



OFFICE OF THE GOVERNOR  
AND  
THE GOVERNOR'S CABINET SECRETARIES

REPORT ON AUDIT  
FOR THE PERIOD  
JULY 1, 2019 THROUGH JUNE 30, 2021

Auditor of Public Accounts  
Staci A. Henshaw, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
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## AUDIT SUMMARY

This report includes the results of our audit for the period July 1, 2019, through June 30, 2021, for the Office of the Governor and the Governor's Cabinet Secretaries. This audit includes the individual agencies listed below. The Division of Selected Agency Support Services, within the Secretary of Administration's office, provides financial services and administrative support to these agencies.

Office of the Governor	Secretary of Finance
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 the Commonwealth	Secretary of Transportation
Secretary of Education	Secretary of Veterans and Defense Affairs

Our audit results for these agencies are summarized as follows; we found:

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

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## AUDIT FINDING AND RECOMMENDATION

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

**Type:** Compliance

**Repeat:** Yes, first issued for the audit period of July 1, 2015, through June 30, 2017

As reported in our previous two audits, the offices of the Cabinet Secretaries are not meeting the statutory reporting requirements for employees who are working on their behalf, but are paid by other Commonwealth agencies. Two out of six (33%) employees reviewed were not properly reported as follows:

- Assistant Secretary position in the Secretary of Natural Resources paid for by the Department of Conservation and Recreation; and
- Assistant Secretary position in the Secretary of Public Safety and Homeland Security paid for by the Department of Corrections.

Section 2.2-607 of the Code of Virginia requires agencies or offices that transfer employees to another agency without transferring the corresponding appropriations supporting the employee to report this information to the Department of Human Resource Management (Department). Information required to be reported includes the name, classification of the employee, and the length of the transfer. The Department compiles the information on a quarterly basis for reporting to the General Assembly.

To facilitate the compilation of the transfer information in the report, the Department currently requests information directly from agencies regarding the employees they have “loaned.” Most of the employees that meet this reporting criteria are performing tasks for the Cabinet Secretaries, but it is unclear why certain offices failed to report applicable employees to the Department as required. By not reporting the employees appropriately, the total cost of operations for the impacted Cabinet Secretary offices is not completely transparent. Budget transparency allows an informed citizen without specialized budget knowledge sufficient ease in understanding and following the budget process.

To increase transparency of the costs of operations, Cabinet Secretaries, along with the related agencies, should properly report the required information on related employees to the Department. The Office of the Governor should ensure that all Cabinet Secretaries are reporting sufficient information to the affected agencies to facilitate proper reporting of employees.

## FINANCIAL AND OPERATIONAL INFORMATION

This audit covers the Office of the Governor as well as the Cabinet Secretaries. The Division of Selected Agency Support Services (Support Services), within the Secretary of Administration's office, provides administrative support for these agencies. Support Services has approximately five employees who handle transaction processing and financial reporting responsibilities for the agencies. The individual agencies included within the scope of our audit are listed below:

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

### *Cabinet Secretaries*

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

The following report sections include detailed financial information on the operations of the Office of the Governor for fiscal years 2020 and 2021. In addition, we have included a summary of administrative and operational expenses for each of the Cabinet Secretaries for both years. There are some unique financial activities that are not included in the summary, primarily related to the Secretary of Commerce and Trade and the Secretary of the Commonwealth. Both Secretaries oversee certain statewide financial activities that warrant separate discussion.

### Office of the Governor

The Governor of the Commonwealth of Virginia has responsibility for managing the executive branch of the government, serving as Chief of State, and acting as the Commander-in-Chief of the Virginia National Guard. The Office of the Governor (Office) receives most of its funding through General Fund appropriations. Table 1 summarizes the Office's budget and actual activity over the last three years.

