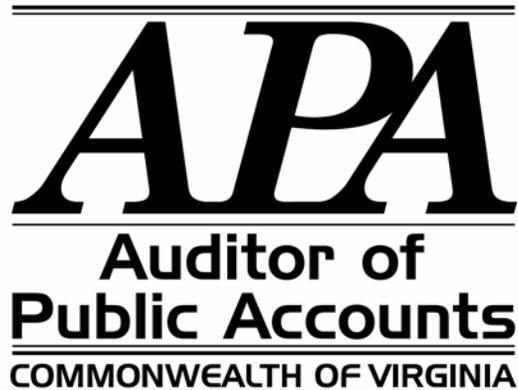


**REPORT ON BUDGET AND APPROPRIATION
PROCESSING CONTROL SYSTEM**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**



EXECUTIVE SUMMARY

Our Review of the Budget and Appropriation Processing Control System administered by the Department of Planning and Budget for the fiscal year ended June 30, 2005 as part of our audit of the State Comptroller's Comprehensive Annual Financial Report found:

- the Commonwealth Accounting and Reporting System (CARS) properly includes the budget approved by the General Assembly;
- appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations;
- budget information recorded in the Form 27 Automated Transaction System (FATS) and CARS is reconciled at a statewide level;
- budget adjustments processed by Planning and Budget are properly approved and documented.
- critical system programs and data are protected with adequate operating and application system controls; and
- internal controls matters that we consider reportable conditions, but not material weaknesses.

Planning and Budget operates a budget system to ensure that agencies conduct their activities within the fund limitations provided in the Appropriation Act (Act), and in accordance with gubernatorial and legislative intent. The Governor and Planning and Budget have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints set in the Act. Section 4-1.00 of the Act is the primary source of this authority, but there are also other requirements throughout the Act as well as other general statutory requirements.

During fiscal year 2005, Planning and Budget processed over 5,500 budget adjustments with the net effect of \$3.1 billion increase to the operating budget and a \$3.7 billion increase to the capital budget. These increases were primarily for reappropriation of prior year's balances, increases for additional revenues collected that were not included in the original budget, and increases for items that could not be estimated in the original budget. We have included more detailed information in our report on these adjustments by type and the net effect on general and non-general funds.

Changes to the Budget Structure for the 2006-2008 Biennium

At the direction of the Council on Virginia's Future, Planning and Budget is in the process of developing a new performance management structure to provide a link between strategic planning and resource allocation. The new structure, effective for the 2006-2008 biennium, will use a service area approach for budgeting and accounting, as well as strategic planning and performance measurement. Agencies previously used a structure of programs and subprograms for budgeting and accounting while agency strategic planning and performance measurement was based on activities. The new structure will provide an integrated structure for performance management in the Commonwealth.

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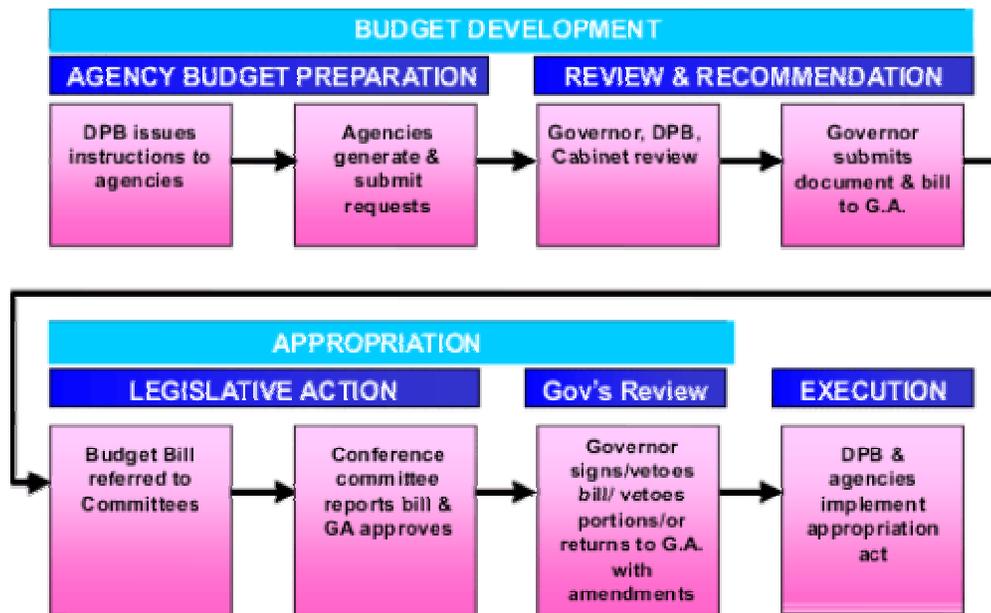
APPENDIX:

Appendix—Excerpts from the Code of Virginia related to the responsibilities of
The Department of Planning and Budget (Sections 2.2-1501, 1508, 1509, 1509.1, and 1509.2)

REVIEW OF BUDGET AND APPROPRIATION PROCESS CONTROL SYSTEM

Background Information

Virginia has a biennial budget system, which means it adopts a two-year budget. The biennial budget becomes law in even numbered years, and the Governor and General Assembly consider amendments in odd-numbered years. Developing the Commonwealth's budget is a process that takes many months and involves many participants, from the public to state agencies to the legislature. The process includes five distinct phases – agency budget preparation, review and recommendation, legislative action, Governor's review, and budget execution. The following chart shows the overall steps in the process.



Source: Department of Planning and Budget (DPB) Internet website

The Commonwealth's budget uses projected state revenues, which state statutes divide into two broad types: general fund and non-general fund. Non-general funds are the collections of revenues to support specific programs, activities, or purposes. General funds are the collections of taxes, fees, and other revenues, which do not support a specific activity, but a variety of government programs. The Governor and General Assembly have the most discretion to spend the general funds. General funds come primarily from taxes paid by the citizens and businesses in Virginia.

