



OFFICE OF THE GOVERNOR AND THE GOVERNOR'S CABINET SECRETARIES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts
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AUDIT SUMMARY

This report includes the results of our audit for the period July 1, 2021, through June 30, 2022, for the Office of the Governor and the Cabinet Secretaries as 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 Health and Human Resources
Secretary of Administration	Secretary of Labor
Secretary of Agriculture and Forestry	Secretary of Natural and Historic Resources
Secretary of Commerce and Trade	Secretary of Public Safety and Homeland Security
Secretary of the Commonwealth	Secretary of Transportation
Secretary of Education	Secretary of Veterans and Defense Affairs
Secretary of Finance	

Our audit of the Office of the Governor and Cabinet Secretaries found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- one matter involving internal control and its operation necessary to bring to management's attention that also represents an instance of noncompliance with applicable laws and regulation; and
- adequate corrective action with respect to a prior audit finding.

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AUDIT FINDING AND RECOMMENDATION

Improve Policies and Procedures over Expenses

Type: Internal Control and Compliance

The Division of Selected Agency Support Services (Support Services) is responsible for administrative functions for the Office of the Governor and the Cabinet Secretaries. During our review of expense vouchers, we found Support Services did not process payments for two of 25 (8%) expense vouchers in compliance with the prompt payment provisions of the Code of Virginia. Support Services processed these payments more than 90 days after the invoice date. In addition, two of 25 (8%) expense vouchers had missing or inadequate supporting documentation; however, we were able to determine these expenses were valid based on additional analysis.

Section § 2.2-4347 of the Code of Virginia, states that agencies should pay invoices thirty days after the later of the receipt of invoice or the receipt of an item purchased, or as established by contract. Failure to comply with the prompt payment provisions may result in vendors charging penalties or interest, damage relationships with vendors, or harm the Commonwealth's reputation as a buyer. The Commonwealth's Accounting Policies and Procedures Manual, Topic 20310, also requires that state agencies maintain adequate documentation to support payments made and requires agencies retain these records for three years after the end of the fiscal year in which the expense occurs. Failure to maintain adequate supporting documentation can increase the risk of improper payments made by Support Services.

During the audit period, the former Director of Support Services and another critical staff member retired. During the same period, there was a transition in gubernatorial administrations and related personnel which required considerable attention from Support Services' staff. These two events, coupled with a lack of robust policies and procedures, impacted Support Services' operational capacity during the audit period and contributed to this finding.

Support Services should strengthen its internal policies and procedures to ensure that it processes payments in compliance with the Commonwealth's prompt payment provisions and maintains proper supporting documentation for all expenses. Support Services is in the process of updating its internal policies and procedures, and we encourage them to continue with these efforts. Robust policies and procedures will help to ensure that Support Services make payments timely and will reduce the risk of improper payments.

FINANCIAL AND OPERATIONAL INFORMATION

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

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

Cabinet Secretaries

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

The following report sections include detailed financial information on the operations of the Office of the Governor for fiscal year 2022. In addition, we have included a summary of operational expenses for each of the Cabinet Secretaries. There are some unique financial activities that are not included in the summary, primarily related to the Secretary of Commerce and Trade and the Secretary of the Commonwealth. Both Secretaries oversee certain statewide financial activities that are discussed separately later in this report.

Office of the Governor

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

Office of the Governor
Budget and Expense Summary for Fiscal Years 2021 and 2022

Table 1

	2021	2022
Original budget	\$7,849,409	\$7,513,717
Final budget	8,131,577	9,930,106
Actual expenses	6,849,499	8,160,422

Source: Commonwealth's accounting and financial reporting system

The Office's budget for 2022 increased by about \$2.4 million during the year due to reappropriation of prior year balances, as well as additional funding. The Office's overall expenses increased by about \$1.3 million when compared to fiscal year 2021. These increases are due to several factors including personnel costs associated with the transition in gubernatorial administrations. The Office also received one time funding from the American Rescue Plan Act of 2021 which was used to contract for language translation planning consultation services. Table 2 below details budget and expenses activity for fiscal year 2022. The largest expense area is payroll and fringe benefit costs for the Office's 48.5 full-time employees. The Office did not expend all of their appropriation and ended the fiscal year with a balance of almost \$1.8 million.

