

**GOVERNOR'S CABINET SECRETARIES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2002, found:

- proper recording and reporting of all transactions, in all material respects in the Commonwealth Accounting and Reporting system;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

AGENCY HIGHLIGHTS

The audit of the Governor's Cabinet Secretaries covers the following agencies:

Secretary of Administration,
Secretary of Commerce and Trade,
Secretary of Education,
Secretary of Finance,
Secretary of Health, and Human Resources,
Secretary of Natural Resources,
Secretary of Public Safety,
Secretary of Technology, and
Secretary of Transportation.

The Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth. During the year, the Secretaries received routine appropriation adjustments. Also, several Secretaries receive funding from various special revenue sources. The following sections summarize the purpose and funding of each of the Secretaries.

Secretary of Administration

The Secretary assists the Governor with the management and direction of 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 Office of the Governor; the Office of the Lieutenant Governor; Offices of the Governor's Cabinet Secretaries; Office of the Secretary of the Commonwealth; Charitable Gaming Commission; Citizen's Advisory Committee; Commission of Virginia/Israel Advisory Board; Interstate Organization Contributions; Office for Substance Abuse Prevention; Virginia Liaison Office; Virginia Racing Commission; and Virginia Veteran's Care Center Board of Trustees.

Original appropriation	\$ 1,002,181	
Adjustments:		
Supplemental appropriation for transition	227,119	
Reappropriated prior year unexpended funds	47,267	
Salary regrade	33,690	
Other transfers in	6,868	
Health insurance premiums	4,299	
Optional retirement	1,546	
Governor's mandated budget reductions	(78,042)	
Governor's Office Operations	(34,000)	
Retirement contribution rate reduction	(27,761)	
Attorney General-Elect transition	(25,000)	
Transfer to Secretary of Technology for operations	(12,000)	
Retiree health credit reversions	(2,629)	
Group life insurance savings	<u>(1,317)</u>	
Adjusted appropriations		\$1,142,221
Expenses:		
Salaries and fringe benefits	940,235	
Contractual services	14,813	
Continuous charges	88,497	
Other	<u>71,985</u>	
Total expenses		<u>1,115,530</u>
Unexpended balance		<u>\$ 26,691</u>

Secretary of Commerce and Trade

The Secretary acts on behalf of the Governor in the management and direction of commerce and trade agencies to perform program coordination, policy planning, and budget formulation activities. The Secretary receives special revenues for the Virginia Film Office that are used to promote the use of Virginia locations in motion pictures.

Original appropriation	\$ 619,268	
Adjustments:		
Supplemental appropriation for operations	97,500	
Severance payments	49,391	
Reappropriated unexpended prior year funds	27,471	
Salary regrades	14,898	
Health insurance premiums	2,689	
Deferred compensation match	1,296	
Optional retirement	1,104	
Governor's mandated budget reductions	(49,924)	
Transfer to Governor's Office for operations	(33,000)	
Retirement contribution rate reduction	(14,607)	
Retiree health credit reversions	(1,061)	
Group life insurance savings	<u>(5,129)</u>	
Adjusted appropriations		\$ 709,896
Other resources:		
Unexpended special revenue fund balance at July 1, 2001	186,374	
Film office special revenue	<u>191,161</u>	
Total other resources		<u>377,535</u>
Total appropriations and resources		1,087,431
Expenses:		
Salaries and fringe benefits	586,231	
Contractual services	56,168	
Transfer payments	150,000	
Continuous charges	44,229	
Other	<u>7,674</u>	
Total expenses		<u>844,302</u>
Unexpended balance		<u>\$ 243,129</u>

The Secretary receives general funds for the Governor's Opportunity Fund. The Opportunity Fund seeks to generate business within the Commonwealth through land development and site preparation. The Department of Business Assistance aids in the review of proposals for funding from the Opportunity Fund and the Secretary makes transfer payments to localities based on approved proposals.

Beginning balance	\$ 32,848,595	
Opportunity Fund revenues	1,365,402	
Appropriations Act transfer to the General Fund	<u>(4,500,000)</u>	
Total Opportunity Fund resources		\$ 29,713,997
Expenses:		
Transfer payments		<u>8,931,000</u>
Unexpended balance of Governor's Opportunity Fund		<u>\$ 20,782,997</u>

Secretary of Education

The Secretary acts on behalf of the Governor in the management and direction of educational agencies, performing program coordination, policy planning, and budget formulation activities.

