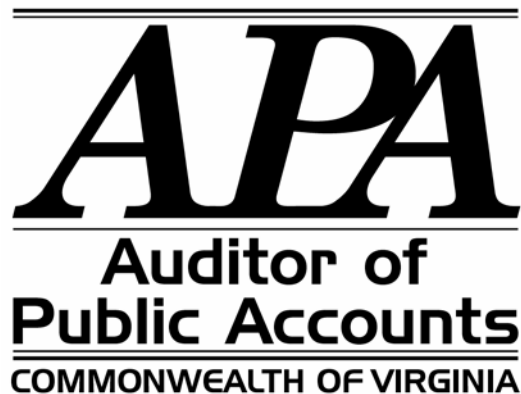


THE GOVERNOR'S CABINET SECRETARIES

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



AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2006, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations.

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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
Secretary of Education	Secretary of Technology
Secretary of Finance	Secretary of Transportation

While most of 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.

In fiscal year 2006, most of the Governor's Cabinet Secretaries received additional General Fund appropriations for severance payments and transition costs related to the change in administration. In addition, all of the Secretaries received additional General Fund appropriations at year-end for the July 3, 2006 payroll which the Commonwealth paid in fiscal year 2006 instead of 2007.

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

Budget and Expense Summary for Fiscal Year 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Administration	\$ 7,582,054	\$ 7,776,537	\$ 7,729,484
Secretary of Agriculture and Forestry	540,000	466,662	420,013
Secretary of Commerce and Trade	797,149	1,131,303	1,121,274
Secretary of Education	672,385	1,461,166	1,321,932
Secretary of Finance	580,969	654,567	617,262
Secretary of Health and Human Resources	1,689,724	841,207	840,822
Secretary of Natural Resources	604,795	698,374	682,522
Secretary of Public Safety	684,495	665,639	649,268
Secretary of Technology	505,882	552,348	537,990
Secretary of Transportation	<u>637,877</u>	<u>664,364</u>	<u>622,287</u>
Total	<u>\$14,295,330</u>	<u>\$14,912,167</u>	<u>\$14,542,854</u>

The following sections summarize 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. When comparing 2005 and 2006 budgets for the individual Secretaries in the following sections, there were increases in the 2006 budgets for several Secretaries. These increases were the result of action by both the Governor and the 2005 General Assembly to correct funding issues. In previous years, the budgets for some of the Secretaries were not reflective of actual operating expenses.

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:

Office of the Governor	Interstate Organization Contributions
Office of the Lieutenant Governor	Office for Substance Abuse Prevention
Offices of the Governor's Cabinet Secretaries	Virginia Liaison Office
Citizen's Advisory Council	Virginia-Israel Advisory Board

The Secretary's office also administers funding for the Virginia Public Broadcasting Board (VPBB). The VPBB serves as a conduit of state financial support of public radio and television stations.

The Secretary receives General Fund appropriations to fund the office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$7,374,922	\$7,582,054
Final budget	7,607,086	7,776,537
Actual expenses	7,559,359	7,729,484

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$7,582,054</u>
Adjustments:	
Transfer to provide for transition offices	69,800
Adjustment for salary and benefit increases	63,179
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	40,837
Other adjustments	<u>20,667</u>
Total adjusted appropriations	<u>7,776,537</u>
Expenses:	
Personal services	1,062,772
Contractual services	36,078
Continuous charges	63,260
Supplies and materials	44,217
Property and equipment	9,573
Public broadcasting grants	<u>6,513,584</u>
Total expenses	<u>7,729,484</u>
Unexpended balance	<u>\$ 47,053</u>

Secretary of Agriculture and Forestry

In accordance with the Code of Virginia, the Governor established this Secretary in 2005 to provide 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, the Virginia Agricultural Council, and the Virginia Marine Products Board.