The Act is a special piece of legislation to appropriate (or authorize to be spent) the projected revenues approved by the General Assembly and the Governor. Any act appropriating funds has, by the Constitution, a limited life of two years and six months, unless shortened by the act. The following chart shows the projected revenue and appropriation for the 2004-2006 biennium. Chapter 4 represents the original budget for the biennium and Chapter 951 represents amendments approved by the Governor and the General Assembly in a subsequent session.

Fiscal Year 2004-2006 Biennium Projected Revenues and Appropriation

<u>General Assembly</u> <u>Session</u>	<u>Appropriation Act</u> <u>Chapter</u>	<u>Projected Revenues</u>	<u>Appropriation</u>
2004	Chapter 4	\$61,404,247,919	\$59,747,129,338
2005	Chapter 951	66,247,836,970	63,090,124,239

The Act establishes appropriations, annual legal spending limits, for each secretarial area and agency. The Act sets detailed appropriations by agency using a program structure adopted by the Commonwealth for budgeting and accounting. Planning and Budget has responsibility for maintaining the program structure and codes, including determining agency participation in certain programs and subprograms. The Act also supplements the general statutes and provides special provisions on the use of state funds.

The Act has four parts – operating expenses, capital project expenses, miscellaneous, and general provisions. Below is a description of each section. The Act also has an enacting clause at the beginning, which contains the statutory appropriation language, the statutory definition of the general fund, and a summary of the appropriations.

Operating expenses: These expenses are for daily activities of the government. This section includes state agency and institution operating activities by branch of government, secretarial area, and then by agency. This section also includes Central Appropriations, which includes amounts for activities that affect many agencies and are subject to allocations that may vary by agency and other factors if certain events occur.

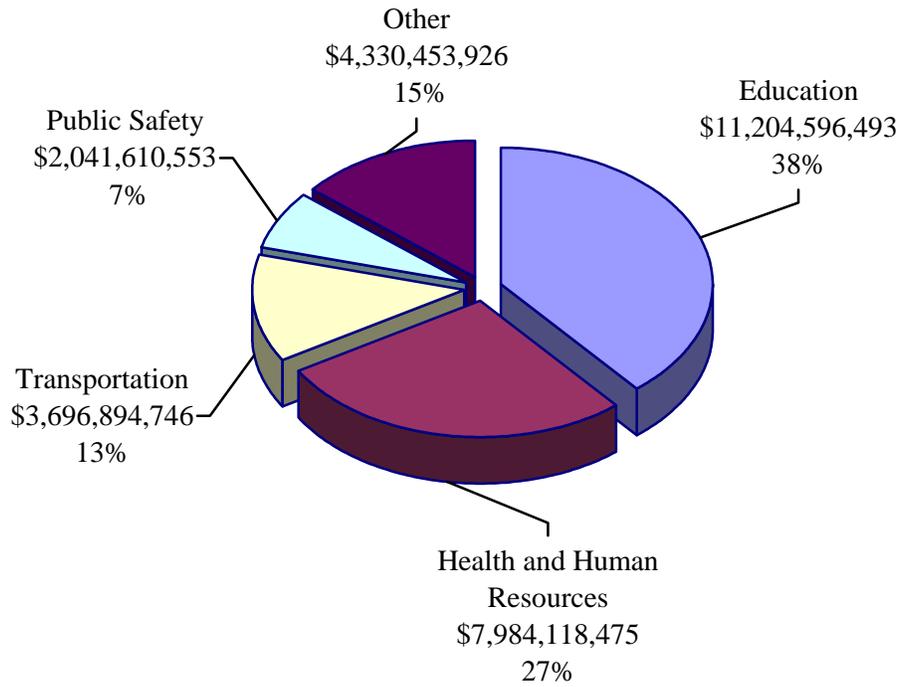
Capital project expenses (non-operating): These expenses are for the purchase, construction, and renovation of capital assets. This section includes capital expenses organized by agency and project.

Miscellaneous: This section includes actions affecting state debt, various revenue transactions, interfund transfers, and required deposits to the general fund.

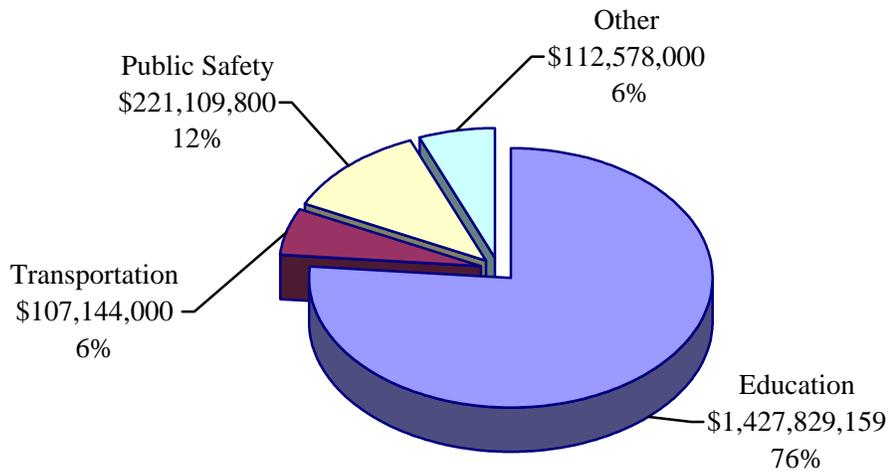
General provisions: This section sets forth requirements on various issues including the Governor’s authority to withhold appropriations; appropriation transfers between agencies; revenue collections; salaries for agency heads, judges, and other officials; and employee benefits. The general provisions also set the effective date and the expiration date for the Act.

