,000	§2.2-5102
Advanced Shipbuilding Training Facility Fund	5,000,000	5,000,000	§59.1-284.23
Grant payments to non-stock corporate research consortium*	5,000,000	5,000,000	§2.2-2240.2
Governor's Motion Picture Opportunity Fund ^(B)	3,375,000	1,478,236	§2.2-2320
Investment Performance Grant Fund ^(C)	3,745,039	2,465,039	§2.2-5101
Economic Development Incentive Grant ^(C)	2,100,000	1,600,000	§2.2-5102.1
Commonwealth Research Commercialization Fund	1,797,453	1,797,453	§2.2-2233.1
Total	\$43,228,547	\$39,052,526	

*Represents new grants in fiscal year 2014, discussed in further detail in paragraphs below

(A) Discussed in further detail in paragraphs below

(B) Motion Picture Fund also received \$145,968 in revenues generated by a digital media fee

(C) Subfunds of the Virginia Investment Partnership Grant Fund

Non-stock Corporate Research Consortium

The General Assembly established a new strategic initiative in which \$2.5 million from the General Fund was appropriated for fiscal years 2013 and 2014, respectively, to provide for a non-stock corporation research consortium comprised of public higher education institutions. The Department of Planning and Budget (DPB) deemed Virginia Biosciences Health Corporation (Corporation), a nonprofit 501(c)(3) non-stock corporation, eligible to meet the funding criterion pursuant to the Acts of Assembly. DPB consulted with the Office of the Attorney General in making this determination, which delayed the process and ultimately resulted in the entire \$5 million being paid to the consortium during fiscal year 2014.

As a result of the Corporation being structured as a 501 (c)(3) non-stock corporation, its funds are not considered public deposits. The Code of Virginia's Security for Public Deposit Act (Act) requires banks that are properly notified to classify certain funds as public deposits. Funds classified as public deposits receive special protection under the Act for amounts that exceed federal deposit insurance of \$250,000. The Corporation's checking account received \$5 million in general funds in fiscal year 2014 and as December 31, 2014, its checking account did exceed the federal deposit

insurance threshold by approximately \$2.8 million. However, those funds are not protected under the Act.

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's source of funding is the General Fund. 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 interfund 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.

Several entities are involved in the process of awarding grants from the Opportunity Fund including the Partnership, the Secretary, and the Governor. The Partnership 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 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 company 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 (2012 – 2014)

	2012	2013	2014
Beginning cash balance	\$45,027,097	\$41,610,207	\$39,389,889
Transfer in General Funds	11,811,055	10,811,055	11,811,055
Transfer out General Funds	(6,000,000)	(5,000,000)	(13,200,000)
Amount repaid by companies	4,272,055	278,229	1,862,305
Payments to localities/companies	(13,500,000)	(8,309,602)	(11,311,798)
Ending cash balance	\$41,610,207	\$39,389,889	\$28,551,451

Over the last several years, the Opportunity Fund has accumulated a cash balance, though that balance has shown a downward trend in recent years. As of June 30, 2014, the Fund had a cash balance of \$28.6 million. At that date, the Fund had committed but not paid approximately \$18.9

million to various companies and preapproved offers of \$21.6 million to various companies where the company has not yet accepted or finalized the offer.

The cash balance is a result of the Commonwealth's funding approach of the Opportunity Fund. The Code of Virginia requires that the Governor not make future commitments unless the fund has a balance sufficient to pay them. Therefore, the Governor and the General Assembly must appropriate or transfer funding into the Opportunity Fund before the Governor can make additional commitments when those future payments are not covered by the existing cash balances in the Opportunity Fund. The original appropriations to the fund, net of appropriation transfers out, for fiscal years 2015 and 2016 are \$8.25 million and \$7.75 million, respectively. To address the declining cash balance in the Fund, Chapter 665 of the Appropriations Act increased the original fiscal year 2015 and 2016 appropriations to the Opportunity Fund to \$13.47 million and \$17.5 million, respectively, net of appropriation transfers out.

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies and performs program coordination, policy planning, and budget formulation activities. In addition to the appropriations to fund office operations, the Secretary of Education was designated \$600,000 in General Funds to plan for the development and implementation of the College Partnership Laboratory Schools Initiative. Legislation approved by the 2010 and 2012 General Assembly allows any public or private institution of higher education in the Commonwealth with an approved teacher-preparation program to establish a college partnership laboratory school. The college partnership laboratory schools are public schools established by contract between the governing board of a college partnership laboratory school and the Board of Education.