**Office of the Governor**  
**Budget and Expense Summary for Fiscal Years 2019 - 2021**

Table 1

	2019	2020	2021
Original budget	\$5,626,050	\$5,626,050	\$7,849,409
Final budget	6,724,012	7,235,627	8,131,577
Actual expenses	5,976,603	6,412,750	6,849,499

Source: Commonwealth's accounting and financial reporting system

Since 2019 the Office has received additional funding of approximately \$2.2 million related to organizational changes within the Office that were approved by the General Assembly. These changes included the creation of the Office of Chief Workforce Advisor, the Office of Chief Diversity Officer, and the Office of the Children's Ombudsman. These changes also resulted in an increase in the Office's maximum employment level of 7.5 positions.

The following table shows the various changes to the Office's original appropriations as well as a detailed breakdown of expenses. The majority of the expenses of the Office are payroll and fringe benefit expenses for its 50 full time and 15 part time employees.

**Office of the Governor**  
**Budget and Expense Analysis for Fiscal Years 2020 and 2021**

Table 2

	2020	2021
Original appropriation	\$5,626,050	\$7,849,409
Adjustments:		
Discretionary re-appropriation of prior year unexpended balances	650,680	-
Federal funds to support the Workforce Development Office	500,000	52,000
Transfer to/from Central Appropriations for employee salary increases, benefit changes, and other amounts	458,897	(203,332)
Increase to support the Office of the Chief Diversity Officer	-	300,000
Non-general fund increase for a sponsored fellowship within the Office of the Chief Diversity Officer	-	133,500
Total adjusted appropriations	<u>7,235,627</u>	<u>8,131,577</u>
Expenses:		
Personal services	5,144,943	5,198,280
Contractual services	662,666	874,925
Continuous charges	386,536	535,908
Supplies and materials	193,641	130,511
Other	24,964	109,875
Total expenses	<u>6,412,750</u>	<u>6,849,499</u>
Unexpended balance	<u>\$ 822,877</u>	<u>\$1,282,078</u>

Source: Commonwealth's accounting and financial reporting system

In addition to routine administrative programs, the Office also receives a “sum sufficient” General Fund appropriation under the Disaster Planning and Operation Program. In any given year, various natural disasters can strike Virginia, resulting in the Governor declaring numerous localities as disaster areas. To address damage and recovery from the disasters, the Department of Emergency Management (Emergency Management) requests General Fund appropriations through the Office’s Disaster Planning and Operation program.

The Department of Planning and Budget transferred approximately \$9.1 million in 2020 and \$8.6 million in 2021 in General Fund appropriations from this program to Emergency Management in response to natural disasters that occurred in previous years. In addition, there were additional transfers of about \$14.7 million in general funds provided to Emergency Management in 2020 for efforts related to the COVID-19 pandemic.