Office of the Governor
Budget and Expense Analysis for Fiscal Year 2022

Table 2

	2022
Original budget	\$7,513,717
Adjustments:	
Discretionary re-appropriation of prior year unexpended balances	1,414,809
Funding from the American Rescue Plan Act of 2021 for language translation planning consulting services	500,000
Funding for Workforce Transition Act payments to former officials	440,168
Transfer to/from Central Appropriations for employee salary increases, benefit changes, and other amounts	119,338
Net transfer of grant funding to support Diversity, Equity, and Inclusion efforts at the Department of Social Services	<u>(57,926)</u>
Total adjusted budget	<u>9,930,106</u>
Expenses:	
Personal services	5,591,403
Contractual services	1,660,981
Continuous charges	559,909
Supplies and materials	247,997
Other	<u>100,132</u>
Total expenses	<u>8,160,422</u>
Unexpended balance	<u>\$1,769,684</u>

Source: Commonwealth's accounting and financial reporting system

In addition to routine administrative programs, the Office also receives a “sum sufficient” General Fund appropriation under the Disaster Planning and Operation Program. In any given year, various natural disasters can strike Virginia, resulting in the Governor declaring numerous localities as disaster areas. To address damage and recovery from the disasters, the Department of Emergency Management (Emergency Management) requests General Fund appropriations through the Disaster Planning and Operation program. The Department of Planning and Budget transferred approximately \$2.1 million in 2022 in General Fund appropriations from this program to Emergency Management in response to natural disasters that occurred during the year and in previous years.