Effective in fiscal year 2014, the General Assembly reverted to the General Fund \$800,000 from the Secretary of Education of excess balances and uncommitted allocation in the College Partnership Laboratory Schools Program. The Secretary of Education awarded \$200,000 in grant payments to one recipient in fiscal year 2014. The Secretary of Education receives funding primarily from General Fund appropriations. The following tables summarize the General Fund operating budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$1,206,508	\$1,207,073
Final budget	1,255,506	857,564*
Actual expenses	863,004	828,594*

*This includes the grant payments associated with the College Partnership Laboratory Schools Initiative since these funds were appropriated within the same fund and program as the operating funds.

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$1,207,073
Adjustments:	
Discretionary reappropriation of prior year unexpended general fund cash balances	392,501
Workforce Transition Act payments to former employees not retained by the current administration	34,482
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	23,508
Revision of remaining grant funding within the College Partnership Laboratory Schools	(800,000)
Total adjusted appropriations	857,564
Expenses:	
Personal services	579,884
Contractual services	201,830
Continuous charges	43,822
Supplies and materials	2,181
Equipment	877
Total expenses	828,594
Unexpended balance	\$ 28,970

Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. The Secretary of Finance receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$424,910	\$425,362
Final budget	526,124	551,939
Actual expenses	524,587	449,538

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$ 425,362
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	100,000
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	25,041
Discretionary reappropriation of prior year unexpended General Fund cash balances	1,536
Total adjusted appropriations	551,939
Expenses:	
Personal services	408,802
Continuous charges	32,490
Contractual services	4,995
Equipment	2,471
Supplies and materials	780
Total expenses	449,538
Unexpended balance	\$ 102,401

In addition to the appropriation to fund office operations, the 2013 Virginia Acts of Assembly also designated up to \$5 million from the Federal Action Contingency Trust (FACT) Fund to provide for economic development incentive development 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 of Finance administered the FACT Fund which received \$2 million in General Fund appropriations and expensed grant payments totaling \$2 million. Within the \$2 million transfer of funds for FACT Fund grant award payments, \$1.25 million was directly disbursed to FACT Fund recipients that are state agencies. The Secretary of Finance disbursed the remaining \$750,000 to localities selected by the FACT Fund Commission and approved by the Governor. Another program funded from the FACT Fund is the BRAC Program, which is administered by the Secretary of Veterans and Defense Affairs and is discussed in further detail within the Secretary of Veterans and Defense Affairs section.

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. In fiscal year 2013 a new Homeless Coordinator position was created and funded through a special revenue fund appropriation and this funding continued through fiscal year 2014. The following tables summarize budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$640,213	\$640,954
Final budget	901,690	850,398
Actual expenses	881,961	724,740

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$640,954
Adjustments:	
Appropriation of homelessness prevention and services grant funds for coordinator position	114,046
Workforce Transition Act payments to former employees not retained by the current administration	54,809
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	27,768
Discretionary reappropriation of prior year unexpended General Fund cash balances	12,821
Total adjusted appropriations	850,398
Expenses:	
Personal services	654,356
Continuous charges	44,452
Contractual services	15,915
Transfer payments	8,000
Supplies and materials	2,017
Total expenses	724,740
Unexpended balance	\$ 125,658

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 Secretary also has an agreement with the Department of Conservation and Recreation to receive \$100,000 in federal funds each year to support funding the Deputy Secretary position established to lead the Commonwealth's Chesapeake Bay restoration efforts. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$627,585	\$628,181
Final budget	656,167	724,831
Actual expenses	634,019	530,781

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$628,181
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	50,055
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	24,447
Discretionary reappropriation of prior year unexpended General Fund cash balances	22,148
Total adjusted appropriations	724,831
Expenses:	
Personal services	480,068
Continuous charges	35,993
Contractual services	13,325
Supplies and materials	1,395
Total expenses	530,781
Unexpended balance	\$194,050

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. During fiscal year 2014, the Department of Conservation and Recreation received \$100,000, Virginia Institute of Marine Science received \$243,696, Virginia Tech received \$118,000 and the Marine Resource Commission received \$47,225. This fund now has a fund balance of \$171,019 remaining for future projects.

Secretary of Public Safety and Homeland Security

The General Assembly passed legislation during the 2014 session which renamed the Secretary of Public Safety as the Secretary of Public Safety and Homeland Security. This legislation reassigned duties from the Secretary of Veterans Affairs and Homeland Security relating to

Homeland Security. 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.