## Cabinet Secretaries

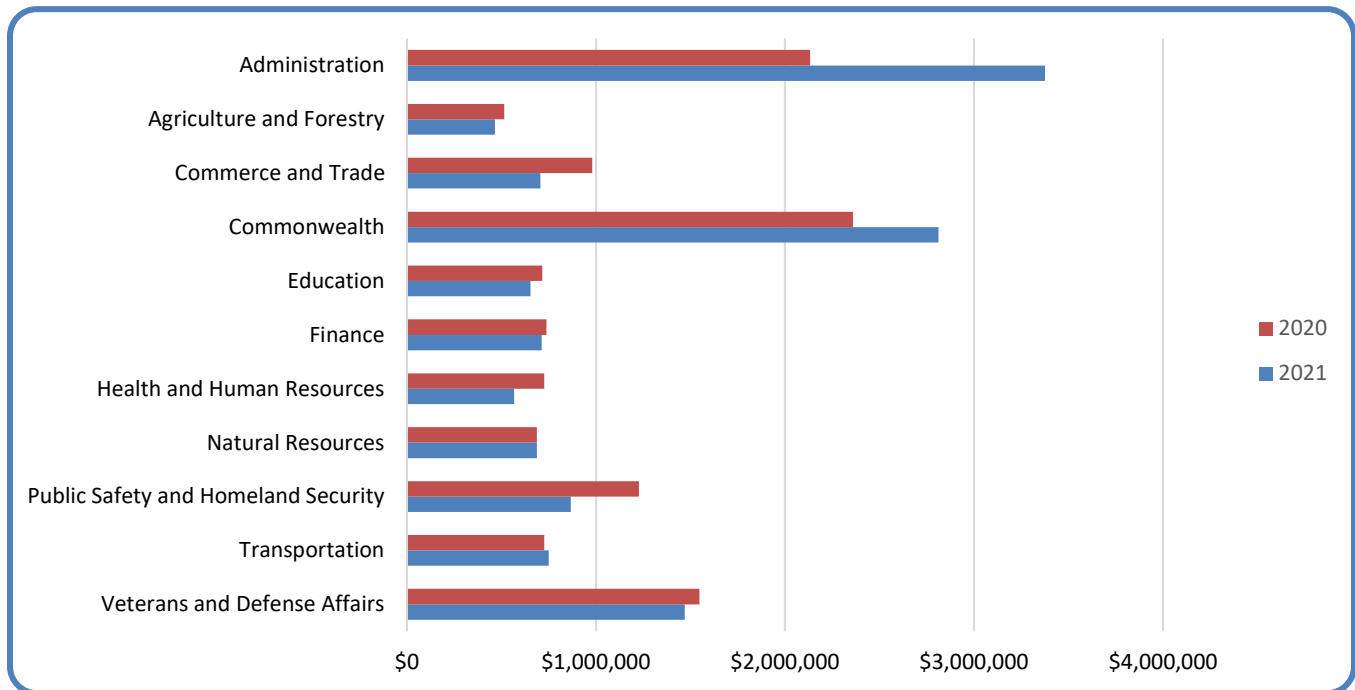
### Overview of Cabinet Secretaries

The 11 Cabinet Secretaries oversee and manage various areas of state government including executive branch agencies. In addition to oversight of state agencies, the Secretaries also assist the Governor in policy making and providing expertise and budget development guidance to the Governor on the respective areas under the control of the individual Secretaries.

There is similarity in the nature of administrative office operations for most of the Secretaries’ offices although the funding sources may vary. The majority of the Secretaries receive General Fund appropriations to fund office operations, but a few Secretaries also receive some special revenue funds for various purposes. Generally, the most significant administrative expense for the Secretaries are payroll and fringe benefits costs for their office personnel. Chart 1 on the following page summarizes the total administrative costs of operations for each Secretary for fiscal years 2020 and 2021.

## Operational Expense Summary by Cabinet Secretary for Fiscal Years 2020 and 2021

Chart 1



Source: Commonwealth's accounting and financial reporting system

As shown above, most of the Cabinet Secretaries' expenses were relatively consistent for the period under review. Expenses for the Secretary of Administration increased in 2021 due to additional funding to support the Office of the Chief Data Officer and data governance initiatives. These initiatives include the creation of a statewide data dictionary and data cataloging activities and will be funded through fees paid by state agencies. The Secretary of the Commonwealth also received additional funding to support statewide efforts to complete the ongoing census data collection requirements.

In addition to managing office operations, there are several Secretaries that also oversee significant financial programs or operations within the state. For example, the Secretary of Commerce and Trade is involved in economic development activities and this office processes grant payments to various entities across the state meant to spur economic growth. In addition, the Secretary of the Commonwealth collects various fees which are deposited to the General Fund of the Commonwealth. Financial activity related to these activities is not included in Chart 1, but is discussed in greater detail in the following sections.

### Secretary of Commerce and Trade

The Secretary of Commerce and Trade has a significant role in the Commonwealth's economic development activities. The Secretary's office receives primarily General Fund appropriations for various economic development incentive programs established in the Code of Virginia and the Appropriation Act. The Secretary's office has overall responsibility for processing payments under these programs, but works closely with the Governor and other entities on these economic development programs, which



are initially included in the Economic Development Incentive Payments section of the Appropriation Act. The various grant programs and their authorization as well as disbursements from each program for fiscal years 2020 and 2021 are shown below.

