

**REVIEW OF THE  
BUDGET AND APPROPRIATION  
PROCESSING CONTROL SYSTEM**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2011**



## AUDIT SUMMARY

Our review of the Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2011, found that the Department of Planning and Budget's policies and procedures are adequate to ensure that:

- Planning and Budget complies with requirements in the Appropriation Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
- The Commonwealth Accounting and Reporting System (CARS) properly includes the budget approved by the General Assembly;
- Planning and Budget properly approves, documents, and reconciles budget adjustments on the Performance Budgeting System (PBS) to CARS at a statewide level; and
- Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.

Our prior reports have included a discussion of budget transparency issues that affect the ability of the user to easily relate the budget to the actions of the Commonwealth. The most significant of these issues were the transfers of General Funds to various non-general funds for the Personal Property Relief program as well as higher education programs. These issues arose when Planning and Budget processed transfers to comply with various requirements in the Appropriation Act, which allow for separate monitoring and tracking of these funds. This practice created a loss of funding transparency in the accounting records.

Planning and Budget and the General Assembly have taken steps to address some of the more significant budget transparency issues. Beginning in fiscal year 2011, Planning and Budget and the General Assembly moved the Personal Property Tax Relief program to a different section in the Appropriation Act, and Department of Accounts began processing expenses directly from the General Fund.

In addition, Chapter 890 of the 2011 Virginia Acts of the Assembly includes language that directs the Governor's Commission on Higher Education Reform, Innovation, and Investment to review the issue of higher education transfers and make recommendations by fiscal year 2012.

## TABLE OF CONTENTS

	<u>Pages</u>
AUDIT SUMMARY	
STATUS OF FINDING AND RECOMMENDATION, AND OTHER MATTERS	1-2
REVIEW OF THE BUDGET AND APPROPRIATION PROCESSING CONTROL SYSTEM:	3-11
Operating Budget Adjustments:	3-9
<i>Federal Stimulus Adjustments</i>	4
<i>Transfers</i>	4-5
<i>Adjustments and Reappropriations</i>	6-9
Central Appropriations	9-10
Capital Budget Adjustments	11
INDEPENDENT AUDITOR'S REPORT	12-14
Audit Objectives	12-13
Audit Scope and Methodology	13
Conclusions	13-14
Exit Conference and Distribution	14
APPENDIX A - Background Information on the Commonwealth's Budget Process	15-16
AGENCY OFFICIALS	17

## **STATUS OF FINDING AND RECOMMENDATION, AND OTHER MATTERS**

### ***OTHER MATTERS***

#### **Status of Performance Budgeting System**

During fiscal year 2011, Planning and Budget and the Virginia Information Technologies Agency (VITA) Enterprise Applications Division continued their efforts to implement the Performance Budgeting System to replace the legacy budgeting systems, Program Budget System (PROBUD) and Form 27 Automated Transaction System (FATS), as well as other ancillary databases, spreadsheets, and documents previously supporting the Commonwealth's strategic planning and budgeting processes. In September 2010, Phase I implementation occurred and addressed four functional areas: budget development (operating and capital), six-year financial planning, and budget execution.

In June 2011, management temporarily suspended the Phase 2 implementation, addressing the remaining two areas of agency spending plans and strategic planning. Phase 2 was originally scheduled for completion in April 2011. This decision allowed the project team to focus on correcting and adding enhancements to the Phase 1 functionality and stabilizing that environment in time for the fall 2011 budget season. The project team re-started Phase 2 activities in December 2011 and anticipates completion of this phase and overall project close out by Summer 2012. After project close out the system will enter the maintenance phase of the system development life cycle.

Funding for this \$15 million project comes from a working capital advance administered by VITA. The Appropriation Act directs the repayments of the advance from enhanced collections, cost recoveries, inter-agency collaborative projects, and other initiatives. No repayment from these sources has occurred to date.