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 as well as 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 Secretary. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$555,480	\$556,377
Final budget	756,341	801,852
Actual expenses	735,455	705,769

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$556,377
Adjustments:	
Transfer from Department of Corrections to fund Coordinator of Offender Re-entry position	150,000
Workforce Transition Act payments to former employees not retained by the current administration	46,170
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	28,450
Discretionary reappropriation of prior year's unexpended General Fund balance	20,855
Total adjusted appropriations	801,852
Expenses:	
Personal services	623,372
Continuous charges	55,204
Contractual services	21,854
Supplies and materials	3,446
Equipment	1,893
Total expenses	705,769
Unexpended balance	\$ 96,083

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 receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$ 495,286	\$ 495,706
Final budget	516,020	563,656
Actual expenses	512,420	458,001

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$495,706
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	46,196
Transfer from Central Appropriations for employee bonus and benefit changes, and other amounts	18,154
Discretionary reappropriation of prior year unexpended General Fund cash balances	3,600
Total adjusted appropriations	563,656
Expenses:	
Personal services	397,322
Continuous charges	43,046
Contractual services	14,827
Equipment	1,942
Supplies and materials	864
Total expenses	458,001
Unexpended balance	\$ 105,655

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies and provides program coordination, policy planning, and budget formulation

activities. The Secretary receives all operating funds directly from the Transportation Trust Funds. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$814,573	\$814,573
Final budget	833,497	907,061
Actual expenses	833,199	865,238

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$814,573
Adjustments:	
Workforce Transition Act payments to former employees not retained by the current administration	77,628
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	14,860
Total adjusted appropriations	907,061
Expenses:	
Personal services	766,181
Continuous charges	66,259
Contractual services	28,267
Transfer payments	2,646
Supplies and materials	1,101
Equipment	784
Total expenses	865,238
Unexpended balance	\$ 41,823

Secretary of Veterans and Defense Affairs

The General Assembly passed legislation during the 2014 session that renamed the Secretary of Veterans Affairs and Homeland Security as the 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 Secretary receives a General Fund appropriation and federal funds through the Department of Emergency Management related to payroll reimbursements for employees within this Secretary. The following tables summarize the budget and expenses for fiscal years 2013 and 2014.

Financial Summary for Fiscal Years 2013 and 2014

	2013	2014
Original budget	\$1,368,051	\$1,588,239
Final budget	1,393,446	2,472,437
Actual expenses	1,240,309	1,484,813

Budget and Expense Analysis for Fiscal Year 2014

Original appropriations	\$1,588,239
Adjustments:	
Transfer for cost associated with evaluating risk related to possible closure and/or reorganization of military installations and commands within Virginia	425,000
Workforce Transition Act payments to former employees not retained by the current administration	289,246
Discretionary reappropriation of prior year unexpended General Fund cash balances	78,533
Transfer to cover anticipated shortfall within the Office	75,000
Transfer from Central Appropriations for employee salary increases, benefit changes, and other amounts	16,419
Total adjusted appropriations	2,472,437
Expenses:	
Personal services	1,302,369
Contractual Services	96,421
Continuous charges	76,880
Supplies and materials	7,327
Equipment	1,741
Transfer Payments	75
Total expenses	1,484,813
Unexpended balance	\$ 987,624