The Secretary receives General Fund appropriations to fund office operations. This funding was not part of the original biennial budget approved by the 2004 General Assembly because the Governor had not established the position; however, the General Assembly approved funding for this position during the 2005 session. The Secretary's office also received a General Fund appropriation transfer from the second year to the first year in 2005 to provide for the implementation of this new office. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$ -	\$540,000
Final budget	246,237	466,662
Actual expenses	170,994	420,013

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$540,000</u>
Adjustments:	
Re-appropriation of prior year's balance	75,243
Transfer of appropriation from second year to first year	(50,000)
Adjustment for salary and benefit increases	1,609
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	15,614
Other adjustments	<u>(15,804)</u>
Total adjusted appropriations	<u>466,662</u>
Expenses:	
Personal services	384,176
Contractual services	14,524
Continuous charges	20,854
Supplies and materials	409
Equipment	<u>50</u>
Total expenses	<u>420,013</u>
Unexpended balance	<u>\$ 46,649</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 formation activities. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the General Fund operating budget and expenses for the Secretary for fiscal years 2005 and 2006.

The original budget increased between the two years due to actions by both the Governor and the 2005 General Assembly to correct funding issues. In previous years, the budgets for some of the Secretaries were not reflective of actual operating expenses. The 2006 original budgets more appropriately reflect actual operating expenses. In fiscal year 2006, the Secretary received a transfer to pay for legal fees for the Base Realignment and Closure study and the effort to keep open the Naval Air Station in Virginia Beach.

General Fund Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$547,753	\$ 797,149
Final budget	806,668	1,131,303
Actual expenditures	686,671	1,121,274

General Fund Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$ 797,149</u>
Adjustments:	
Re-appropriation of prior year's balance	119,996
Transfer to cover costs associated with developing legal strategies	136,093
Transfer to pay for legal fees to Hunton and Williams	111,892
Transfer to Governor's Office and other Secretaries for WTA and severance payments for change in administration	(90,000)
Adjustment for salary and benefit increases	35,874
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	31,769
Other adjustments	<u>(11,470)</u>
Total adjusted appropriations	<u>1,131,303</u>
Expenses:	
Personal services	797,570
Contractual services	286,791
Continuous charges	34,152
Supplies and materials	1,902
Property and equipment	<u>859</u>
Total expenses	<u>1,121,274</u>
Unexpended balance	<u>\$ 10,029</u>

During fiscal year 2006, the Secretary of Commerce and Trade also received various General Fund transfers from Central Appropriations for specific purposes as required by the Appropriation Act. We discuss each of these transfers in more detail below.

Governor's Development Opportunity Fund

The Governor uses the Development Opportunity Fund (the Opportunity Fund) to attract economic development prospects and secure the expansion of existing industry in the Commonwealth. The Opportunity Fund receives a General Fund transfer from Central Appropriations. The Virginia Economic Development Partnership aids in the review of the proposals for funding from the Opportunity Fund and the Secretary makes transfer payments to localities based on approved proposals. The Governor uses the funds to make grants or loans to localities that in turn transfer funds to the approved company.

The following table summarizes activity in this fund for the last five fiscal years. The fiscal year 2006 ending balance includes \$13 million in commitments that the Governor has approved, but remain undisbursed. In fiscal year 2006, the Opportunity Fund received a refund of expenses made in the prior year. In this case, the company did not meet the agreed upon goals relative to investments and employment, and had to return some of the monies allocated.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Beginning balance	\$32,848,595	\$20,782,997	\$23,703,991	\$19,010,454	\$25,501,452
Transfer in/out of General					
Fund appropriations	(4,500,000)	10,000,000	7,500,000	13,877,758	9,000,000
Interest earned	1,365,402	945,994	436,953	799,501	1,089,734
Refund of expenses made					
in prior year	-	-	-	-	2,730,329
Transfer payments to					
localities/companies	<u>(8,931,000)</u>	<u>(8,025,000)</u>	<u>(12,360,490)</u>	<u>(8,186,261)</u>	<u>(13,132,500)</u>
Ending balance	<u>\$20,782,997</u>	<u>\$23,703,991</u>	<u>\$19,010,454</u>	<u>\$25,501,452</u>	<u>\$25,189,015</u>

Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund

The Secretary receives general funds through Central Appropriations for the Semiconductor Memory/Logic Wafer Manufacturing Performance Grant Fund. The grants seek to encourage the manufacturing of semiconductor wafers and the fund has received and spent a total of \$6,720,000 in accordance with the Appropriation Act.

Transfer for Virginia Biotechnology Research Park Authority

The Secretary received a transfer of General Funds from Central Appropriations for payment to the Virginia Biotechnology Research Park Authority totaling \$282,131. These funds compensated the Authority for land acquisition and costs related to economic development activities.

