

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our review of the Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2009 found that Planning and Budget's policies and procedures are adequate to ensure that:

- Planning and Budget complies with requirements in the Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;
- CARS properly includes the budget approved by the General Assembly;
- Planning and Budget properly approves, documents, and reconciles budget adjustments in the Form 27 Automated Transaction System (FATS) to CARS at a statewide level; and
- Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.

We also found that Planning and Budget has made progress on prior year findings but they have not been completely resolved. One issue that remains unaddressed is budget transparency issues arising from budget adjustments processed by Planning and Budget. Our prior three reports have included recommendations on budget transparency issues. During this past year, we also issued a separate report entitled "Review of Budget Transparency."

We continue to believe these budget transparency issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth. We understand that this is a statewide issue that the current accounting and budgeting processes and systems cannot accommodate; however, the Commonwealth has system development efforts underway to replace these systems and therefore the Governor and legislature should make sure the new system addresses these transparency issues.

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STATUS OF FINDINGS AND RECOMMENDATIONS, AND OTHER MATTERS

OTHER MATTERS

Update on Planning and Budget System Development Efforts

Planning and Budget has a system development initiative to replace the current statewide budgeting systems, PROBUD and FATS. This initiative will impact budget development, budget execution and strategic planning processes and systems. The Virginia Information Technology Agency has entered into a contract with an outside vendor to develop a system currently called Business Information Development System (BIDS). This system has an estimated cost of \$11 million and Planning and Budget will use a working capital advance to pay for the system. The Governor and Secretary of Finance have secured funding sources to begin repaying the working capital advance which will be included in the Governor's budget proposal.

Recent discussions with the vendor have resulted in a revised timeframe for system implementation. The first four modules - budget development (operating and capital), six year financial planning and budget execution - are scheduled for implementation by August 2010. The remaining two modules - agency operating plans and strategic planning - would be implemented in March 2011. Staff from the Virginia Enterprise Application program are providing project management oversight.

FINDINGS AND RECOMMENDATIONS

We have several prior recommendations that remain partially unresolved. One issue relates to Budget Transparency and the other two issues are more specific to Planning and Budget. The following information provides an update on the status of these recommendations.

Address Budget Transparency Issues

Our prior three reports have included recommendations on budget transparency issues. During this past year, we also issued a separate report entitled "Review of Budget Transparency." Since our last report, Planning and Budget has taken steps to address budget transparency issues for economic development activities by changing their presentation in the Appropriation Act. While this issue has been addressed, there still remains the more significant budget transparency issues noted below.

One of the more significant transparency issues is the significant transfers of General Funds to various non-general funds for programs like Personal Property Relief as well as higher education programs. These transfers occur to comply with various requirements in the Appropriation Act which are intended to allow for separate monitoring and tracking of these funds; however, the current practice creates a loss of funding transparency in the accounting records.

Another budget transparency issue 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. Administrative adjustments can significantly alter the approved budget, and improved reporting of these changes to the General Assembly and public would enhance the transparency of the budgeting process. In fiscal year 2009, administrative adjustments resulted in a \$5.2 billion overall increase in the budget and these changes are detailed in this report.

We believe these budget transparency issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth. As the legislature and administration continue to explore making information on government more transparency and accessible, we continue to recommend the need to address these issues. While we understand that this is a statewide issue and may remain until the Commonwealth replaces the current accounting and budgeting processes and systems, we continue to bring this issue to the attention of the Governor and legislature since the Administration is taking action to replace these systems.

Update the FATS Manual

In our fiscal year 2008 report, we reported that Planning and Budget needed to review and update the Form 27 Automated Transaction System (FATS) Manual to reflect current practices and changes in authority. In response to the recommendation, Planning and Budget informed the Auditor of Public Accounts (APA) that they would update the FATS Manual by October 2009 to coincide with the implementation of a new web based application to replace FATS. Subsequently, Planning and Budget decided to delay implementation of the application in order to integrate it into a new budget replacement system effort. Planning and Budget completed the update of the FATS manual at the end of this audit and we received a copy of the updated FATS manual in November, 2009.

Improve Information Security

In our fiscal year 2006 report, we reported that Planning and Budget did not have a complete or current information security program and therefore, did not meet Virginia's information technology security standard. In our 2008 audit, we found that Planning and Budget had made significant progress and had developed an information security program.