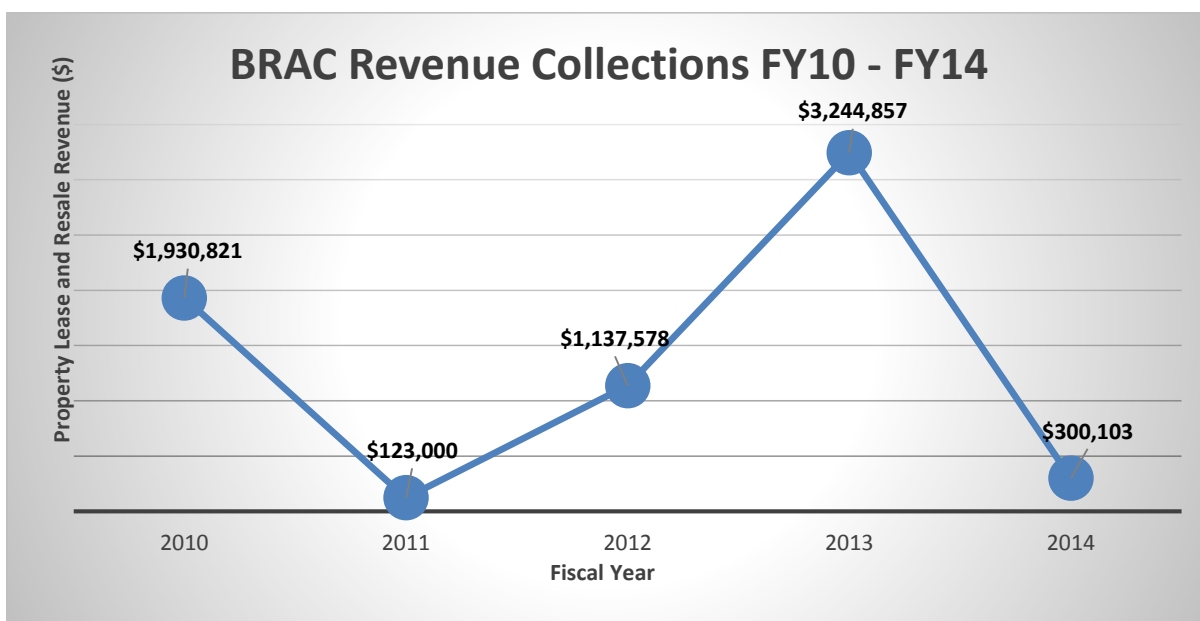
In addition to the appropriations to fund office operations, the Secretary also received General and non-general fund appropriations for the Military Strategic Response Fund (MSRF) and the Federal Action Contingency Trust (FACT) Fund which both support local BRAC implementation efforts.

The Secretary received and disbursed approximately \$2.2 million in grant payments related to MSRF grants and disbursed approximately \$2 million to support the Crater Planning District Commission (CPDC) grant extension as approved by Governor McDonnell on December 13, 2010, which funds transportation improvements projects near Fort Lee. Further, in April 2014, the Secretary of Veterans and Defense Affairs approved a request to amend the scope of work and

extend the MSRF grant through December 2015. The Secretary also disbursed \$201,807 to the City of Virginia Beach to retain NAS Oceana as a Master Jet Base.

Additionally, the Secretary's office administered funds associated with the FACT Fund, which was a new grant in fiscal year 2013, and was created to help address the negative impact of potential federal budget actions, including assisting communities in implementing and responding to BRAC recommendations. The Secretary's Office received and disbursed general funds from Central Appropriations totaling approximately \$6.2 million to the City of Virginia Beach and \$3 million to the City of Hampton related to the FACT Fund during fiscal year 2014. The City of Virginia Beach also received approximately \$1.3 million in non-general fund appropriations for this effort, which resulted in \$7.5M of general and non-general fiscal year 2014 FACT Fund appropriations to the City of Virginia Beach to be used to purchase property to support the BRAC Program.

The General Assembly mandated that grantees split all proceeds from the sale or lease of any properties acquired using FACT Funds, which required the grant recipients to refund 50 percent of the proceeds from property resale and lease collections to the Commonwealth. In 2013, the Secretary made the decision to no longer place liens on properties purchased with FACT funds. Previously, the Secretary used the liens to ensure it was aware when recipients sold these properties to ensure it received 50 percent of the proceeds. As of May 2015, the Secretary has decided to reinstitute this process. The chart below illustrates the fluctuation of proceeds collected from the sale and lease of property acquired using BRAC funds, which varies significantly according to when the sales or leases occur. The only source of this revenue for fiscal year 2014 is the City of Virginia Beach. The revenue collected reverts back to the FACT Fund and is appropriated through the BRAC program. The chart below outlines the refunds to the Commonwealth since fiscal year 2010.





Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 11, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** as administered by the Division of Selected Agency Services (Division) for the year ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Secretaries' internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

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, 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
Grant payments
Revenues
Appropriations

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Secretaries' financial operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Secretaries properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Division records the Secretaries' 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 a matter involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on June 19, 2015. 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

John C. Harvey, Jr.
Admiral, U.S. Navy (Ret.)
Secretary of Veterans
and Defense Affairs

MEMORANDUM

To: Martha Mavredes
Auditor of Public Accounts

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

Date: July 1, 2015

SUBJECT: Management Letter Comments

With reference to the Memorandum from Kyra Jones to Dennis Johnson, DSAS Director, dated May 18, 2015, the following additional information is provided:

In FY 2014 there were two localities which received FACT Funds to address encroachment at military installations within their jurisdictions: the City of Virginia Beach and the City of Hampton.