Operating expenses make up the largest portion of the Act, accounting for 94 percent of the total in fiscal year 2005. The fiscal year 2005 appropriations set forth in the Act totaled \$31 billion, with \$29.2 billion for the operating budget and \$1.8 billion for the capital budget. The following charts show the breakdown of the fiscal year 2005 operating and capital sections of the Act, Chapter 951 by secretarial area.

Summary of 2005 Operating Budget by Secretarial Area



Summary of 2005 Capital Projects Budget by Secretarial Area



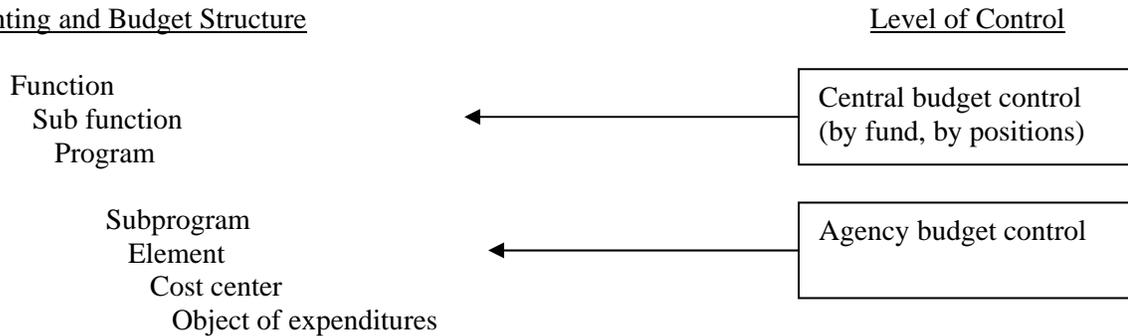
Budget Execution Process

Planning and Budget operates a budget system to ensure that agencies conduct their activities within the fund limitations provided in the Act and in accordance with gubernatorial and legislative intent. Upon approval of the Act, Planning and Budget receives the Act in an electronic file from the Division of Legislative Services. Planning and Budget uses this file to create the Act in the budget development master (BDM) file. Planning and Budget performs various analyses and checks on this file to ensure the file is complete and accurate. Planning and Budget procedures may vary depending on whether it is a new biennial budget or amendments to an existing budget.

After Planning and Budget has determined the BDM file is complete and accurate, they use this file to create a new execution master file, called the EXM file. For the new fiscal year, Planning and Budget transmits the Act to the Department of Accounts (Accounts), where Accounts staff perform various analyses and checks to ensure the file is complete and in agreement with the Act. Accounts uses the transaction file to update appropriation and allotment information in CARS.

Accounts maintains and operates CARS, the Commonwealth’s centralized automated accounting and reporting system that records and accounts for all transactions involving state funds. While CARS serves as the state’s central accounting system, it also maintains appropriation controls using appropriation and allotment accounts. The appropriation controls in CARS are at the fund and program level, based on the state’s budget and accounting structure. Planning and Budget can also use allotments to further control and monitor spending. The following graph shows the state’s budget and accounting structure, and where the level of control is.

Accounting and Budget Structure



CARS has automated edit controls to ensure agencies do not exceed their spending authority, at the fund, program, and project levels. CARS edit controls analyze expenses to determine if appropriations and allotments are sufficient before paying an expense transaction. An agency must have sufficient unspent appropriations and allotments available in order to pay an agency expense; however, there are instances where Accounts can override transactions that do not meet appropriation edit controls. Although Accounts overrides the controls, agencies can only spend within their authorized appropriation levels.

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 anyone can make 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 August 1, 2001. 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 processes these adjustments through FATS (Form 27 Automated Transaction System). Planning and Budget maintains the statewide FATS system and controls the granting and deleting of access for individual users. Agencies can submit adjustment requests through the system. Agencies prepare and request FATS transactions; however, only Planning and Budget staff can initiate and process certain types of transactions. Agencies prepare adjustments to move appropriations between programs, funds, agencies, and capital projects. Agencies cannot initiate non-general fund capital cash balance transactions, general fund additional appropriations transactions, general or non-general fund capital additional appropriations transactions, transactions to transfer funds between fiscal years, or transactions to revert or restore funding for capital projects.

Planning and Budget staff review and approve FATS transactions requested by an agency. The level of Planning and Budget approval required depends on the type of the 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 codes, project codes, fund detail and the completion of transaction briefs. Planning and Budget maintains transaction briefs in FATS to explain details of certain FATS transactions.

Planning and Budget's approved FATS transactions go into in an EXM file, 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 are directly updated to the EXM and then sent to Accounts in file format for loading to CARS. Within FATS, Planning and Budget uses codes to differentiate types of budget adjustments. Each FATS adjustment has an adjustment type, which initiates the proper program budgeting adjustment and will identify the correct transaction codes for recording in CARS.

During fiscal year 2005, Planning and Budget processed over 5,500 budget adjustments through FATS, most of which adjusted operating budgets. The following sections provide more detailed information on operating and non-operating budget adjustments processed during the year. These adjustments do not include legislative amendments to the budget because these amendments do not go through FATS. Planning and Budget compiles legislative amendments, referred to as Type D, and sends them directly to Accounts, which go into appropriation accounts in CARS.

Operating Budget Adjustments

In fiscal year 2005, Planning and Budget processed over 3,600 adjustments affecting the operating budget. Overall, these adjustments increased the operating budget by \$3.1 billion. The overall increase results primarily from reappropriations of balances from the prior year; increases for amounts not estimated in the original budget; increases for revenue collections not included in the original budget; and increases for deficit appropriations at several agencies.