### ***STATUS OF FINDING AND RECOMMENDATION***

#### **Continue to Address Budget Transparency Issues**

We have reported on various budget transparency issues since 2006. The most significant transparency issue noted in our past reports is the transfers of General Fund appropriations to various non-general funds for programs like Personal Property Relief as well as higher education programs. Planning and Budget made these transfers to comply with various requirements in the Appropriation Act which allow for separate monitoring and tracking of these funds; however, the practice created a loss of funding transparency in the accounting records.

Planning and Budget and the General Assembly have taken steps to address some of the more significant budget transparency issues. Chapter 874 of the 2010 Virginia Acts of the Assembly includes language that directs the Governor's Commission on Higher Education Reform, Innovation,

and Investment to review the issue of higher education transfers and make recommendations by fiscal year 2012.

In addition, beginning in fiscal year 2011, Planning and Budget moved the Personal Property Tax Relief program to a different section in the Appropriation Act, with other similar transfer programs. Planning and Budget and the Department of Accounts also began processing program expenses directly from the General Fund in fiscal year 2011. This eliminated the need for appropriation transfers from the General Fund to non-general funds.

One budget transparency issue that remains is an inadequate reporting process for administrative changes made to the budget after the General Assembly's approval. The current process does not provide adequate information to the General Assembly or the public of changes made to the budget during any fiscal year. Section 4-8.01 of the Appropriation Act requires Planning and Budget provide a monthly report of administrative adjustments to Senate Finance and House Appropriations committees. This monthly report lists each adjustment, but provides minimal information on why an adjustment was made so the usefulness of the information is limited. Other than this report, there is no other information available to either the General Assembly or the public to understand administrative adjustments made to the budget approved by the General Assembly. Administrative adjustments can significantly alter the approved budget, and improved reporting of these changes to the General Assembly and public would increase the transparency of the budgeting process. In fiscal year 2011, administrative adjustments resulted in a \$6.9 billion overall increase in the operating budget and these changes are detailed in this report.

We believe budget transparency issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth. While we recognize that Planning and Budget and the Governor have taken actions to address some of the issues, we continue to bring these issues to the attention of the Governor and legislature since the Administration is taking action to replace the current accounting and budgeting processes and systems.

## Review of the Budget and Appropriation Processing Control System

The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and positions during the implementation of the budget. This authority is primarily set forth in various sections of the Appropriation Act, and Planning and Budget refers to these budget changes as “administrative adjustments.”

In this report, we summarize the administrative adjustments processed by Planning and Budget in fiscal year 2011. There are adjustments to both the operating and capital budgets and we discuss these items in separate sections. In addition, Planning and Budget has responsibility for executing items within the Central Appropriations section of the Act. Central Appropriations are the mechanism in the Act to implement budget actions, which will affect multiple agencies and funds, and our report also includes a summary of significant Central Appropriations activity in fiscal year 2011.

### *Operating Budget Adjustments*

Planning and Budget and agencies process administrative adjustments to the operating budget for a variety of reasons. These adjustments resulted in a net increase to the operating budget of \$6.9 billion in fiscal year 2011. Planning and Budget and agencies processed a significant number of adjustments to appropriate federal stimulus funds and these contributed to the increases shown below.

The following table summarizes adjustments by three types: federal stimulus adjustments, transfers, and adjustments and reappropriations. Transfers generally move appropriations between agencies, programs, and/or funds, while adjustments and reappropriations generally represent increases in appropriations. Our summary below also shows the net effect of the adjustments on the General Fund and Non-General Funds.

<b><u>Summary of Operating Budget Adjustments – Fiscal Year 2011</u></b>			
	<u>General Fund</u>	<u>Non-general Fund</u>	<u>Total</u>
Original budget, Chapter 874 (2010 Act)	\$15,376,985,189	\$22,490,017,805	\$37,867,002,994
Subsequent legislative amendments	182,128,997	743,350,604	925,479,601
Administrative adjustments:			
Federal stimulus adjustments	-	2,356,417,254	2,356,417,254
Transfers	(1,567,871,898)	1,542,978,448	(24,893,450)
Adjustments and Reappropriations	<u>101,391,432</u>	<u>4,463,708,701</u>	<u>4,565,100,133</u>
Adjusted budget as of June 30, 2011	<u>\$14,092,633,720</u>	<u>\$31,596,472,812</u>	<u>\$45,689,106,532</u>

We provide more detail in the following sections on the most significant administrative adjustments processed to the operating budget in fiscal year 2011.