**Summary of Grants Disbursed by the Secretary of Commerce and Trade  
Fiscal Years 2020 and 2021**

Table 3

Grant Name	2020	2021	Authorization
Semiconductor Manufacturing Grant*	\$50,000,000	\$20,000,000	§ 59.1-284.32, Code of Virginia
Aerospace Engine Manufacturing Workforce Grant	11,000,000	-	§ 59.1-284.22, Code of Virginia
Commonwealth's Development Opportunity Fund	6,257,000	2,430,000	§ 2.2-115, Code of Virginia
Virginia Jobs Investment Program	3,164,981	1,425,500	§ 2.2-1611, Code of Virginia
Advanced Shipbuilding Production Facility Grant	-	8,000,000	§ 59.1-284.29, Code of Virginia
Economic Development Incentive Grant	4,000,000	-	§ 2.2-5102.1, Code of Virginia
Investment Performance Grant	3,836,900	4,196,900	§ 2.2-5101, Code of Virginia
Governor's Motion Picture Opportunity Fund	3,500,000	1,461,088	§ 2.2-2320, Code of Virginia
Virginia Biosciences Health Research Corporation	3,750,000	-	Appropriation Act
Truck Manufacturing Grant*	-	2,000,000	§ 59.1-284.33, Code of Virginia
Pharmaceutical Manufacturing Grant*	-	730,000	§ 59.1-284.36, Code of Virginia
<b>Total Grants Disbursed</b>	<b>\$85,508,881</b>	<b>\$40,243,488</b>	

Source: Commonwealth's accounting and financial reporting system

\*Indicates a new grant program for Fiscal Year 2020 or Fiscal Year 2021

Several of the grant programs above are new programs approved by the General Assembly that target certain business sectors and industries. As shown in Table 3, the total amount of disbursements was \$85.5 million in fiscal year 2020 but decreased to approximately \$40 million in fiscal year 2021. The General Assembly appropriated approximately \$36 million less for economic development activities overall in 2021, thus contributing to the decrease. While many of these grants are targeted to certain industries, the Commonwealth's Development Opportunity Fund (Opportunity Fund) provides funds to attract economic development prospects and secure the expansion of existing industry within the Commonwealth but is not limited to one particular industry. Because of the nature of the Opportunity Fund, the Governor has broad discretion to provide incentives for job creation across the business spectrum.

The Opportunity Fund, funded with General Fund appropriations, is used to make grants to qualifying projects. These grants may be contingent on companies meeting certain criteria, such as the creation of a certain number of jobs. The Virginia Economic Development Partnership (Partnership), the Secretary, and the Governor are all involved in the process of awarding grants from the Opportunity Fund. The Partnership conducts the initial reviews of the grant proposals, but the grants are subject to ultimate approval by the Secretary and the Governor.

The Opportunity Fund cash balance is monitored by the Partnership and the Department of Planning and Budget on an ongoing basis and compared to the Opportunity Fund's commitments. During periods of slow economic growth when the Opportunity Fund cash balance grows higher than what is required to meet commitments, the accumulated balance may be reduced by legislative action which reverts the funds back to the General Fund. Additionally, there can be a time lag of several years from when the Commonwealth makes its first commitment to the time when there is a required payment.

Table 4 summarizes financial activity in the Opportunity Fund over the last three fiscal years. There was a significant decline in activity in fiscal years 2020 and 2021 primarily due to changing the grant payment approach from a pre-payment approach to a post-payment approach. With this change, grant payments from the Opportunity Fund are not made until after certain performance benchmarks have been satisfied. Prior to this change, payments were made before the completion of any performance metrics which sometimes resulted in companies having to pay back funds if they did not meet the agreed upon metrics. Of the cash balance remaining in the Opportunity Fund at the end of fiscal year 2021, approximately \$25 million is committed to approved projects leaving an uncommitted balance of over \$33 million.

