

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Governor's Cabinet Secretaries for the year ended June 30, 2004, 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.

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FINACIAL INFORMATION BY CABINET SECRETARY

Introduction

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

Secretary of Administration	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
Secretary of Health and Human Resources	

The Division of Select Agency Support Services in the Office of the Secretary of Administration provides administrative support for the Cabinet Secretaries' operations. The Cabinet Secretaries receive the majority of their funding through an appropriation from the General Fund of the Commonwealth. The Secretaries of Administration, Finance, and Public Safety only receive General Funds. The Secretaries of Commerce and Trade, Education, Health and Human Resources, Natural Resources, and Technology receive both General and Special revenue funds. The Transportation Trust Fund exclusively funds the Secretary of Transportation's operations. The following table summarizes the budget and expenses for each Secretary.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Secretary of Administration	\$ 7,333,193	\$ 7,479,218	\$ 7,451,054
Secretary of Commerce and Trade	526,155	555,480	555,035
Secretary of Education	542,487	832,761	635,845
Secretary of Finance	424,743	475,110	475,003
Secretary of Health and Human Resources	528,104	752,938	720,428
Secretary of Natural Resources	468,484	503,093	503,024
Secretary of Public Safety	601,542	704,719	704,555
Secretary of Technology	526,890	527,463	527,462
Secretary of Transportation	<u>481,808</u>	<u>558,808</u>	<u>558,751</u>
Total	<u>\$11,433,406</u>	<u>\$12,389,590</u>	<u>\$12,131,157</u>

The following sections summarize the purpose and funding of each of the Secretaries listed in the table above. The format of the information varies based on the Secretaries' funding sources.

Secretary of Administration

The Secretary assists the Governor with the management and direction of the administration of state government. Within the Office of the Secretary of Administration is the Division of Selected Agency Support Services. The Division provides financial and administrative support to the: Office of the Governor; 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; and the Virginia Racing Commission.

The Secretary's office funding for operations is from General Fund appropriations. During fiscal year 2004, the Governor proposed and the General Assembly approved a transfer of the activities and funding for the Virginia Public Broadcasting Board (VPBB) to the Secretary of Administration. The VPPB serves as a

conduit of state financial support of public radio and television stations. The following tables summarize the budget and expenses for the Secretary. The significant increase between 2003 and 2004 is due to the transfer of the VPPB under the Secretary.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$930,704	\$7,333,193
Final budget	954,472	7,479,218
Expenses	951,705	7,451,054

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$7,333,193
Reductions per Chapter 943	<u>(19)</u>
Appropriations per Chapter 943	7,333,174
Adjustments:	
Supplemental appropriation from the Secretary of Health and Human Resources for unbudgeted expenses	25,000
Supplemental appropriation from Central Appropriations for unbudgeted expenses	88,000
Other adjustments	<u>33,044</u>
Total adjusted appropriations	<u>7,479,218</u>
Expenses:	
Salaries and fringe benefits	872,650
Contractual services	(34,002)
Continuous charges	91,143
Supplies and materials	18,705
Property and equipment	976
Public broadcasting grants	<u>6,501,582</u>
Total expenses	<u>7,451,054</u>
Unexpended balance	<u>\$ 28,164</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's office receives funding from General Fund Appropriations and Special Revenues, and the following is a discussion of each of these funding sources.

General Fund

The Secretary's office receives General Fund appropriations for funding part of operations. The following table summarizes the General Fund budget and expenses for the Secretary for 2003 and 2004.

General Fund Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$587,974	\$526,155
Final budget	510,760	555,480
Expenses	510,760	555,035

General Fund Budget and Expenses for Fiscal Year 2004

Original appropriations per Chapter 1042	\$526,155
Reductions per Chapter 943	<u>(332)</u>
Appropriations per Chapter 943	525,823
Adjustments:	
Supplemental appropriation from Central Appropriations for unbudgeted expenses	23,186
Adjustment for salary and fringe benefit increases	14,970
Other adjustments	<u>(8,499)</u>
Total adjusted appropriations	<u>555,480</u>
Expenses:	
Salaries and fringe benefits	499,340
Contractual services	17,855
Continuous charges	34,431
Supplies and materials	2,545
Property and equipment	<u>864</u>
Total expenses	<u>555,035</u>
Unexpended balance	<u>\$ 445</u>

Virginia Film Office

The Secretary receives revenues for the Virginia Film Office for promotion of the use of Virginia locations in motion pictures. Beginning in fiscal year 2004, the Secretary deposited the revenue from the Virginia Film Office directly into the General Fund of the Commonwealth. The total amount collected and deposited in 2004 was \$180,000. In fiscal year 2004, the Secretary received an \$84,000 reappropriation of prior year balances of film office collections, which he used for this initiative.