During this past year, the Accounting and Internal Control Compliance Oversight unit at the Department of Accounts reviewed the information security program for compliance with Commonwealth information security standards. Accounts found that Planning and Budget had complied with the Commonwealth's Information Technology Security standards, but they did identify several weaknesses in Planning and Budget's plan. Accounts issued their draft report in August 2009 and received a correction action plan from Planning and Budget in October 2009. Accounts has not issued their final report as of the date of this report.

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 2009. 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 Central Appropriations activity in fiscal year 2009.

Operating Budget Adjustments

Planning and Budget and agencies process administrative adjustments to the budget for a variety of reasons. These adjustments resulted in a net increase to the operating budget of \$5.2 billion in fiscal year 2009, and we have summarized the adjustment as well as their net effect on the budget in the table below. In our summary, we have divided adjustments into three types: federal stimulus adjustments, transfers, and adjustments and reappropriations. Federal stimulus adjustments reflect the amount of adjustments made to appropriate federal stimulus funds this year. 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.

Summary of Operating Budget Adjustments – Fiscal Year 2009

	<u>General Fund</u>	<u>Non-General Funds</u>	<u>Total</u>
Original budget, Chapter 879 (2008 Act)	\$16,965,376,894	\$20,668,734,991	\$37,634,111,885
Subsequent legislative amendments	(744,234,373)	330,333,646	(413,900,727)
Administrative adjustments:			
Federal stimulus adjustments	-	1,140,690,931	1,140,690,931
Transfers	(2,666,652,176)	2,742,056,453	75,404,277
Adjustments and reappropriations	<u>449,045,328</u>	<u>3,683,698,240</u>	<u>4,132,743,568</u>
Adjusted budget as of June 30, 2009	<u>\$14,003,535,673</u>	<u>\$28,565,514,261</u>	<u>\$42,569,049,934</u>

We provide more detail in the sections that follow the table on the most significant administrative adjustments processed to the operating budget in fiscal year 2009.

Federal Stimulus Adjustments

Based on the passage of the American Recovery and Reinvestment Act of 2009, various Commonwealth agencies and programs were eligible to receive federal stimulus funds in fiscal year 2009. As a result, Planning and Budget and the agencies processed appropriation increases to allow agencies to spend these funds. These adjustments resulted in approximately a \$1.1 billion increase in the budget and the following table shows these adjustments by agency and program. The Department of Medical Assistance Services also received approximately \$375 million in stimulus funds for enhanced Medicaid funding which is not included below. Planning and Budget did not have to process administrative adjustments for this increase because it was included in the legislative amendments approved by the 2009 General Assembly.

Summary of Federal Stimulus Adjustments – Fiscal Year 2009

<u>Agency</u>	<u>Program</u>	<u>Appropriation</u>	<u>Expenses</u>
Transportation	Highway System Acquisition and Construct	\$ 695,219,336	\$ -
Employment Commission	Workforce Systems Services	135,220,871	77,394,505
Education-Direct Aid to Public Education	Federal Education Assistance Programs	132,257,848	210,930
Compensation Board	Financial Assistance - Sheriff's Office and Registrar	109,452,075	109,452,075
VCCS	Economic Development Services	32,325,597	430,556
Social Services	Child Support Enforcement Services	19,598,732	17,657,459
	Child Welfare Services	5,254,969	5,038,002
Housing and Community Development	Housing Assistance Services	7,179,711	2,536,529
Aging	Nutritional Services	2,285,705	42,257
	Individual Care Services	515,062	41,834
DMHMRSAS - Grants to localities	Financial Assistance for Health Services	818,936	520,107
Agriculture	Nutritional Services	466,167	466,167
Other Agencies	Multiple Programs	<u>95,922</u>	<u>16,946</u>
	TOTAL	<u>\$1,140,690,931</u>	<u>\$213,807,367</u>

Transfers

Generally, appropriation transfers 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 funds and non-general funds. In both fiscal years 2008 and 2009, there were also transfers to move funds between the operating and capital budget and we show these transfers separately below. We have summarized transfers in fiscal year 2009 and their effect on the budget in the following table.