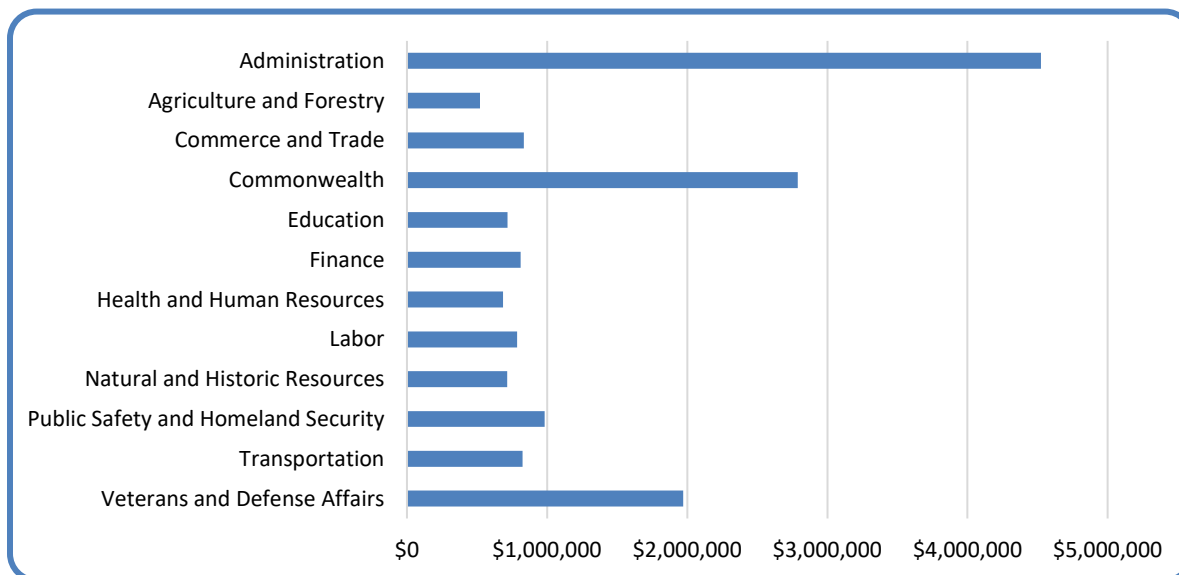
Cabinet Secretaries

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

The nature of administrative office operations for most of the Secretaries’ offices is similar, but the funding sources may vary. The majority of the Secretaries receive General Fund appropriations to fund office operations, but a few Secretaries also receive special revenue funds for various purposes. Generally, the most significant administrative expense for the Secretaries are payroll and fringe benefits costs for their office personnel. Chart 1 below summarizes the total administrative costs of operations for each Secretary for fiscal year 2022.

Operational Expense Summary by Cabinet Secretary for Fiscal Year 2022

Chart 1



Source: Commonwealth’s accounting and financial reporting system

While most of the cabinet secretaries' offices spend less than \$1 million annually for operations, there are three offices which have unique functions resulting in larger expenses in comparison to other offices. Expenses for the Secretary of Administration include costs of the Office of the Chief Data Officer and data governance initiatives, which includes the maintenance of a statewide data dictionary and data cataloging activities that are funded through fees paid by state agencies. The Secretary of the Commonwealth has several unique responsibilities which requires a larger professional staff than some of the other secretaries and this is discussed in greater detail later in the report. Finally, the Secretary of Veterans and Defense Affairs receives federal funding to provide assistance to certain localities to support land acquisition near federal military installations in response to concerns from the federal government.

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

Secretary of Commerce and Trade

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

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

In fiscal year 2022, the General Assembly appropriated more than \$98 million in economic development program funding to EDIP. In turn, EDIP transferred about \$74 million to the Secretary's Office to support various economic development programs approved by the General Assembly. Funding transferred to the Secretary's Office in 2022 included some carry forward funding from prior years. The remaining funding provided by the General Assembly, approximately \$24 million, was not transferred to the Secretary's Office as the conditions established for disbursement were not yet met. Table 3 on the following page shows the specific programs the funds were transferred to as well the related expenses in fiscal year 2022.

Summary of Economic Development Services Program Activity
Secretary of Commerce and Trade
Fiscal Year 2022

Table 3

Type of Program	Amounts Transferred from EDIP	Expenses
Commonwealth's Development Opportunity Fund	\$18,250,000	\$4,980,198
Property Analytics Firm Infrastructure Grant Fund	15,000,000	-
Special Workforce Grant Fund	10,500,000*	10,500,000
Governor's Motion Picture Opportunity Fund	8,700,000*	7,200,000
Advanced Shipbuilding Production Facility Grant	8,000,000	8,000,000
Technology Development Grant Fund	5,625,000	-
Virginia Jobs Investment Program	4,669,833	1,776,050
Investment Performance Grant	4,381,900	4,121,900
Pharmaceutical Manufacturing Grant	2,993,750	2,993,750
Truck Manufacturing Grant Fund	2,000,000	2,000,000
Economic Development Incentive Grant	1,000,000	1,000,000
Governor's New Airline Service Incentive Fund	825,000	-
Advanced Production Grant Fund	500,000	500,000
Total	<u>\$82,445,483</u>	<u>\$43,071,898</u>

Source: Commonwealth's accounting and financial reporting system (Agency 192)

*The Special Workforce Grant includes \$5.31 million of carry-forward funding; the Governor's Motion Picture Opportunity Fund includes \$4.7 million of carry-forward funding

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

In fiscal year 2022, the General Assembly appropriated \$19.8 million to the Opportunity Fund of which the General Assembly directed \$1.5 million to be allocated to the Thomas Jefferson National Accelerator Facility. Table 4 on the next page summarizes financial activity in the Opportunity Fund for fiscal year 2022. The amount shown in the table as "Amount repaid by companies" reflect situations where economic development funds were "clawed back" from a company because they did not meet the required criteria.