The overall \$3.1 billion increase comprises a \$1.3 billion decrease in general fund appropriations and a \$4.4 billion increase in non-general fund appropriations. The decrease in general fund appropriations is primarily due to general funds for personal property tax relief that are reclassified as non-general funds before they are disbursed to localities. The reclassification accounts for \$900 million of the general fund decrease and a corresponding increase in non-general funds. The following table details these adjustments by adjustment types that are established by Planning and Budget. The following table also shows the net effect each type of adjustment had on the general fund and non-general fund operating budgets.

**Summary of Operating Budget Adjustments by Type
Fiscal Year 2005**

Type of Adjustment	Total of Adjustments	Effect of Adjustments	
		General Fund	Non-General Fund
Mandatory reappropriation (A)	\$ 57,559,794	\$ 57,559,794	\$ -
Discretionary reappropriation (B)	13,661,084	12,079,170	1,581,914
Special legislative adjustment (C)	2,025,984	2,025,984	-
Appropriation increase for non-general fund cash balance (E)	618,497,660	-	618,497,660
Sum sufficient appropriation (F)	1,347,603,759	10,731,504	1,336,872,255
Additional revenue appropriation (G)	853,673,026	-	853,673,026
Other non-general fund (H)	123,103,935	-	123,103,935
Deficit appropriation (I)	44,666,831	44,666,831	-
Transfer from second year to first year (J)	17,564,952	17,564,952	-
Transfers to general fund (N)	558,425,633	558,425,633	-
Transfers from general fund (O)	(558,836,633)	(558,836,633)	-
Transfers to non-general fund (P)	1,904,840,993	-	1,904,840,993
Transfers from non-general fund (Q)	(1,906,370,410)	-	(1,906,370,410)
Transfers to general fund and non-general fund (R)	1,559,144,965	57,800,000	1,501,344,965
Transfers from general fund and non-general fund (S)	(1,559,144,965)	(1,501,344,965)	(57,800,000)
Transfers to general fund and higher education operating fund (T)	45,249,022	6,705,716	38,543,306
Transfers from general fund and higher education operating fund (U)	(45,249,022)	(38,543,306)	(6,705,716)
Transfers to higher education operating funds (V)	33,494,987	-	33,494,987
Transfers from higher education operating funds (W)	<u>(33,594,987)</u>	<u>-</u>	<u>(33,594,987)</u>
Total operating adjustments	\$ 3,076,316,608	\$(1,331,165,320)	\$ 4,407,481,928

Several adjustment types (A, B, E, and H) reappropriate funds left over from a prior year. In addition to the adjustments for reappropriations, there were several other adjustment types that were significant dollar amounts and we discuss these types of adjustments in more detail below. We have also included additional details on other non-general fund appropriations, deficit appropriations, and transfers of appropriations between fiscal years.

Sum Sufficient Appropriations (Type F)

Sum sufficient appropriations adjustments increase appropriations where the Governor authorizes an agency to exceed the amount shown in the Act if required to carry out the purpose of the appropriation. In fiscal year 2005, these sum sufficient adjustments occurred in the following agencies and programs. The authority is set forth in the Act with respect to the affected items.

Summary of 2005 Sum Sufficient Appropriation Adjustments

Act Item #	Agency Name	Program	Amount
47	Office of the Governor	Disaster Planning and Operations	\$ 10,606,017
87	Administration of Health Insurance	Personnel Management Services	775,000,000
76 – 83	Department of General Services	Various programs	93,584,981
464, 465	Virginia Information Technologies Agency	Various programs	223,430,274
519	Lottery Department	Disbursement of Lottery Prize Payments	185,000,000
521	Virginia College Savings Plan	Investment, Trust and Insurance Services	59,857,000
292	Treasury Department	Investment, Trust and Insurance Services	125,487
	Total		<u>\$1,347,603,759</u>

Additional Revenue Appropriations (Type G)

Additional revenue appropriation adjustments request the use of revenues over the appropriated amount for non-general funds. These increases are necessary to authorize spending of additional available funds, which can occur when actual revenue collections exceed the amount anticipated. For example, additional funds may become available under a federal grant that an agency did not anticipate. In this case, an agency would need to request an additional revenue appropriation to be able to spend these funds. Planning and Budget has emphasized the need for agencies to improve their six-year revenue estimates. The following agencies made up the majority of these adjustments in fiscal year 2005.

Summary of 2005 Additional Revenue Appropriation Adjustments

Agency Name	Fund Source	General Explanation for Adjustment	Amount
Department of Emergency Management	Federal	Funds for disaster-related payments, the 2004 State Homeland Security Grant, and the 2004 Urban Area Security Initiative Program	\$100,727,632
Department of Human Resource Management (Administration of Health Insurance)	Enterprise	Funds for The Local Choice Health Insurance Program	30,000,000
University of Virginia Medical Center	Higher Education	Funds for increased operating costs of a new facility and expansion	40,000,000
Virginia Commonwealth University	Higher Education and debt service	Funds for anticipated expenditure growth in sponsored programs, increase in fall 2004 actual enrollment, and allowance for payment of required debt service costs	32,600,000
Department of Rail and Public Transportation	Highway maintenance and construction	Funds for Dulles Rapid Transit Project	20,000,000
Virginia Community College System	Higher Education	Funds to process financial aid checks	55,585,834

Department of Transportation	Various	Funds for Route 28 construction projects, federal emergency relief funds, and the reappropriation of June 30, 2004 cash balances in various funds	91,330,784
Direct Aid to Public Education	Federal	Funds from fiscal Year 2005 grants to support payments to school divisions	128,341,429
Department of Social Services	Federal	Funds for energy assistance, administration and support services, TANF, child support, and benefits program administration	51,081,008
Department of Medical Assistance Services	Special and Federal	Funds for increased Medicaid expenses and for continued payment for services at mental health and mental retardation facilities	64,219,607
Total			<u>\$613,886,294</u>

Other Non-general Fund (Type H)

This adjustment type represents an increase in appropriations for other non-general funds that are not revenues. In fiscal year 2005, there was one adjustment for the Department of Transportation, which involved bond proceeds from construction. The adjustment appropriated the 2004-year end balance in the Priority Transportation Fund of Virginia.