Transfer for the City of Virginia Beach

The Secretary received a transfer of General Funds from the Economic Contingency Program for payment to the City of Virginia Beach, totaling \$250,000, for a purchase option for the new post development. This development has become a critical issue with respect to the Base Realignment and Closure Commission (BRAC) and the Commission's decision as to whether to put Naval Air Station at Oceana on the base closure list.

Transfer for the City of Petersburg

The Secretary received a transfer of General Funds from the Economic Contingency Program for payment to the City of Petersburg, totaling \$500,000, for Appomattox River dredging.

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 Secretary of Education receives funding primarily from General Fund appropriations. The Secretary also received \$50,700 in special revenue funds to support establishment of the Virginia Cancer Research Fund; however, these funds were not available to the Secretary's Office.

The original budget between fiscal years 2005 and 2006 decreased because the Department of Planning and Budget assumed responsibility for conducting school efficiency reviews. During fiscal year 2006, the Secretary received funding to develop a post-secondary educational opportunity in Southside Virginia. The following tables summarize the General Fund budget for fiscal years 2005 and 2006, as well as expenses for fiscal year 2006.

General Fund Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$1,466,165	\$ 672,385
Final budget	1,759,827	1,461,166
Actual expenses	1,659,721	1,321,932

General Fund Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$ 672,385</u>
Adjustments:	
Re-appropriation of prior year's balance	100,107
Transfer to New College Commission for development of post-secondary educational opportunity in Southside Virginia	630,000
Adjustment for salary and benefit increases	35,890
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	25,035
Other adjustments	<u>(251)</u>
Total adjusted appropriations	<u>1,461,166</u>
Expenses:	
Personal services	626,517
Contractual services	660,158
Continuous charges	30,656
Supplies and materials	3,848
Equipment	<u>753</u>
Total expenses	<u>1,321,932</u>
Unexpended balance	<u>\$ 139,234</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 for office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006. The original budget increased between the two years due to actions by both the Governor and the 2005 General Assembly to correct funding issues. In previous years, the budgets were not reflective of actual operating expenses, and the 2006 budgets to more appropriately reflect actual operating expenses.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$434,954	\$580,969
Final budget	507,046	654,567
Actual expenses	488,642	617,262

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$580,969</u>
Adjustments:	
Adjustment for salary and benefit increases	34,155
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	18,635
Other adjustments	<u>20,808</u>
Total adjusted appropriations	<u>654,567</u>
Expenses:	
Personal services	574,073
Contractual services	14,360
Continuous charges	22,721
Supplies and materials	2,863
Equipment	<u>3,245</u>
Total expenses	<u>617,262</u>
Unexpended balance	<u>\$ 37,305</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 receives General Fund appropriations. In fiscal year 2006, the Secretary received additional general funds of \$1 million to fund a child advocacy center initiative, resulting in a large increase in the original budget between 2005 and 2006. Subsequently, there was a transfer of these funds to the Department of Social Services for child advocacy centers. The following tables summarize budget and expense information for fiscal years 2005 and 2006.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$551,973	\$1,689,724
Final budget	714,305	841,207
Actual expenses	695,293	840,822

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$1,689,724</u>
Adjustments:	
Transfer of funding to the Department of Social Services for child advocacy centers	(1,000,000)
Transfer from other Secretaries for WTA and severance payments for change in administration	80,000
Adjustment for salary and benefit increases	34,541
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	26,719
Other adjustments	<u>10,223</u>
Total adjusted appropriations	<u>841,207</u>
Expenses:	
Personal services	789,335
Contractual services	12,300
Continuous charges	35,668
Supplies and materials	2,462
Equipment	<u>1,057</u>
Total expenses	<u>840,822</u>
Unexpended balance	<u>\$ 385</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 receives primarily General Fund appropriations to fund office operations. In fiscal year 2006, the Secretary received transfers of special revenue funds, totaling \$129,361 for the Virginia Indian Heritage Trail Project (Council on Indians), which went for contractual services. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006.