Original appropriation	\$ 630,795	
Adjustments:		
Reappropriated prior year unexpended funds	230,420	
Severance payments	38,642	
Salary regrades	18,153	
Other appropriations	10,014	
Health insurance premiums	2,944	
Deferred compensation match	518	
Optional retirement	442	
Reversion to general fund	(206,776)	
Governor's mandated budget reductions	(38,374)	
Retirement contribution savings	(19,017)	
Retiree health credit reversions	(1,801)	
Group life insurance savings	(1,012)	
DIT savings	<u>(197)</u>	
Adjusted appropriations		\$ 664,751
Expenses:		
Salaries and fringe benefits	585,423	
Contractual services	31,843	
Continuous charges	41,800	
Other	<u>5,325</u>	
Total expenses		<u>664,391</u>
Unexpended balance		<u>\$ 360</u>

Secretary of Finance

The Secretary acts on behalf of the Governor in the management and direction of the finance agencies, performing program coordination, policy planning, and budget formulation activities.

Original appropriation	\$ 501,719	
Adjustments:		
Reappropriated unexpended prior year funds	35,683	
Supplemental appropriation for transition	15,351	
Salary regrades	15,569	
Other appropriations	7,455	
Health insurance premiums	1,468	
Deferred compensation match	1,037	
Optional retirement	883	
Governor's mandated budget reductions	(25,586)	
Retirement contribution savings	(14,759)	
Retiree health credit reversions	(1,321)	
Group life insurance savings	<u>(5,199)</u>	
Adjusted appropriations		\$ 532,300
Expenses:		
Salaries and fringe benefits	423,905	
Contractual services	14,295	
Continuous charges	16,113	
Other	<u>5,036</u>	
Total expenses		<u>459,349</u>
Unexpended balance		<u>\$ 72,951</u>

Secretary of Health and Human Resources

The Secretary acts on behalf of the Governor in the management and direction of health and human resources agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary also receives special revenue funds from the Jamestown/Yorktown Foundation to support the Council on Indians.

Original appropriation	\$ 1,007,166
Adjustments:	
Reappropriated unexpended prior year funds	1,283
Unexpended prior year funds for	
Office of Inspector General	26,199
Severance payments	43,661
Supplemental appropriation for operations	30,031
Salary regrades	19,585
Health insurance premiums	2,279
Deferred compensation match	415
Optional retirement	353
Governor's mandated budget reductions	(52,867)

Retirement contribution savings	(19,669)	
Retiree health credit reversions	(1,765)	
Group life insurance savings	<u>(1,182)</u>	
Adjusted appropriations		1,055,489
Other resources:		
Unexpended special revenue fund balance at July 1, 2001	57,138	
Jamestown/Yorktown Foundation funding for Council on Indians	<u>36,222</u>	
Total other resources		<u>93,360</u>
Total appropriations and resources		1,148,849
Expenses:		
Salaries and fringe benefits	829,422	
Contractual services	144,543	
Continuous charges	45,456	
Other	<u>19,659</u>	
Total expenses		<u>1,039,080</u>
Unexpended balance		<u>\$ 109,769</u>

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of the natural resource agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary receives special revenue funds for the Chesapeake Bay Clean-Up Program. Individuals donate money by designating on their tax returns their donation to the program. The Department of Taxation collects the donations with the tax returns and transfers the money to the Secretary.