Deficit Appropriations (Type I)

This adjustment type represents additional general fund appropriations as authorized in the Appropriation Act or by the Governor. The following agencies made up the majority of these adjustments in fiscal year 2005.

Summary of 2005 Deficit Appropriations

Agency Name	General Explanation for Adjustment	Amount
Department of Social Services	Additional funding to avoid a shortfall in Title IV-E Foster Care and Adoption Program	\$36,229,747
Virginia Information Technologies Agency	Additional funding to support start-up costs for VITA consolidation, equipment out-year costs, and various other items	6,100,000
Office of the Governor	Additional funding for essential operations and to adjust budget to actual costs	<u>1,317,531</u>
Total		<u>\$43,647,278</u>

Transfers from Second Year to First Year (Type J)

This adjustment type transfers appropriations from the second year of the biennium to the first year. In fiscal year 2005, major transactions occurred in higher education institutions. Various institutions received general funds to enhance university research programs. Another significant transfer removed a shortfall in basic aid in the Department of Education-Direct Aid to Public Education.

Transfers of Non-general Fund Appropriations (Types P and Q)

This adjustment type transfers appropriations between non-general funds and is authorized by the Act. The following agencies made up the majority of these adjustments in fiscal year 2005.

Summary of 2005 Non-general Fund Appropriation Transfers

Agency Name	General Explanation for Adjustments	Amount
Department of Medical Assistance Services	Transfers funding to the Virginia Healthcare Fund and Medicaid Intergovernmental Transfer Fund	\$ 896,927,730
Department of Transportation	Transfers funding for Federal Reimbursement Anticipation Notes (FRAN) debt service payments	187,652,959
Dept. of Education – Direct Aid to Public Education	Transfers funding to the Literary Fund and the Driver Education Fund	198,539,300
Tobacco Indemnification and Revitalization Commission	Transfers funding to the Tobacco Indemnification Commission from Central Accounts	<u>63,094,800</u>
Total		<u>\$1,346,214,789</u>

Transfers of General and Non-general Fund Appropriations (Types R and S)

This adjustment type transfers appropriations between general and non-general funds. This type of transfer processes appropriation adjustments necessary to administer personal property tax relief, and various other adjustments. In fiscal year 2005, Planning and Budget transferred over \$900 million in general funds from Central Appropriations to a non-general fund account to administer personal property tax relief payments.

Capital (Non-Operating) Budget Adjustments

In fiscal year 2005, Planning and Budget processed over 1,900 adjustments totaling over \$4 billion to the capital budget. Overall, these adjustments resulted in a net increase in the capital budget of \$3.7 billion. Mandatory reappropriations of prior year balances significantly contributed to the increase. The following table details adjustments to the budget processed in fiscal year 2005. As with operating adjustments, there is a classification of adjustments by types established by Planning and Budget.

**Summary of Capital Budget Adjustments by Type
Fiscal Year 2005**

Type of Adjustment	Total of Adjustments	Effect of Adjustments	
		General Fund	Non-General Fund
Mandatory reappropriation (A)	\$3,396,949,335	\$20,585,825	\$3,376,363,510
Special legislative adjustment (C)	176,756,000	-	176,756,000
Additional revenue appropriation (G)	6,575,450	-	6,575,450
Other non-general fund (H)	74,055,253	-	74,055,253
Transfer from second year to first year (J)	24,796,640	22,671,000	2,125,640
Reversion and restoration of capital projects (K)	14,880,985	-	14,880,985
Transfers to general fund (N)	79,598,981	79,598,981	-
Transfers from general fund (O)	(79,187,981)	(79,187,981)	-
Transfers to non-general fund (P)	287,237,462	-	287,237,462
Transfers from non-general fund (Q)	(285,708,045)	-	(285,708,045)
Transfers to higher education operating funds (V)	81,279,912	-	81,279,912
Transfers from higher education operating funds (W)	(81,179,912)	-	(81,179,912)
Total capital adjustments	\$3,696,054,080	\$43,667,825	\$3,652,386,255

Mandatory reappropriations and special legislative adjustments represented significant dollar amounts and we discuss these types of adjustments in more detail below. We have also included additional details on other non-general fund appropriations.

Mandatory Reappropriations (Type A)

This adjustment type represents amounts previously appropriated for a project and continued by the General Assembly by language in the Act. Planning and Budget processes mandatory capital reappropriations as FATS transactions during the first year of the biennium. In fiscal year 2005, the Department of General Services, the Department of Conservation and Recreation, Virginia Port Authority, and various institutions of higher education constituted the majority of the transactions.

Special Legislative Adjustments (Type C)

This adjustment type represents appropriations made in laws other than the regular Appropriation Act, such as "Relief Bills" or appropriations approved in a special session of the General Assembly. In fiscal year 2005, these special legislative adjustments occurred in the agencies listed below.

Summary of 2005 Special Legislative Adjustments

Agency Name	Project	Amount
Department of State Police	Phase I of Statewide Radio System Initiative (STARS)	\$159,300,000
Department of General Services	Construction of southern extension of the Capitol	5,791,000
Virginia Community College System	Acquisition of consolidated administrative offices in Norfolk	<u>11,665,000</u>
Total		<u>\$176,756,000</u>

Other Non-General Funds (Type H)

This adjustment type represents an increase in appropriations to supplement the appropriation for a capital project from available balances, operating revenue, or from the proceeds of bond issues. In fiscal year 2005, the majority of Type H adjustments involved institutions of higher education.