### **Federal Stimulus Adjustments**

With the passage of the American Recovery and Reinvestment Act of 2009, various Commonwealth agencies and programs received federal stimulus funds in fiscal year 2011. As a result, a significant portion of the increase in the operating budget during the fiscal year related to adjustments for the receipt of federal stimulus funds. While the budget and subsequent amendments approved by the General Assembly included some appropriations for federal stimulus funds, Planning and Budget had to record some of these funds through the administrative adjustment process. Planning and Budget and the Department of Accounts (Accounts) set up separate funds to budget and account for the stimulus funds, and processed administrative adjustments to set up federal stimulus appropriations for the agencies listed below.

<b><u>Summary of Federal Stimulus Adjustments – Fiscal Year 2011</u></b>	
Direct Aid to Public Education	\$ 820,458,636
Department of Transportation	619,886,004
Department of Medical Assistance Services	307,281,579
Virginia Employment Commission	95,971,117
Department of Mines, Minerals, and Energy	79,425,400
Department of Environmental Quality	61,639,514
University of Virginia	58,601,251
Virginia Community College System	43,374,152
Department of Social Services	42,665,730
Virginia Commonwealth University	41,951,971
Department of Housing and Community Development	36,372,429
Virginia Polytechnic Institute and State University	16,956,151
Department of Health	17,922,930
Virginia Port Authority	17,733,691
Department of Education, Central Office Operations	16,504,654
Other agencies	<u>79,672,045</u>
Total	<u><u>\$2,356,417,254</u></u>

### **Transfers**

Appropriation transfers typically move appropriations between agencies, programs, and/or funds. There are generally three types of transfers – transfers within general funds, transfers within non-general funds, and transfers between general and non-general funds. We have summarized transfers that occurred in fiscal year 2011 and their net effect on the budget in the following table.

**Summary of Transfers – Fiscal Year 2011**

	<u>General Fund</u>	<u>Non -general Fund</u>	<u>Total</u>
General Fund to Non-general Funds	(\$1,568,305,925)	\$1,573,432,911	\$ 5,126,986
Other transfers	<u>434,027</u>	<u>(30,454,463)</u>	<u>(30,020,436)</u>
Total	<u>(\$1,567,871,898)</u>	<u>\$1,542,978,448</u>	<u>(\$24,893,450)</u>

As in past years, transfers between general and non-general funds had a significant impact on the budget in fiscal year 2011. These transfers, required by the Appropriation Act or the Code of Virginia, usually occur so that the Commonwealth can maintain separate bookkeeping for certain types of General Fund activities. Historically, Accounts has moved these General Fund amounts to Non-General Fund accounts to separate the funds to monitor and control the spending of the appropriation. The creation and use of these funds changes the nature of how both the accounting and budget systems show these funds and creates budget transparency issues as we have reported previously.

The general to non-general fund transfers represents various individual amounts, with the majority of the transfers relating to higher education operating funds. With the change in the budgeting and accounting for the Personal Property Tax Relief Program, the amount of these types of transfers decreased significantly from fiscal year 2010 to fiscal year 2011. Below is a list of the most significant transfers of this type along with the applicable reference to Chapters 874 and 890 Appropriation Acts.