Summary of Transfers in Operating Budget – Fiscal Year 2009

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
General fund to non general funds	(\$2,742,619,696)	\$2,770,796,666	\$28,176,970
General fund from capital budget	70,000,000	-	70,000,000
Other transfers	<u>5,967,520</u>	<u>(28,740,213)</u>	<u>(22,772,693)</u>
Total transfers	<u>(\$2,666,652,176)</u>	<u>\$2,742,056,453</u>	<u>\$75,404,277</u>

As in past years, transfers between general and non-general funds had a significant impact on the budget in fiscal year 2009. These transfers usually occur so that Accounts can maintain separate bookkeeping for certain types of General Fund activities. Historically, both Accounts and Planning and Budget have agreed to move these General Fund amounts to Non-General Fund accounts, in order 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 fund to non-general fund transfers represents various individual amounts with the two largest transfers to higher education operating funds and the Personal Property Tax Relief program. Below is a list of the most significant transfers of this type along with the applicable reference to Chapter 879 of the Appropriation Act.

To Higher Education Operating Funds (Section 4-1.03)	(\$1,684,405,043)
To Personal Property Tax Relief Act (Item 471)	(950,000,000)
To Commonwealth Transportation - 2007 Transportation Initiative (Item 462)	(82,948,698)
To Northern VA Transportation District Fund (Item 264 A)	(18,813,491)
To Other Non-General Funds (various items)	<u>(6,452,464)</u>
Total transfers from General Fund to Non-General Funds	<u>(\$2,742,619,696)</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 2009 operating budget.

Summary of Adjustment and Reappropriations in Operating Budget – Fiscal Year 2009

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
Sum sufficient appropriations	\$ 8,628,383	\$1,809,916,773	\$1,818,545,156
Additional revenues	569,110	1,332,191,573	1,332,760,683
Carry forward prior year cash balances	-	490,136,458	490,136,458
Mandatory reappropriations	405,849,802	-	405,849,802
Discretionary reappropriations	33,919,433	-	33,919,433
Other	<u>78,600</u>	<u>51,453,436</u>	<u>51,532,036</u>
Total adjustments and re-appropriations	<u>\$449,045,328</u>	<u>\$3,683,698,240</u>	<u>\$4,132,743,568</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 above. 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 2009.

Sum Sufficient Adjustments for Fiscal Year 2009

<u>Agency Name</u>	<u>Program</u>	<u>Amount</u>
Administration of Health Insurance	Personnel Management Services	\$1,060,250,000
State Lottery Department	Lottery Prize Payments	205,000,000
Department of General Services	Procurement, Plant Management and Other Services	157,142,927
Virginia Information Technologies	Computer, Telecommunications and Northrop Grumman Payments	285,646,269
Virginia College Savings Plan	Investment Trust, and Insurance Services	55,750,000
Other Agencies	Various	<u>54,755,960</u>
	Total	<u>\$1,818,545,156</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 amount of these adjustments increased significantly in comparison to the previous year primarily due to increases at the Virginia Employment Commission to process unemployment claims which were more than budgeted due to economic conditions. The following table shows the amount of this type of adjustment by agency in fiscal year 2009.

Additional Revenue Adjustments for Fiscal Year 2009

<u>Agency</u>	<u>General Explanation for Adjustment</u>	<u>Amount</u>
Virginia Employment Commission	Timely payment of employment insurance benefits based on current economic conditions	\$ 517,700,000
	Timely payment of emergency unemployment compensation	231,000,000
Virginia Community College System	Funding for enrollment increases and additional financial aid	65,542,626
Admin of Health Insurance	Funding to cover increased enrollment in healthcare costs in the local choice health benefits program	60,000,000
Transportation	Increase in funding for FY2009 Route 28 projects	42,300,000
Department of Medical Assistance Services	Increase appropriation to cover state match Medicaid costs for DMHMRSAS	40,000,000
Department of Emergency Management	Increase the appropriation for emergency response and recovery activities for the City of Richmond and the City of Franklin for disaster payments for June	20,750,000
Department of Medical Assistance Services	Increase the appropriation for federal reimbursement to DMHRSAS for the 2008 Cost Settlement of Medicaid claims	14,003,095
Other Agencies	Various increases	<u>341,464,962</u>
Total		<u>\$1,332,760,683</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 amount of this type of adjustment decreased significantly from the prior year due to adjustments required in 2008 to record changes in cash management policies as a result of university restructuring. The following table shows the most significant carry forward adjustments processed in 2009 by agency.