Central Appropriations

In addition to processing adjustments, Planning and Budget has responsibility for executing items within Central Appropriations accounts. Central Appropriations acts as a “holding account” for funds used to supplement state agency appropriations. These funds have designations for a variety of purposes, including employee compensation, economic contingencies, economic development, employee health insurance premiums, state legal expenses, and personal property tax relief. Central Appropriations also acts as a “reversion clearing account” to accrue statewide savings for various actions.

Planning and Budget initiates and processes transactions for the Central Appropriations accounts; however, some of these transactions use information supplied by other agencies. For example, Planning and Budget processes the appropriations adjustments in Central Appropriations accounts for the personal property tax relief program using information provided by the Department of Taxation. Planning and Budget also uses payroll information from the Department of Accounts and agencies to distribute increased salary and fringe benefit amounts.

Central Appropriations has several different programs, which we detail the financial activity in fiscal year 2005 for each Central Appropriation program in the following tables.

Personnel Management Services (Item 500)

This item provides funding for increases in the state employee health insurance program.

Appropriation per Chapter 951	\$ 32,321,564
Amount reappropriated (fiscal year 2004 balance)	178,488
Transfer for the increase in employer health insurance premiums	<u>(31,670,942)</u>
Unexpended balance	<u>\$ 829,110</u>
Proposed appropriation for 2006	\$ 64,942,256

The significant increase in the 2006 budget is to fund the employer’s share of the increase in health insurance premiums effective July 1, 2005.

Tobacco Settlement Funds (Item 502)

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.

Appropriation per Chapter 951	\$ 75,713,760
Transfer to Tobacco Indemnification and Community Revitalization and Virginia Tobacco Settlement Funds	<u>(75,713,760)</u>
Unexpended balance	\$ <u> -</u>
Proposed appropriation for 2006	\$ 76,662,113

Personal Property Tax Relief (Item 503)

This item provides tax relief to vehicles assessed at \$20,000 or less which are limited to personal use in Virginia. In fiscal year 2005, transfers in the amount of \$236,972,308 occurred each quarter from this account to Agency 850-Personal Property Tax Relief (PPTR) so that the Accounts could distribute amounts to localities.

Appropriation per Chapter 951	\$ 890,089,232
Transfer of PPTR funding to the Personal Property Tax Relief agency	(947,889,232)
Transfer of funds from the PPTRA agency	<u>57,800,000</u>
Unexpended balance	\$ <u> -</u>
Proposed appropriation for 2006	\$ 742,389,232

The decrease in the 2006 budget reflects a change in the reimbursement schedule for car tax relief. Calendar year 2006 reimbursements will not occur until fiscal year 2007; therefore reducing funding in 2006.

Compensation Supplements (Item 505)

This item provides a mechanism for funding increases to state employee salaries and benefits. The General Assembly appropriates these funds to a Central Appropriations for subsequent disbursement to agencies.

Appropriation per Chapter 951	\$ 56,253,066
Transfer to agencies for the November 2004 salary increase	(41,562,486)
Transfer to agencies for the increase in disability contribution rates	(8,120,527)
Transfer to the Department of State Police for salary increases	(5,147,626)
Transfer for salary supplements for judges and capitol police	(968,455)
Transfer of funds from one program to another	<u>(4,649)</u>
Unexpended balance	\$ <u>449,323</u>
Proposed appropriation for 2006	\$151,154,479

The significant increase in the 2006 budget reflects the salary increases and adjustments, and a compensation reserve of \$26.6 million used to provide salary increases in fiscal year 2006.

Economic Contingency (Item 506)

This item provides funding to address emergency or other unbudgeted costs.

Appropriation per Chapter 951	\$ 27,399,555
Amount reappropriated (fiscal year 2004 balance)	7,998,190
Transfer to the Governor's Opportunity Fund	(13,877,758)
Transfer to the Secretary of Commerce and Trade for the Semiconductor Memory/Logic Wafer Manufacturing Grant	(6,720,000)
Transfer to the Virginia Biotechnology Research Park Authority for economic development costs	(3,200,000)
Transfer to the State Board of Elections to reimburse local governments for the 2004 Democratic Presidential Primary	(1,900,000)
Transfer to the Department of Historic Resources for administration of the fiscal year 2005 grant to the Virginia Horse Center	(890,000)
Transfer to the State Board of Elections to provide matching funds for the drawdown of Federal Help America Vote Act funding	(252,000)
Transfer to multiple state agencies for costs associated with increased rental and telecommunications rates	(459,977)
Transfer to the Department of Environmental Quality for expenses resulting from Nox Credit Auction in fiscal year 2004	(113,296)
Transfer to the Frontier Culture Museum	(28,962)
Transfer to the Virginia Employment Commission to provide National Voter Registration Act funding	<u>(15,330)</u>
Unexpended balance	<u>7,940,422</u>
Proposed appropriation for 2006	\$ 36,516,615

The increase in the 2006 budget can be contributed to the following: increase in appropriation for the Virginia Horse Center Foundation; reimbursements for school divisions and community colleges for career and technical training, testing, and certification costs; support for rural and cultural economic development and tourism; establishment of a state funded school breakfast program; and expansion of activities with the Virginia Modeling, Analysis and Simulation Center.

Planning, Budgeting, and Evaluation Services (Item 506.1)

This item is used to provide funding for Council on Virginia's Future initiatives.

Appropriation per Chapter 951	\$1,750,000
Transfer to the Bureau of Real Property Management to cover the costs associated with the second phase of an examination	(477,200)
Transfer to the Department of Planning and Budget to support the Council on Virginia's Future	(300,000)
Transfer to the Department of Human Resource Management for implementation of a statewide recruitment management system	(95,000)
Transfer to the Department of Mines, Minerals, and Energy to implement a system for mineral mine operations in Virginia	(87,200)
Transfer to the Department of State Police for the Amber Alert Notification System	<u>(10,000)</u>
Unexpended balance	<u>\$ 780,600</u>
Proposed appropriation for 2006	\$1,500,000

Public Safety Telecommunications and Information Systems Infrastructure (Item 507)

This item is a holding account for funds to provide improvements to the communications systems and other related technology. Funds support the Statewide Agencies Radio System (STARS) project at State Police.