**General Fund to Non-general Fund Transfers – Fiscal Year 2011**

To Higher Education Operating Funds (Section 4-1.03)	(\$1,385,680,533)
To Virginia Water Quality Improvement Fund (Items 351 L. and 357 D)	(36,443,000)
To Virginia Transportation Infrastructure Bank (Item 452 G.1)	(32,700,000)
To Higher Education funds for bonus, benefit changes, and other amounts (Item 469)	(32,608,399)
To Governor's Development Opportunity Fund (Item 96 B.1)	(23,911,055)
To Other Non-general Funds (various items)	(21,489,781)
To US Route 58 Corridor Development Fund (Item 456 B.1)	(12,000,000)
To Northern Virginia Transportation District Fund (Item 255 A)	(8,000,000)
To Higher Education Institutions for interest earned on tuition, fees, and other non-general fund education (Item 465)	(7,863,990)
Fiscal Year 2010 carryover funds to respective Community Colleges (Section 4-1.03 a.7)	<u>(7,609,167)</u>
Total Net Transfer from General Fund to Non-general Funds	<u>(\$1,568,305,925)</u>



## Adjustments and Reappropriations

Adjustments and reappropriations generally result in an increase in the original budget. There are several different types of adjustments in this category. We summarize below their impact on the general and non-general funds in the fiscal year 2011 operating budget.

<b><u>Summary of Adjustments and Reappropriations– Fiscal Year 2011</u></b>			
	<b><u>General Fund</u></b>	<b><u>Non-general Fund</u></b>	<b><u>Total</u></b>
Sum sufficient appropriations	\$ 4,215,210	\$2,354,219,878	\$2,358,435,088
Additional revenues	254,314	1,357,946,727	1,358,201,041
Carry forward prior year cash balances	-	364,441,263	364,441,263
Mandatory reappropriations	70,117,811	366,691	70,484,502
Discretionary reappropriations	17,874,186	-	17,874,186
Other adjustments	<u>8,929,911</u>	<u>386,734,142</u>	<u>395,664,053</u>
Total Adjustments and Reappropriations	<u>\$101,391,432</u>	<u>\$4,463,708,701</u>	<u>\$4,565,100,133</u>

### Sum Sufficient Appropriations

A sum sufficient appropriation is a mechanism within the Act to allow the Governor and agencies to deal with unique programs. The Act uses this type of appropriation primarily in two situations: when a program revenue or expense requires some flexibility, or to avoid double counting expenses in the budget. An example of the first situation is lottery prize payment funding. The State Lottery Department requires flexibility for this expense as the disbursement of lottery prize payments changes from year to year. In the second situation, the Commonwealth uses a sum sufficient appropriation in an internal service program to avoid double counting expenses in the budget. Sum sufficient appropriations may have limits set by a “not to exceed” amount within the language of the Act, or the Act provides no specific dollar spending limit but instead sets a limit of actual amounts collected.

The Administration of Health Insurance, which is the Commonwealth’s self-insured health benefit program for employees, accounts for most of the sum sufficient appropriations in the table below. The Department of Human Resource Management manages the Administration of Health Insurance program by collecting premiums from state agencies for employees to cover state employee health claims. The current budget process includes the cost of employee health insurance in the agency’s budget. Therefore, the Commonwealth budgets the Administration of Health Insurance costs as a sum sufficient so as not to double-count these amounts in the Budget Bill and the Appropriation Act. The following table shows the largest sum sufficient adjustments by agency and program processed by Planning and Budget in 2011.

**Sum Sufficient Adjustments - Fiscal Year 2011**

<b>Agency</b>	<b>Program</b>	<b>Amount</b>
Administration of Health Insurance	Personnel Management Services	\$1,060,250,000
Department of Taxation	Revenue Administration Services	466,219,453
Virginia Information Tech. Agency	Information Technology Development and Operations	298,409,588
State Lottery Department	Disbursement of Lottery Prize Payments	255,000,000
Department of General Services	Real Estate Services	63,039,231
Virginia Community College System	Higher Education Student Financial Assistance	62,387,835
University of Virginia	Financial Assistance For Educational and General Services	15,000,000
Other agencies	Various	138,128,981
Total		<u>\$2,358,435,088</u>

**Additional Revenue Appropriations**

Additional revenue adjustments primarily impact non-general funds and occur when resources exceed the amount initially budgeted and appropriated. Agencies request these increases so they can spend the additional funds. For example, additional funds may become available under a federal grant that an agency did not anticipate during the budget development process. In this case, an agency would need to request an additional appropriation to spend these funds. In some cases, the additional resource may not solely represent revenue collections, but may also include bond proceeds or other sources of receipts not originally anticipated. The following table shows the amount of this type of adjustment by agency in fiscal year 2011.