Governor's Opportunity Fund

The Secretary receives General Funds through Central Appropriations 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. The following summarizes activity in this fund during fiscal year 2004.

Beginning balance, July 1, 2003	\$ 23,703,991
Transfers in from Central Appropriations	7,500,000
Interest earned	436,953
Transfer payments	<u>(12,630,490)</u>
Ending balance, June 30, 2004	<u>\$ 19,010,454</u>

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. In the original budget, the Secretary expected to receive over \$188,000 in special funds from the Department of Education and the Virginia Business and Education Partnership; however, these funds were not available to the Secretary's Office. As a result, the Secretary received an increase in General Fund appropriation to fund operations. The additional General Fund appropriations came from the Secretary of the Commonwealth, as well as Central Appropriations. The following tables summarize the budget by funding source for fiscal year 2004, as well as the General Fund budget and expenses for 2004.

Financial Summary by Funding Source for Fiscal Year 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$353,516	\$643,790	\$643,790
Special revenue	<u>188,971</u>	<u>188,971</u>	<u>-</u>
Total	<u>\$542,487</u>	<u>\$832,761</u>	<u>\$643,790</u>

General Fund Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$353,516
Reductions per Chapter 943	<u>(17)</u>
Appropriations per Chapter 943	353,499
Adjustments:	
Supplemental appropriation from the Secretary of Commonwealth	180,000
Supplemental appropriation from Central Appropriations	77,928
Transfer of appropriations from Natural Resources	21,339
Adjustment for salary and fringe benefit increases	21,428
Other adjustments	<u>(10,404)</u>
Total adjusted appropriations	<u>643,790</u>
Expenses:	
Salaries and fringe benefits	557,781
Contractual services	25,812
Continuous charges	47,545
Supplies and materials	2,447
Property and equipment	860
Transfer payments	<u>1,400</u>
Total expenses	<u>635,845</u>
Unexpended balance	<u>\$ 7,945</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 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$476,485	\$424,743
Final budget	528,833	475,110
Expenses	523,414	475,003

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$424,749
Reductions per Chapter 943	<u>(6)</u>
Appropriations per Chapter 943	424,743
Adjustments:	
Supplemental appropriation from Central Appropriations for unbudgeted expenses	37,398
Reappropriation of prior year balance	5,418
Other adjustments	<u>7,551</u>
Total adjusted appropriations	<u>475,110</u>
Expenses:	
Salaries and fringe benefits	454,172
Contractual services	2,891
Continuous charges	16,763
Supplies and materials	1,037
Property and equipment	<u>140</u>
Total expenses	<u>475,003</u>
Unexpended balance	<u>\$ 107</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 and provides program coordination, policy planning, and budget formulation activities. The Secretary receives primarily General Fund Appropriations, as well as a transfer of special revenue funds from the Jamestown/Yorktown Foundation to support the Council on Indians.

The Secretary's original budget underwent reductions of over \$400,000 between 2003 and 2004 for primarily two reasons. First, the Secretary's 2003 budget included funding for an inspector general and support staff at the Department of Mental Health, Mental Retardation, and Substance Abuse Services. As of July 1, 2003, this funding of approximately \$160,000 was transferred to the Department of Mental Health. Also, the 2004 budget reflects a funding reduction for health and human service agencies in addition to other budget reduction actions. The following tables summarize budget and expense information for 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$ 962,973	\$528,104
Final budget	1,032,679	752,938
Expenses	1,012,282	720,428

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$528,104
Reductions per Chapter 943	<u>(17)</u>
Appropriations per Chapter 943	528,087
Adjustments:	
Supplemental appropriation from Central Appropriations	118,000
Transfer of appropriations from HHS agencies to fund two wage positions in the Secretary's Office	83,568
Transfer of appropriations for the Council on Indians	47,000
Adjustment for salary and fringe benefit increases	15,884
Transfer of appropriation from Natural Resources	12,000
Transfer of appropriation to the Governor's Office	(30,000)
Transfer of appropriation to Administration	(25,000)
Other adjustments	<u>3,399</u>
Total adjusted appropriations	<u>752,938</u>
Expenses:	
Salaries and fringe benefits	651,815
Contractual services	23,113
Continuous charges	40,735
Supplies and materials	3,044
Property and equipment	<u>1,721</u>
Total expenses	<u>720,428</u>
Unexpended balance	<u>\$ 32,510</u>