Appropriation per Chapter 951	\$ 2,633,599
Transfer to provide funding for STARS	<u>(2,510,000)</u>
Unexpended balance	<u>\$ 123,599</u>
Proposed appropriation for 2006	\$ 244,359

The significant decrease in the 2006 budget is due to a \$2.3 million transfer from the 2006 appropriation to 2005.

Financial Assistance for Cultural and Artistic Affairs (Item 507.1)

This item is used to provide funds for various cultural arts organizations.

Appropriation per Chapter 951	\$ 569,953
Transfer to the Department of Social Services to fund Healthy Families Virginia	(259,980)
Transfer to Direct Aid to Public Education to fund Achievable Dream, Inc.	(125,000)
Transfer to the Department of Community and Housing Development for the Center for Rural Virginia	(100,000)
Transfer to the Virginia Museum of Natural History to restore a budget cut	<u>(84,973)</u>
Unexpended balance	<u>\$ -</u>
Proposed appropriation for 2006	\$719,951

Planning and Budget is also responsible for initiating and processing transactions for the Central Maintenance Reserve, which is part of the non-operating budget.

Changes to the Budget Structure for the 2006-2008 Biennium

At the direction of the Council on Virginia's Future, Planning and Budget is developing a new performance management structure to provide a link between strategic planning and resource allocation. Agencies previously used a structure of programs and subprograms for budgeting and accounting, while agency strategic planning and performance measurement considered activities. This structure made it difficult to link budgets to specific activities, performance measures, and targets.

The new structure will be effective for the 2006-2008 biennium and will center on service areas. Planning and Budget and agencies worked together to develop service areas based on agency operations. Agencies were required to submit strategic planning information as well as budget development information to Planning and Budget using the service area structure.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Strengthen FATS Access Procedures

Planning and Budget needs to strengthen their user access procedures for the Form 27 Automated Transaction System (FATS). We reviewed a sample of FATS users as of September 26, 2005, and found three instances where an employee had access at two agencies (two different user ids), and one instance where an employee had two different user ids for one agency. These instances are indicative of several weaknesses in the current procedures.

First, Planning and Budget needs to improve their procedures for granting FATS access. Upon agency request for FATS access for an employee, Planning and Budget staff should review the current user listing to ensure the employee does not already have user access, thus eliminating the risk of duplicate access.

Second, Planning and Budget's current procedures for FATS access deletion needs strengthening. In the instances cited above, Planning and Budget should have deleted access for these employees, but the agencies did not submit a deletion request. While these instances are not the result of Planning and Budget not following their procedures, it is possible that better, strengthened procedures could have prevented some of these instances.

For example, the current FATS user deletion policy requires an agency notify Planning and Budget when an employee no longer needs FATS access; however, the policy does not include a timeframe for notification. In addition, Planning and Budget annually generates a FATS users listing so each agency can review its users. The current procedures do not require agencies to certify whether the user listing is correct or inform Planning and Budget of any changes.

We recommend that Planning and Budget strengthen the FATS user deletion policy to require agencies to request a user's deletion within 30 days of a user no longer needing access. Providing agencies with a specific deadline will promote a response, thus allowing timely deletion. We also recommend that Planning and Budget require agencies to certify the FATS user listing annually.

Follow Procedures for Documentation of Appropriation Adjustments

Planning and Budget staff do not consistently follow procedures for review and documentation of certain appropriation adjustments. The appropriation increases from Type G adjustments allow agencies to spend increases in non-general fund revenue collections.

Planning and Budget procedures require Type G transactions have transaction briefs that explain the requested action, specify the source of additional revenue, explain how the additional revenue was generated and how it will affect agency programs, tell why the additional revenue was not included in the agency's biennial budget request, address whether general fund appropriations can be reduced as a result of additional non-general fund revenue, and answer various other questions.

Our review found that Planning and Budget staff are not consistently following these requirements. We reviewed a sample of 40 Type G transactions and found the following instances where documentation supporting the adjustment was inadequate using Planning and Budget procedures. Without the required documentation to support the adjustment, it is not possible to determine whether Planning and Budget staff appropriately analyzed these adjustments before approval.

- Nineteen (48 percent) transactions did not include revenue source codes
- Twelve (30 percent) transaction briefs were insufficient based upon the criteria stated in the FATS Manual.

We recommend Planning and Budget management review these procedures with their staff and ensure all staff has adequate training on these requirements. The information in the transaction brief is critical to document the review and analysis of the adjustment before approval. We also recommend Planning and Budget update the FATS Manual to include the revenue source code requirement for Type G adjustments that agencies implemented in 2004.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 1, 2005

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 completed a **Review of the Budget and Appropriation Processing Control System** administered by the Department of Planning and Budget for the fiscal year ended June 30, 2005 as part of our audit of the State Comptroller's Comprehensive Annual Financial Report. We conducted our review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

We had several objectives in our review of the budget and appropriation processing control system. Our objectives were to determine whether policies and procedures were adequate to ensure that:

1. The budget approved by the General Assembly is properly recorded in the Commonwealth Accounting and Reporting System (CARS).
2. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.
3. Budget adjustments processed by Planning and Budget are properly approved and documented.
4. Access to the Form 27 Automated Transaction System (FATS) is reasonable.
5. Critical system programs and data have adequate operating and application system controls.
6. Budget information recorded in FATS and CARS is reconciled at a statewide level.