**Summary of Commonwealth's Development Opportunity Fund Activity
Fiscal Year 2022**

Table 4

	2022
Beginning cash balance	\$58,740,921
General Fund appropriations	19,750,000
Amount repaid by companies	5,670,868
Interest earned	120,453
Payments to localities/companies	(4,980,198)
Transfer to the Thomas Jefferson National Accelerator Facility	(1,500,000)
Ending cash balance	<u>\$77,802,044</u>

Source: Commonwealth's accounting and financial reporting system

The Opportunity Fund cash balance is monitored by the Partnership and the Department of Planning and Budget and compared to the Opportunity Fund's commitments. The cash balance in the Opportunity Fund has been growing in recent years due primarily to a shift to post-performance grants where payments are made after a business has met certain benchmarks. Prior to this change, payments were made before the completion of any performance metrics which sometimes resulted in companies having to pay back funds if they did not meet the agreed upon metrics. Of the cash balance remaining in the Opportunity Fund at the end of fiscal year 2022, approximately \$49 million is committed to approved projects leaving an uncommitted balance of nearly \$29 million.

Secretary of the Commonwealth

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

As part of these duties, the Secretary is responsible for collecting 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 \$3.4 million in fiscal year 2022 as shown below in Table 5.

Secretary of the Commonwealth Fee Collections for Fiscal Year 2022

Table 5

Fees Collected by the Secretary of the Commonwealth	2022
Notary Commission Fees	\$1,498,217
Service of Process Fees	936,685
Technology Fee – Notary Commission Fees	428,895
Lobbyist Registration Fees	299,900
Certificate of Authentication Fees	265,175
Total Fees Collected	<u>\$3,428,872</u>

Source: Commonwealth's accounting and financial reporting system



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 1, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Office of the Governor and the Governor's Cabinet Secretaries** (Office) for the year ended June 30, 2022. 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 for the audit finding 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
Economic development payments
System access controls
Appropriations

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 one matter involving internal control and compliance with applicable laws, regulations, contracts, and grant agreements that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation." The Office has taken adequate corrective action with respect to the audit finding reported in the prior year that is not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on June 21, 2023. 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/clj



COMMONWEALTH of VIRGINIA

Office of the Governor
Richmond 23219

Secretary of Administration
Division of Selected Agency
Support Services

June 21, 2023

Staci A. Henshaw
The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Henshaw:

We have reviewed your report for the audit period July 1, 2021 through June 30, 2022 for the Office of the Governor and the Cabinet Secretariat Offices that identifies an internal control finding.

We agree with the finding and have implemented steps since the time period of the audit to improve and develop documentation of internal processes and policies. This includes ensuring payments are in compliance with the Commonwealth's prompt payment provisions and have the appropriate supporting documentation.

Thank you for the professionalism and guidance through the audit process.

Best Regards,

A handwritten signature in cursive script that reads "Rochelle Altholz".

Rochelle Altholz
Director, Division of Selected Agency Support Services

OFFICE OF THE GOVERNOR AND GOVERNOR'S CABINET SECRETARIES

As of June 30, 2022

Glenn Youngkin, Governor

Jeff Goettman, Chief of Staff

Margaret "Lyn" McDermid, Secretary of Administration

Matthew Lohr, Secretary of Agriculture and Forestry

Caren Merrick, Secretary of Commerce and Trade

Kay James, Secretary of the Commonwealth

Aimee Rogstad Guidera, Secretary of Education

Stephen E. Cummings, Secretary of Finance

John Littel, Secretary of Health and Human Resources

George "Bryan" Slater, Secretary of Labor

Travis A. Voyles, Secretary of Natural and Historic Resources

Robert Mosier, Secretary of Public Safety and Homeland Security

W. Sheppard Miller, III, Secretary of Transportation

Craig Crenshaw, Secretary of Veterans and Defense Affairs

DIVISION OF SELECTED AGENCY SUPPORT SERVICES

Rochelle Altholz, Director