Carry Forward of Non-General Fund Cash Balances for Fiscal Year 2009

Department of Transportation	\$208,596,604
Department of Environmental Quality	156,361,814
Department of Rail and Public Transportation	65,076,354
Secretary of Commerce and Trade	11,086,629
Department of Aviation	10,691,303
Virginia Retirement System	7,527,853
Other agencies	<u>30,795,901</u>
Total	<u>\$490,136,458</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. 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 \$405 million in fiscal year 2009 including a reappropriation of \$292 million from the 2007 Transportation Initiative.

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 \$33.9 million in fiscal year 2009.

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 serve to deal with budgetary decisions which do not require the action of an individual agency, but may require multiple agencies to execute the action. Central Appropriations includes the funding for the Personal Property Tax Relief Act, which requires the segregation of the funding and the joint cooperation of the Departments of Motor Vehicles and Accounts.

Planning and Budget and Accounts establish an agency on their systems to control the budgetary transactions arising from the Central Appropriation 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 salary and fringe benefit amounts.

A brief description of the more significant programs and actions included in Central Appropriations for fiscal year 2009 follows. Total appropriations in Central Appropriations in fiscal year 2009 was approximately \$1 billion, most of which relates to the personal property tax relief program described below.

Personal Property Tax Relief (Item 471)

This item includes the Commonwealth's portion of the Personal Property Tax Relief amounts paid to localities for registered vehicles assessed at \$20,000 or less and limited to personal use. The General Assembly capped the total amount for the tax year 2006 at \$950 million, and fiscal 2009; the Act included \$950 million in General Funds. Planning and Budget subsequently made quarterly transfers from this account to Agency 850-Personal Property Tax Relief so that Accounts could distribute the amount to localities.

Tobacco Settlement Funds (Item 470)

This item provides spending authority for the Tobacco Indemnification and Community Revitalization Fund and the Virginia Tobacco Settlement Fund from amounts awarded to the Commonwealth under the Master Settlement Agreement with tobacco manufacturers. In fiscal year 2009, there was a \$91 million appropriation with a transfer to the Tobacco Indemnification and Community Revitalization Fund and Virginia Tobacco Settlement Fund.

Payments for Special or Unanticipated Expenditures (Item 473)

This item provides general funds to address emergency or other unbudgeted costs for state agencies, as well as funding for some economic development activities. Most of these funds transfers occur to other agencies, who in turn spend the funds. The following table shows the original and final budget amounts as well as the amount spent or transferred by service area.

<u>Service Areas</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amt Transferred/Spent</u>
Miscellaneous Contingency Reserve Account	\$ 1,500,000	\$ 8,107,528	\$ 803,401
Economic Development Assistance	3,300,000	3,439,034	810,800
Base Realignment and Closure Assistance	7,500,000	25,652,052	15,302,229
Undistributed Support for Designated State Agency Activities	<u>10,656,806</u>	<u>14,577,525</u>	<u>14,577,517</u>
Total	<u>\$22,956,806</u>	<u>\$51,776,139</u>	<u>\$31,493,947</u>

Higher Education – Interest Earned on Educational and General Programs Revenue (Item 467)

This item provides funding to institutions of Higher Education for incentives earned based on certification of various performance standards by the State Council on Higher Education (SCHEV). SCHEV annually evaluates state-supported institutions against various performance standards and if they are met, institutions can earn small purchase charge card rebates and interest on tuition and fees. The Act included approximately \$16 million in general funds; however, the 2009 General Assembly replaced \$3.4 of this funding with non-general funds. During the year, Planning and Budget authorized the transfer of most of these funds to various institutions and approximately \$3.4 million remained unspent at the end of the year.

Other Items

Central Appropriations also included appropriations for several other programs and actions including several reversion accounts meant to facilitate general fund budget reductions in various areas. In fiscal year 2009, these reversion accounts included savings in state aid to local governments and capturing excess balances in the State employee Health Insurance Fund.

The amended budget approved by the 2009 General Assembly included some additional sections under Central Appropriations. One item added detailed estimated potential revenues to be received under the federal American Recovery and Reinvestment Act.

Capital Budget Adjustments

In fiscal year 2009, administrative adjustments to the capital budget resulted in a net increase of approximately \$6.7 billion. Most of the adjustments represent unspent appropriations at the end of a fiscal year that automatically carry forward into the next fiscal year. Unexpended appropriations from completed or closed capital projects revert to their funding source and are the reversions in the table below.