Original Appropriation	\$ 545,505	
Adjustments:		
Reappropriated unexpended prior year funds	10,763	
Severance payments	49,285	
Salary regrades	16,022	
Health insurance premiums	1,165	
Optional retirement	442	
Governor's mandated budget reductions	(77,405)	
Retirement contribution savings	(16,523)	
Retiree health credit reversions	(1,704)	
Group life insurance savings	<u>(898)</u>	
Adjusted appropriations		\$ 526,652

Other resources:		
Unexpended special revenue fund balance at July 1, 2001	37,277	
Chesapeake Bay Clean-Up special revenues	<u>151,009</u>	
Total other resources		<u>188,286</u>
Total appropriations and resources		714,938
Expenses:		
Salaries and fringe benefits	474,650	
Contractual services	19,311	
Continuous charges	24,417	
Other	<u>4,154</u>	
Total expenses		<u>522,532</u>
Unexpended balance		<u>\$ 192,406</u>

Secretary of Public Safety

The Secretary acts on behalf of the Governor in the management and direction of the public safety agencies, providing program coordination, policy planning, and budget formulation activities.

Original appropriation	\$ 719,888	
Adjustments:		
Reappropriated unexpended prior year funds	24,405	
Severance payments	92,389	
Supplemental appropriation for operations	120,000	
Salary regrades	22,547	
Health insurance premiums	1,097	
Deferred compensation match	1,296	
Optional retirement	1,104	
Governor's mandated budget reductions	(91,089)	
Retirement contribution savings	(15,314)	
Retiree health credit reversions	(992)	
Group life insurance savings	<u>(1,412)</u>	
Adjusted appropriations		\$ 873,919
Expenses:		
Salaries and fringe benefits	712,818	
Contractual services	93,443	
Continuous charges	40,860	
Other	<u>14,267</u>	
Total expenses		<u>861,388</u>
Unexpended balance		<u>\$ 12,531</u>

Secretary of Technology

The Secretary serves as the Chief Information Officer of the Commonwealth. Among the primary responsibilities of the Secretary are the direction and coordinated development of a statewide information infrastructure to facilitate efficient operation of government and development of strategies to promote a technologically advanced workforce.

Original Appropriation	\$ 579,080	
Adjustments:		
Reappropriated unexpended prior year funds	21,425	
Severance payments	36,721	
Supplemental appropriation for operations	63,000	
Transfer from Secretary of Administration	12,000	
Salary regrades	5,566	
Health insurance premiums	831	
Deferred compensation match	259	
Optional retirement	221	
Governor's mandated budget reductions	(29,984)	
Retirement contribution savings	(13,891)	
Retiree health credit reversions	(1,499)	
Group life insurance savings	<u>(1,317)</u>	
Adjusted appropriations		\$ 672,412
Expenses:		
Salaries and fringe benefits	538,962	
Contractual services	101,310	
Continuous charges	23,863	
Other	<u>8,102</u>	
Total expenses		<u>672,237</u>
Unexpended balance		<u>\$ 175</u>

Secretary of Transportation

The Secretary acts on behalf of the Governor in the management and direction of the transportation agencies, providing program coordination, policy planning, and budget formulation activities. The Secretary receives all operating funding directly from the Transportation Trust Funds. At year-end, the Virginia Department of Transportation transfers Transportation Trust Funds equal to the Secretary's expenses.

Available resources:

Transfers from Transportation Trust Fund	\$ 556,169
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Expenses:

Salaries and fringe benefits	\$ 506,336
Contractual services	44,700
Continuous charges	1,016
Other	<u>4,117</u>

Total expenses	<u>556,169</u>
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Unexpended balance	<u><u>\$ -</u></u>
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September 11, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of each Secretary's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Secretary's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Fixed Assets	Appropriations
Expenditures	Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Secretaries' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute,

assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

The Division of Selected Agency Support Services within the Office of the Secretary of Administration provides financial and administrative support to the Governor's Cabinet Secretaries. We found that the Division properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System for each Secretary. 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 no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

We discussed this report with management on September 11, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JMS:whb
whb:24

GOVERNOR'S CABINET SECRETARIES

Richmond, Virginia

As of June 30, 2002

Sandra D. Bowen
Secretary of Administration

Michael J. Schewel
Secretary of Commerce and Trade

Belle S. Wheelan
Secretary of Education

John M. Bennett
Secretary of Finance

Jane H. Woods
Secretary of Health and Human Resources

W. Tayloe Murphy, Jr.
Secretary of Natural Resources

John W. Marshall
Secretary of Public Safety

George Newstrom
Secretary of Technology

Whittington W. Clement
Secretary of Transportation

Division of Selected Agency Support Services

Dennis Johnson
Director