Secretary of Natural Resources

The Secretary acts on behalf of the Governor in the management and direction of the natural resource agencies and provides program coordination, policy planning, and budget formulation activities. The Secretary of Natural Resources receives funding from General Fund Appropriations for office operations. The following tables summarize the budget and expenses for the Secretary for 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$514,944	\$468,484
Final budget	453,315	503,093
Expenses	452,092	503,024

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$468,484
Reductions per Chapter 943	<u>(17)</u>
Appropriations per Chapter 943	468,467
Adjustments:	
Transfer from Department of Environmental Quality to fund Chesapeake Bay coordinator position	70,974
Adjustment for salary and fringe benefit increases	12,613
Transfer appropriations to various other Secretaries	(42,458)
Other adjustments	<u>(6,503)</u>
Total adjusted appropriations	<u>503,093</u>
Expenses:	
Salaries and fringe benefits	461,672
Contractual services	13,009
Continuous charges	26,601
Supplies and materials	506
Property and equipment	<u>1,236</u>
Total expenses	<u>503,024</u>
Unexpended balance	<u>\$ 69</u>

The Secretary also receives special revenue funds for the Chesapeake Bay Clean-Up Program. Individual taxpayers 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. The Secretary has the authority to transfer funds from this account when Chesapeake Bay Local Assistance Department demonstrates a need for the funding.

Unexpended special revenue fund balance as of July 1, 2003	\$ 327,640
Chesapeake Bay Clean-Up special revenues	<u>147,468</u>
Total available resources	<u>\$ 475,108</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. The Secretary of Public Safety receives funding from General Fund Appropriations for office operations. The following tables summarize the budget and expenses for the Secretary for 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$674,264	\$601,542
Final budget	649,082	704,719
Expenses	646,510	704,555

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$601,542
Reductions per Chapter 943	<u>(10)</u>
Appropriations per Chapter 943	601,532
Adjustments:	
Supplemental appropriation from Central Appropriations for unbudgeted expenses	87,623
Adjustment for salary and fringe benefit increases	16,914
Other adjustments	<u>(1,350)</u>
Total adjusted appropriations	<u>704,719</u>
Expenses:	
Salaries and fringe benefits	643,320
Contractual services	10,974
Continuous charges	47,557
Supplies and materials	1,646
Property and equipment	<u>1,059</u>
Total expenses	<u>704,555</u>
Unexpended balance	<u>\$ 164</u>

Secretary of Technology

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

The Secretary of Technology primarily receives General Fund Appropriations for operations, although VITA also transfers funds to the Secretary's Office to help support operations. In fiscal year 2004, the amount of this transfer was \$48,782. The following tables summarize the budget and expenses for the Secretary for 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$496,425	\$526,890
Final budget	519,913	527,463
Expenses	519,805	527,462

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$526,890
Reductions per Chapter 943	<u>(22)</u>
Appropriations per Chapter 943	526,868
Adjustments:	
Adjustment for salary and fringe benefit increases	13,401
Other adjustments	<u>(12,806)</u>
Total adjusted appropriations	<u>527,463</u>
Expenses:	
Salaries and fringe benefits	472,212
Contractual services	27,434
Continuous charges	24,662
Supplies and materials	1,798
Property and equipment	<u>1,355</u>
Total expenses	<u>527,462</u>
Unexpended balance	<u>\$ 1</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 2003 and 2004.

Financial Summary for Fiscal Years 2003 and 2004

	<u>2003</u>	<u>2004</u>
Original budget	\$487,045	\$481,808
Final budget	525,738	558,808
Expenses	523,291	558,751

Budget and Expense Analysis for Fiscal Year 2004

Original appropriations per Chapter 1042	\$481,808
Reductions per Chapter 943	<u>-</u>
Appropriations per Chapter 943	481,808
Adjustments:	
Supplemental appropriations from the Transportation Trust Fund	<u>77,000</u>
Total adjusted appropriations	<u>558,808</u>
Expenses:	
Salaries and fringe benefits	520,741
Contractual services	15,499
Continuous charges	20,697
Supplies and materials	1,569
Property and equipment	<u>245</u>
Total expenses	<u>558,751</u>
Unexpended balance	<u>\$ 57</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

August 30, 2004

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

The Honorable Lacey E. Putney
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, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, 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 the Secretaries' internal controls, 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 Secretaries' 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.

Expenditures
Revenues
Appropriations

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.

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.

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. 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 10, 2004.

AUDITOR OF PUBLIC ACCOUNTS

LCR:kva
kva:

GOVERNOR'S CABINET SECRETARIES
Richmond, Virginia

As of June 30, 2004

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