Detailed Schedule of Fiscal Year 2009 Capital Budget Adjustments

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
Original budget, Chapter 879, 2008 Acts of the Assembly	\$ 5,000,000	\$1,448,360,373	\$1,453,360,373
Subsequent legislative amendments	(242,215,289)	1,221,320,991	979,105,702
Transfers:			
General Fund to Non-General Fund	(1,000,000)	21,079,268	20,079,268
General funds moved from capital to operating budget	(70,000,000)	-	(70,000,000)
Other Transfers	(5,635,073)	2,570,000	(3,065,073)
Administrative adjustments:			
Carry forward of prior year balances	371,355,525	3,907,680,588	4,279,036,113
Other Non-General fund appropriations and additional revenues	<u>-</u>	<u>107,287,305</u>	<u>107,287,305</u>
Adjusted budget as of June 30, 2009	<u>\$ 57,505,163</u>	<u>\$6,708,298,525</u>	<u>\$6,765,803,688</u>

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 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 Act, but there are also other requirements throughout the Act.

Section 4-1.00 establishes the overall criteria by which an agency can request appropriation 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 October 18, 2006. 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. Planning and Budget is in the process of updating the delegation of authority memorandum and is expected to complete this in November 2009.

Upon approval of the Act, the Division of Legislative Services sends an electronic file with the appropriation data to Planning and Budget. Planning and Budget performs various control procedures to ensure the file's completeness and accuracy and then creates the budget development master (BDM) file on the mainframe. Planning and Budget then creates an execution master (EXM) file from the BDM file along with a copy for Accounts. Planning and Budget procedures vary depending on whether the file contains a new biennial budget or amendments to an existing budget. Accounts accesses its appropriation file copy and uploads the data to CARS.

The appropriations set forth in the 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 operates several information systems that support the budget process. FATS process most administrative changes to the budget. Planning and Budget maintains FATS and controls the granting and deleting of access for individual users. Agency personnel initiate most budget adjustments and staff of Planning and Budget approves and processes these adjustments through FATS. During fiscal year 2009, Planning and Budget processed over 4,500 budget adjustments through FATS.

The level of supervisory review within Planning and Budget depends on the type of transaction. FATS transactions are subject to a series of edits that verify the accuracy of the information. These edit controls include verifying funding availability, validity of program codes, agency and project codes, fund and sub-object detail, and the completion of transaction briefs. Planning and Budget staff complete transaction briefs in FATS and maintain additional documents that explain details of certain FATS transactions.

After Planning and Budget approval of FATS transactions, staff uploads FATS transactions into an EXM file on the mainframe, which updates CARS on a nightly basis. Planning and Budget and Accounts staff review a daily listing to verify the proper processing of FATS transactions in CARS. Amendments to the Act approved by the General Assembly do not go through FATS, but go directly to Accounts for loading to CARS. Within FATS, Planning and Budget uses alpha codes to differentiate types of budget adjustments. The FATS adjustment type code initiates the proper program budgeting adjustment and when uploaded to CARS identifies the correct transaction codes for recording in CARS.

There are a few types of routine appropriation adjustments that do not flow through FATS that are loaded directly to the EXM file and recorded directly in CARS. An example is the transfer of the initial higher education general funds appropriations to non-general funds and the transfer of transportation general funds to non-general funds.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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November 20, 2009

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

The Honorable Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

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, 2009. 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

The overall purpose of our audit was to evaluate the adequacy of statewide budget and appropriation processing controls. 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 Appropriations 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 Form 27 Automated Transaction System (FATS) are properly approved, documented, and reconciled to CARS at the statewide level.

We also reviewed corrective actions of audit findings from the prior year audit report.

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, automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over Planning and Budget's budgetary process.

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 process control system were adequate to ensure that:

1. Planning and Budget is in compliance with requirements in the 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 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 Form 27 Automated Transaction System (FATS) are properly approved, documented, and reconciled to CARS at the statewide level.

The results of our test of internal control and its operation and 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 adequate corrective action with respect to those audit findings reported in the prior year but these findings are not completely resolved as of the date of this report. This is discussed in the section entitled "Status of Findings and Recommendations, and Other Matters."

Exit Conference and Report Distribution

We discussed this report with Planning and Budget management on December 9, 2009. 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

AGENCY RESPONSE

We met with Planning and Budget management on December 9, 2009 to discuss the report. They concurred with the report and elected not to prepare an agency response for the report.