The City of Virginia Beach was authorized to receive \$7.5 million. Virginia Beach expended the first of those funds in April 2014 and reported this expenditure to the Secretariat in a report submitted October 28, 2014. Virginia Beach provided reports for each quarter in order for the Secretariat to confirm these expenditures; however, those reports were not always transmitted in a timely manner.

The City of Virginia Beach submitted a Memorandum of Agreement to the previous Secretary of Veterans Affairs and Homeland Security addressing the FY 2014 FACT Funds. This Memorandum was provided to the Secretary of Finance for comment on October 17, 2013. The Memorandum of Agreement was not signed since it was determined that the budget language had stated the requirements of the grant and that on April 3, 2013, the then-Governor's Chief of Staff had provided those requirements to the City; therefore it was determined there was no need for an additional Memorandum of Agreement. Copies of those documents are attached.

The decision not to execute liens on the property was made by the previous Secretary of Veterans Affairs & Homeland Security, in consultation with the Governor's Counselor. Based on your findings during the audit of the FACT Fund, as well as other issues raised by Virginia Beach, both the City of Virginia Beach and I have agreed to reinstate the process of Commonwealth liens against new properties.

The City of Hampton was authorized to receive \$3.0 million. Hampton did submit a FACT Fund application and, since the FACT Fund language was not the same as the language pertaining to the City of Virginia Beach, a separate Memorandum of Agreement was executed. Although there was informal communication with Hampton pertaining to the execution of the funds, the required quarterly reports were not submitted. As stated previously in this report, that error will be corrected.

I have executed an agreement with the City of Hampton and the City of Chesapeake to properly deal with FACT FUND reporting and accounting responsibilities. Copies of those agreements are available for your review. We are still negotiating a corresponding agreement with the City of Virginia Beach; additional funds will not be provided until that agreement is signed by both parties.

Attachment: Letter from Chief of Staff to Virginia Beach



COMMONWEALTH of VIRGINIA

Office of the Governor

Martin L. Kent
Chief of Staff

April 4, 2013

The Honorable William D. Sessoms, Jr.
Mayor, City of Virginia Beach
Municipal Center, Building 1
2401 Courthouse Drive
Virginia Beach, VA 23456-9000

Dear Mayor Sessoms:

We are in receipt of your letter and application for release of the \$7.5 million state grant for FY2013 to address activities associated with the recommendations of the 2005 BRAC and we are approving the release of those funds so they can be paid to the City of Virginia Beach at this time.

Your request asked that the City of Virginia Beach be allowed a three-year period (from July 1, 2012 to June 30, 2015) to spend the grant proceeds because agreements reached within the fiscal year will take some time to close. We can only approve the availability of these grants through June 30, 2014 because that is when the current Appropriation Act expires. It will take action in the next budget to guarantee a continuation of this policy after June 30, 2014. That is a separate decision that will need to be made in the development of the next budget.

Attached to this letter you will find a copy of language in the current Appropriation Act concerning the reporting of expenditures associated with this grant; the retention of invoices, bills, receipts and documentation of expenditures of the grant funds; the requirement for a cash match of grant funding and the disposition of proceeds of the sale of any property. While the provisions of this language specifically affect grant funds for FY 2014, especially in terms of the timing of the distribution of funds, we ask that, for consistency sake, the reporting and records retention requirements in paragraphs B, C1, and D be followed with regard to implementation of the FY2013 grant. Please note your acceptance and use of the FY2013 state grant (which will be wire transferred to your account) will constitute your acknowledgement of these legal requirements and your agreement to abide by them as you execute the FY2013 grant.

The Honorable William D. Sessoms, Jr.
Page Two
April 4, 2013

By copy of this letter to the Department of Planning and Budget and the Office of Support Services, we are directing each to proceed with the allotment and payment of these grant funds to the City of Virginia Beach. Should you have any questions or concerns regarding this matter, please contact either of our offices as soon as possible. Otherwise, we will proceed to distribute the funds in accordance with state law and assume your acceptance of the conditions on the execution of this grant as stated herein.