**Additional Revenues Adjustments - Fiscal Year 2011**

<b><u>Agency</u></b>	<b><u>Explanation</u></b>	<b><u>Amount</u></b>
Virginia Employment Commission	Federal funding for unemployment benefit extensions approved by Congress	\$ 690,000,000
Department of Transportation	Federal funding for Highway Maintenance and Acquisition	202,027,116
Department of Rail and Public Transportation	Additional Metropolitan Washington Airports Authority payments due	51,400,000
Department of Medical Assistance Services	Federal funding to meet Medicaid expenditure projections	50,000,000
Department of Emergency Management	Additional federal funding for disaster related activities and homeland security grants to localities	42,321,919
Virginia Port Authority	For projected APM Terminal lease payments and security services	33,600,000
Administration of Health Insurance	Increase appropriations for Local Choice health benefits program	25,000,000
Department of Environmental Quality	Virginia Water Quality Revolving Fund	22,017,175
George Mason University	Additional tuition and non-tuition revenue	21,502,300
Department of Social Services	Additional federal funding for Low Income Home Energy Assistance Program	20,000,000
Department of Housing and Community Development	Funding for Neighborhood Stabilization Program	20,000,000
Department of Health	Additional funding for implementation of Child and Adult Feeding and the Summer Feeding Programs	19,251,995
Tobacco Indemnification and Community Revitalization	Funding to make payments to existing grantees and indemnification payments to farmers	18,734,581
Other agencies	Various increases	<u>142,345,955</u>
Total		<u>\$1,358,201,041</u>

**Carry Forward of Prior Year Cash Balances**

These adjustments represent unspent cash in non-general funds at the end of a fiscal year which agencies request to use in the following year. These adjustments are necessary if an agency wishes to use the unspent balance, and during the budget development process most agencies cannot predict if these balances will be available as a funding source. The following table shows the most significant carry forward adjustments processed in 2011 by agency.

**Carry Forward of Prior Year Cash Balances - Fiscal Year 2011**

Department of Transportation	\$279,630,155
Tobacco Commission	25,265,419
Virginia Retirement System	19,369,099
Department of Rail and Public Transportation	9,499,481
University of Virginia	4,415,363
Secretary of Commerce and Trade	4,109,651
Other agencies	<u>22,152,095</u>
Total	<u>\$364,441,263</u>

**Mandatory and Discretionary Reappropriations**

Reappropriations represent increases for unspent general fund cash balances at the end of a year that an agency carries forward into the next fiscal year. As a general rule, unspent general fund balances at the end of a fiscal year revert to the Commonwealth's General Fund; however, agencies may receive permission to carry forward these balances in recent years to offset statewide budget reductions. There are two types of reappropriations – mandatory and discretionary. The Appropriation Act requires that some unspent general funds automatically carry forward, and the Act refers to these as mandatory reappropriations. Mandatory reappropriations totaled \$70.5 million in fiscal year 2011.

The Governor also has the authority to approve reappropriation of unspent general fund cash balances at the end of a year, and the Commonwealth refers to these items as discretionary reappropriations. Discretionary reappropriations totaled \$17.9 million in fiscal year 2011.

***Central Appropriations***

Planning and Budget also has responsibility for executing items within the Central Appropriations section of the Act. The Act uses a section known as Central Appropriations to implement budget actions which will affect multiple agencies and funds. Central Appropriations also serves to deal with budgetary decisions which do not require the action of an individual agency, but may require multiple agencies to execute the action

Planning and Budget and Accounts establish an agency on their systems to control the budgetary transactions arising from the Central Appropriations actions in the Act. Planning and Budget relies on information from other agencies to determine the amount and allocation of the Central Appropriations to individual agencies. For example, Planning and Budget uses payroll information from Accounts and agencies to distribute increases in fringe benefit amounts.