**Summary of Commonwealth's Development Opportunity Fund Activity  
Fiscal Years 2019 - 2021**

Table 4

	2019	2020	2021
Beginning cash balance	\$27,372,574	\$26,040,169	\$40,298,863
General Fund appropriations	19,750,000	19,750,000	19,750,000
Amount repaid by companies	5,009,438	4,787,099	4,334,531
Interest earned	611,588	653,595	287,527
Payments to localities/companies	(24,703,431)	(6,257,000)	(2,430,000)
Transfer to the Virginia Port Authority	(2,000,000)	(2,000,000)	(2,000,000)
Transfer to the Virginia Jobs Investment Program	-	(2,675,000)	-
Transfer to the Thomas Jefferson National Accelerator Facility	-	-	(1,500,000)
<b>Ending cash balance</b>	<b>\$26,040,169</b>	<b>\$40,298,863</b>	<b>\$58,740,921</b>

Source: Commonwealth's accounting and financial reporting system

### Secretary of the Commonwealth

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

As part of these duties, the Secretary is responsible for collecting a number of different fees which generally get deposited to the General Fund. The most significant of these fees are fees for commissioning notaries public and service of process fees. Service of process fees are generated by the initiation of certain legal proceedings within Virginia's judicial system. Fees collected by the Secretary's office totaled more than \$3 million in both fiscal years 2020 and 2021 as shown below in Table 5.

#### **Secretary of the Commonwealth Fee Collections for Fiscal Years 2020 and 2021**

Table 5

<b>Fees Collected by the Secretary of the Commonwealth</b>	<b>2020</b>	<b>2021</b>
Notary Commission Fees	\$1,201,400	\$1,540,765
Service of Process Fees	1,134,312	913,990
Technology Fee – Notary Commission Fees	343,520	440,395
Lobbyist Registration Fees	282,084	254,625
Certificate of Authentication Fees	205,690	242,406
Miscellaneous Fees	269	172
<b>Total Fees Collected</b>	<b>\$3,167,275</b>	<b>\$3,392,353</b>

Source: Commonwealth's accounting and financial reporting system



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 13, 2021

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Kenneth R. Plum  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Office of the Governor and the Governor's Cabinet Secretaries** (Office) for the period July 1, 2019, through June 30, 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, review the adequacy of the Office's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

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

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

Expenses, including payroll and small purchase card transactions  
System access controls  
Appropriations  
Cash receipts (Secretary of the Commonwealth)

We performed audit tests to determine whether the Office's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Office's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

### **Conclusions**

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

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

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

We discussed this report with management on August 30, 2021. Management's response to the finding 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.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

LCW/vks



# **COMMONWEALTH of VIRGINIA**

**Office of the Governor  
Richmond 23219**

Secretary of Administration  
Division of Selected Agency  
Support Services

September 1, 2021

Staci A. Henshaw, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Henshaw:

We have reviewed your report on our audit for the period July 1, 2019 through June 30, 2021, that identified a compliance matter.

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

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

Sincere Regards,

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

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

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

As of June 30, 2021

Ralph S. Northam, Governor

Clark Mercer, Chief of Staff

Grindley Johnson, Secretary of Administration

Bettina Ring, Secretary of Agriculture and Forestry

Brian Ball, Secretary of Commerce and Trade

Kelly Thomasson, Secretary of the Commonwealth

Atif Qarni, Secretary of Education

Aubrey L. Layne, Jr., Secretary of Finance

Dr. Daniel Carey, Secretary of Health and Human Resources

Matthew J. Strickler, Secretary of Natural Resources

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

Shannon Valentine, Secretary of Transportation

Kathleen Jabs, Acting Secretary of Veterans and Defense Affairs

### DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Dennis M. Johnson, Director