Sincerely,


Martin L. Kent

Attachment

- c James K. Spore, City Manager**
- Mark D. Stiles, City Attorney**
- Richard D. Brown, Secretary of Finance**
- Terrie L. Suit, Secretary of Veterans Affairs and Homeland Security**
- Dennis Johnson, Director, Office of Support Services**
- Daniel S. Timberlake, Director, Department of Planning and Budget**

ITEM 459.		Item Details(\$)		Appropriations(\$)	
		First Year FY2013	Second Year FY2014	First Year FY2013	Second Year FY2014
1	OFFICE OF VETERANS AFFAIRS AND HOMELAND SECURITY				
2	§ 1-131. SECRETARY OF VETERANS AFFAIRS AND HOMELAND SECURITY (454)				
3	459. Disaster Planning and Operations (72200)			\$1,368,051	\$1,368,239
4	Emergency Planning (72205)	\$1,368,051	\$1,368,239		
5	Fund Sources: General	\$479,656	\$479,844		
6	Federal Trust	\$888,395	\$888,395		
7	Authority: Title 2.2, Chapter 3.1, Code of Virginia.				
8	459.05. Economic Development Services (53400)			\$0	\$1,286,504
9	Financial Assistance for Economic Development				
10	(53410)	\$0	\$1,286,504		
11	Fund Sources: Dedicated Special Revenue	\$0	\$1,286,504		
12	Authority: Discretionary Inclusion				
13	<i>A. In accordance with Chapter 653 of the 2008 Virginia Acts of Assembly, this item includes</i>				
14	<i>the Commonwealth's contribution to address the encroachment of the United States Navy</i>				
15	<i>Muster Jet Base and shall only be expended by purchasing property as established under</i>				
16	<i>Chapter 653. The contribution includes \$1,286,504 from nongeneral funds and out of the</i>				
17	<i>appropriation in paragraph 1.1b of Item 469 of this act, an amount equal to \$6,213,496 the</i>				
18	<i>second year, for a total of \$7,500,000.</i>				
19	<i>B. The Secretary of Veterans Affairs and Homeland Security shall develop an annual grant</i>				
20	<i>application which shall include at a minimum requirements for the Grantee to (1) report</i>				
21	<i>expenditures each quarter, (2) retain all invoices, bills, receipts, cancelled checks, proof of</i>				
22	<i>payment and similar documentation to substantiate expenditures of grant funding, (3) provide a</i>				
23	<i>50 percent cash match from non-state funds for each property purchased under this program,</i>				
24	<i>(4) return excess state grant funding within thirty (30) days after the grant year expires, and</i>				
25	<i>(5) split all proceeds from the sale of any properties under Chapter 653 or Chapter 622 of the</i>				
26	<i>2006 Virginia Acts of Assembly with the Commonwealth.</i>				
27	<i>G-1 Prior to the distribution of any funds, any Grantee seeking funding under this item shall</i>				
28	<i>submit a grant application to the Secretary of Veterans Affairs and Homeland Security for</i>				
29	<i>consideration.</i>				
30	<i>2. Payments to Grantees shall be made in equal quarterly installments. After the initial</i>				
31	<i>payment, the Secretary of Veterans Affairs and Homeland Security shall make additional</i>				
32	<i>quarterly payments to the Grantee based on the quarterly expenditure reports. In making</i>				
33	<i>subsequent payments, the Secretary shall ensure the Grantee's match funding is being expended</i>				
34	<i>at the appropriate rate and limit surplus state funding at the local level by withholding</i>				
35	<i>quarterly payments as necessary.</i>				
36	<i>3. The Secretary may approve a request by the Grantee for additional state funding in a</i>				
37	<i>particular quarterly payment if supporting documentation is provided.</i>				
38	<i>D. The Commonwealth shall have the right to make inspections and copies of the books and</i>				
39	<i>records of the Grantee at any time. The Grantee shall undergo an audit for the grant period</i>				
40	<i>and provide a copy of the audit report to the Secretary.</i>				
41	Total for Secretary of Veterans Affairs and Homeland			\$1,368,051	\$1,368,239
42	Security				\$2,654,743
43					
44	General Fund Positions	6.00	6.00		
45	Nongeneral Fund Positions	3.00	3.00		
46	Position Level	9.00	9.00		

AGENCY OFFICIALS

GOVERNOR'S CABINET SECRETARIES

As of June 30, 2014

Nancy Rodrigues, Secretary of Administration

Todd P. Haymore, Secretary of Agriculture and Forestry

Maurice A. Jones, Secretary of Commerce and Trade

Anne B. Holton, 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