A brief description of the more significant programs and actions included in Central Appropriations for fiscal year 2011 follows.

**Tobacco Settlement Funds (Item 468)**

This item provides spending authority for the Tobacco Indemnification and Community Revitalization Fund and the Virginia Tobacco Settlement Fund from amounts the Commonwealth receives under the Master Settlement Agreement with tobacco manufacturers. In fiscal year 2011, the Tobacco Indemnification and Community Revitalization Fund and Virginia Tobacco Settlement Fund received an \$88.2 million appropriation which these agencies transferred to the Tobacco Commission and the Virginia Foundation for Healthy Youth.

**Payments for Special and Unanticipated Expenditures (Item 470)**

In the table below are items that provide general funds to address emergency or other unanticipated expenses that may arise during the fiscal year.

<b><u>Payments for Special or Unidentified Expenditures (Item 470)</u></b>	
Original budget, Chapter 874 (2010 Act)	\$1,500,000
Subsequent legislative amendments	26,586,976
Carry forward of prior year cash balances	21,930,976
Transfers to agencies for increased information technology costs	(24,755,155)
Transfers to the Secretary of Finance for grant payments to assist localities in response to 2005 Base Realignment and Closure Commission	(6,601,031)
Other Transfers	<u>(399,996)</u>
Unexpended Appropriation as of June 30, 2011	<u>\$18,261,770</u>

### *Capital Budget Adjustments*

In fiscal year 2011, administrative adjustments to the capital budget resulted in a net increase of approximately \$4.2 billion. Most of the adjustments represent unspent appropriations at the end of a fiscal year that automatically carry forward into the next fiscal year.

<b><u>Summary of Capital Budget Adjustments – Fiscal Year 2011</u></b>			
	<u>General Fund</u>	<u>Nongeneral Fund</u>	<u>Total</u>
Original Budget (Chapter 874)	-	\$683,439,293	\$683,439,293
Subsequent Legislative Amendments	-	190,445,716	190,445,716
<u>Administrative Adjustments:</u>			
Transfers	\$ (436,013)	145,273	(290,740)
Carry forward of prior year balances	5,457,687	4,099,313,403	4,104,771,090
Other Non-general fund appropriations and additional revenues	<u>-</u>	<u>52,104,133</u>	<u>52,104,133</u>
Adjusted Budget as of June 30, 2011	<u>\$5,021,674</u>	<u>\$5,025,447,818</u>	<u>\$5,030,469,492</u>



# Commonwealth of Virginia

*Auditor of Public Accounts*

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

February 2, 2012

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

## INDEPENDENT AUDITOR'S REPORT

We have completed a **Review of the Budget and Appropriation Processing Control System** administered by the Department of Planning and Budget for the year ended June 30, 2011. 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 objective was to evaluate the accuracy of statewide budget and appropriation processing controls. In support of this objective, we evaluated the accuracy of recording budget transactions in the Commonwealth Accounting and Reporting System and in Planning and Budget's Performance Budgeting System, reviewed the adequacy of Planning and Budget's internal control, tested for compliance with applicable laws and regulations, and reviewed corrective actions of audit findings from prior year reports. The following objectives satisfy the audit's purpose by determining whether policies and procedures were adequate to ensure:

1. Planning and Budget is in compliance with requirements in the Appropriation Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
2. The budget approved by the General Assembly is properly recorded in the Commonwealth Accounting and Reporting System (CARS);
3. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations; and

4. Budget adjustments processed by Planning and Budget in the Performance Budgeting System (PBS) are properly approved, documented, and reconciled to CARS at the statewide level.

### Audit Scope and Methodology

Planning and Budget's 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 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.

Appropriations  
Information Security

We performed audit tests to determine whether Planning and Budget's controls over the budgetary process 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 and records, and observation of Planning and Budget's operations.