General Fund Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$486,801	\$604,795
Final budget	562,135	698,374
Actual expenses	553,467	682,522

General Fund Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$604,795</u>
Adjustments:	
Transfer from Secretary of Public Safety for WTA and severance payments for change in Administration	33,000
Adjustment for salary and benefit increases	32,605
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	23,228
Other adjustments	<u>4,746</u>
Total adjusted appropriations	<u>698,374</u>
Expenses:	
Personal services	608,042
Contractual services	42,505
Continuous charges	29,866
Supplies and materials	1,323
Equipment	<u>786</u>
Total expenses	<u>682,522</u>
Unexpended balance	<u>\$ 15,852</u>

Secretary of Public Safety

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. The Secretary receives General Fund appropriations to fund office operations. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$624,632	\$684,495
Final budget	694,052	665,639
Actual expenses	686,824	649,268

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$684,495</u>
Adjustments:	
Transfer to other Secretaries and the Virginia Liaison Office for WTA and severance payments for change in administration	(86,000)
Adjustment for salary and benefit increases	41,328
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	26,219
Other adjustments	<u>(403)</u>
Total adjusted appropriations	<u>665,639</u>
Expenses:	
Personal services	587,847
Contractual services	10,541
Continuous charges	45,529
Supplies and materials	4,502
Equipment	<u>849</u>
Total expenses	<u>649,268</u>
Unexpended balance	<u>\$ 16,371</u>

Secretary of Technology

The Secretary is responsible for developing, monitoring and directing the technology strategy and assisting in technology based innovation and economic development for the Commonwealth. The Secretary oversees two agencies: Virginia's Center for Innovative Technology and the Virginia Information Technologies Agency (VITA).

The Secretary primarily receives General Fund appropriations for operations. In the original budget, the Secretary expected to receive \$48,782 in special funds from VITA to support operations; however, these funds were not available to the Secretary's Office. The following tables summarize the budget and expenses for the Secretary for fiscal years 2005 and 2006.

General Fund Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$498,082	\$505,882
Final budget	513,369	552,348
Actual expenses	513,314	537,990

General Fund Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$505,882</u>
Adjustments:	
Adjustment for salary and benefit increases	28,945
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	22,872
Other adjustments	<u>(5,351)</u>
Total adjusted appropriations	<u>552,348</u>
Expenses:	
Personal services	482,377
Contractual services	27,819
Continuous charges	26,841
Supplies and materials	787
Equipment	<u>166</u>
Total expenses	<u>537,990</u>
Unexpended balance	<u>\$ 14,358</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. At year-end, the Virginia Department of Transportation transfers Transportation Trust Funds equal to the Secretary's expenses. The following table summarizes the budget and expenses for the Secretary for fiscal years 2005 and 2006.

Financial Summary for Fiscal Years 2005 and 2006

	<u>2005</u>	<u>2006</u>
Original budget	\$580,390	\$637,877
Final budget	613,873	664,364
Actual expenses	613,672	622,287

Budget and Expense Analysis for Fiscal Year 2006

Original appropriations per Chapter 951	<u>\$637,877</u>
Adjustments:	
Adjustment for moving July 3, 2006 payroll from 2007 to 2006	<u>26,487</u>
Total adjusted appropriations	<u>664,364</u>
Expenditures:	
Personal services	559,282
Contractual services	30,408
Continuous charges	27,195
Supplies and materials	3,263
Equipment	<u>2,139</u>
Total expenditures	<u>622,287</u>
Unexpended balance	<u>\$ 42,077</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

September 1, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, VA

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, VA

We have audited the financial records and operations of the **Governor's Cabinet Secretaries** for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

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

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 and regulations.

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

Expenditures
Appropriations
Revenues

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

Conclusions

The Division of Selected Agency Support Services within 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 financial amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Division records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on October 4, 2006.

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

AUDITOR OF PUBLIC ACCOUNTS

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GOVERNOR'S CABINET SECRETARIES

As of June 30, 2006

Viola O. Baskerville, Secretary of Administration

Robert S. Bloxom, Secretary of Agriculture and Forestry

Patrick O. Gottschalk, Secretary of Commerce and Trade

Dr. Thomas R. Morris, Secretary of Education

Jody M. Wagner, Secretary of Finance

Marilyn B. Tavenner, Secretary of Health and Human Resources

L. Preston Bryant, Jr., Secretary of Natural Resources

John W. Marshall, Secretary of Public Safety

Aneesh P. Chopra, Secretary of Technology

Pierce Homer, Secretary of Transportation

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director