We tested transactions and performed analytical procedures, as we considered necessary to achieve audit objectives. Our review included research of relevant sections of the Code of Virginia, the Appropriation Act, and applicable policies and procedures at Planning and Budget and the Department of Accounts. It included gaining an understanding of the budget process, including reconciling, and monitoring the budget approved by the General Assembly. In addition, we reviewed and analyzed adjustments made to the budget, appropriation controls in CARS, and access to budget systems.

### Conclusions

We found that Planning and Budget's policies and procedures for the budget and appropriation processing control system were adequate to ensure the audit's objectives were met.

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.



Planning and Budget has taken some corrective action with respect to an audit finding reported in the prior year, but this finding has not been completely resolved. The actions taken and status of the finding are discussed in the section entitled “Status of Finding and Recommendation, and Other Matters.”

#### Exit Conference and Report Distribution

We provided a copy of this report to Planning and Budget management on March 12, 2012. Planning and Budget management concurred with the report and elected not to do a formal agency response.

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.

AUDITOR OF PUBLIC ACCOUNTS

LCW/clj

## APPENDIX A

### Background Information on the Commonwealth's Budget Process

Virginia has a biennial budget system, which means it adopts a two-year budget. The budget development process involves many participants and spans several months. The Appropriation Act is a special piece of legislation to authorize the spending of the projected revenues approved by the General Assembly and the Governor. The Virginia Constitution limits appropriation acts to a life of two years and six months, unless shortened by the Act, and requires balancing the total biennial budget.

The Commonwealth budgets expenses based on projected state revenues. State statutes differentiate revenues into two broad categories: general and non-general funds. Non-general funds are revenues that, by law or external authorities, support specific programs, activities, or purposes.

General funds consist primarily of taxes paid by Virginia citizens and businesses, including fees and other revenues that support basic governmental programs. The Governor and General Assembly have more discretion in allocating general funds to programs than non-general funds. The Commonwealth budgets separately for operating expenses and capital projects due to the long-term and non-recurring nature of capital expenses.

The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and positions during the implementation of the budget. This authority is primarily set forth in Section 4-1.00 of the Appropriation Act, but there are also other requirements throughout the Appropriation Act.

Section 4-1.00 establishes the overall criteria by which an agency can request appropriation adjustments, also called administrative adjustments. The Director of Planning and Budget has further delegated his authority over certain types of adjustments to Planning and Budget staff, and documented this delegation of authority in a memorandum, effective November 19, 2009. Under this delegation, for example, Planning and Budget analysts have the authority to transfer appropriations between programs within an agency; however, appropriations transfers between agencies require authorization by a Planning and Budget Associate Director or the Director.

Upon approval of the Appropriation Act, the Division of Legislative Services (DLAS) sends an electronic file with the appropriation data to Planning and Budget. Planning and Budget stores the DLAS appropriation data on the Performance Budgeting System (PBS). Planning and Budget staff compare the DLAS data to the data the analysts have entered to ensure the system incorporates all the final changes and agrees to the Appropriation Act. Once Planning and Budget staff complete verification against the appropriation file, the data goes to the Department of Accounts, who records the appropriations in the Commonwealth Accounting and Reporting System (CARS).

The appropriations set forth in the Appropriation Act set annual legal spending limits by secretarial area, agency, program, and project. Automated edit controls within CARS ensure

agencies do not exceed their spending authority at each of these levels. CARS edit controls analyze expenses to determine if appropriations and allotments are sufficient before paying an expense transaction. However, there are instances where Accounts can override transactions that do not meet appropriation edit controls. Although Accounts may override the controls, Accounts implements additional manual control procedures to ensure that agencies do not exceed their authorized appropriation levels.

Planning and Budget processed most administrative adjustments to the budget in fiscal year 2011 through PBS. Planning and Budget maintains the PBS and controls the granting and deleting of access for individual agency users. Agency staff initiated most administrative adjustments and Planning and Budget staff approved and processed these adjustments through PBS. During fiscal year 2011, Planning and Budget processed over 5,200 administrative adjustments through PBS.

## **AGENCY OFFICIALS**

Daniel S. Timberlake, Director  
Department of Planning and Budget