Scope and Methodology

In conducting this review, we researched the Code of Virginia, the Appropriation Act, and applicable policies and procedures at the Departments of Planning and Budget, and Accounts. Our review included gaining an understanding of the overall budget process and how the Departments of Planning and Budget, and Accounts record and monitor the budget once approved by the General Assembly. In addition, we reviewed and analyzed adjustments made to the budget, appropriation controls in CARS, and access to the budget execution and budget development systems.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of 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.

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 controls were adequate, operating, and followed.

Conclusions

We determined that policies and procedures for budget and appropriation process control system were adequate to ensure that:

1. The Commonwealth Accounting and Reporting System (CARS) properly includes the budget approved by the General Assembly.
2. Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.
3. Budget adjustments processed by Planning and Budget are properly approved and documented.
4. Access to the Form 27 Automated Transaction System (FATS) is reasonable.
5. Critical system programs and data have adequate operating and application system controls.
6. Budget information recorded in FATS and CARS is reconciled at a statewide level.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Internal Control Findings and Recommendations."

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 Planning and Budget on February 8, 2006.

AUDITOR OF PUBLIC ACCOUNTS

LCR:sks
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COMMONWEALTH of VIRGINIA
Department of Planning and Budget

Richard D. Brown
Director

1111 E. Broad St., Room 5040
Richmond, VA. 23219

February 21, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

I have reviewed the Auditor of Public Accounts' 2005 audit of the Department of Planning and Budget (DPB) and agree with the internal control findings and recommendations. DPB's corrective action plan follows each finding.

APA Finding No. 1: Strengthen FATS Access Procedures

"Planning and Budget needs to strengthen their user access procedures for the Form 27 Automated Transaction System (FATS). We reviewed a sample of FATS users as of September 26, 2005, and found three instances where an employee had access at two agencies (two different user ids), and one instance where an employee had two different user ids for one agency. These instances are indicative of several weaknesses in the current procedures.

First, Planning and Budget needs to improve their procedures for granting FATS access. Upon agency request for FATS access for an employee, Planning and Budget staff should review the current user listing to ensure the employee does not already have user access, thus eliminating the risk of duplicate access.

Second, Planning and Budget's current procedures for FATS access deletion needs strengthening. In the instances cited above, Planning and Budget should have deleted access for these employees, but the agencies did not submit a deletion request. While these instances are not the result of Planning and Budget not following their procedures, it is possible that better, strengthened procedures could have prevented some of these instances.

For example, the current FATS user deletion policy requires an agency notify Planning and Budget when an employee no longer needs FATS access; however, the policy does not include a timeframe for notification. In addition, Planning and Budget annually generates a FATS users listing so each agency can review its users. The current procedures do not require agencies to certify whether the user listing is correct or inform Planning and Budget of any changes.

We recommend that Planning and Budget strengthen the FATS user deletion policy to require agencies to request a user's deletion within 30 days of a user no longer needing access. Providing agencies with a specific deadline will promote a response, thus allowing timely deletion. We also recommend that Planning and Budget require agencies to certify the FATS user listing annually."

DPB will take the following actions to address the audit finding:

- Review the FATS user roster each time an agency requests FATS access. When a submitted FATS access form signals duplication, DPB Services will electronically notify the impacted agencies about the possible problem. Generally, this notification procedure will quickly resolve any concerns. In the event of conflict or lack of agency response, DPB will delete a user's access after consulting with the appropriate budget analyst(s). (Because access for a requesting agency is often time sensitive, DPB will accept an electronic message from the deleting agency to remove access.)
- Continue to review the FATS user roster each time an agency requests FATS access. This procedure, which was implemented when the finding was revealed, should eliminate multiple logons. There are no duplicate users on the user roster at this time.
- Continue to send a September/October electronic message to agencies requesting FATS user deletions. (Since the audit finding, DPB modified its FATS Access Request Form by adding a line requesting agencies to submit this form within 30 days of when a user no longer needs FATS access. DPB also sent a broadcast message to state budget officers notifying them of this change.)

APA Finding No. 2: Follow Procedures for Documentation of Appropriation Adjustments

"Planning and Budget staff do not consistently follow procedures for review and documentation of certain appropriation adjustments. The appropriation increases from Type G adjustments allow agencies to spend increases in non-general fund revenue collections.

Planning and Budget procedures require Type G transactions have transaction briefs that explain the requested action, specify the source of additional revenue, explain how the additional revenue was generated and how it will affect agency programs, tell why the additional revenue was not included in the agency's biennial budget request, address whether general fund appropriation can be reduced as a result of additional non-general fund revenue, and answer various other questions.

Our review found that Planning and Budget staff are not consistently following these requirements. We reviewed a sample of 40 Type G transactions and found the following instances where documentation supporting the adjustment was inadequate using Planning and Budget procedures. Without the required documentation to support the adjustment, it is not possible to determine whether Planning and Budget staff appropriately analyzed these adjustments before approval.

- Nineteen (48 percent) transactions did not include revenue source codes.
- Twelve (30 percent) transaction briefs were insufficient based upon the criteria stated in the FATS Manual.

We recommend Planning and Budget management review these procedures with their staff and ensure all staff has adequate training on these requirements. The information in the transaction brief is critical to document the review and analysis of the adjustment before approval. We also recommend Planning and Budget update the FATS Manual to include the revenue source code requirement for Type G adjustments that agencies implemented in 2004.”

DPB will take the following actions to address the audit finding:

- Implement hardcode changes to FATS to add a revenue source code field that will deny processing of Type G transactions (additional revenue appropriation) if not completed. DPB expects to complete this coding change in March 2006.
- Update the FATS User Manual to reflect current agency practices and require all budget analytical staff to attend FATS training by March 31, 2006. This training will focus on transaction brief detail to clarify needs and to foster consistency in the agency. Refresher FATS training will be added to DPB’s yearly training calendar. New analysts will receive FATS training within 30 day of their hire date.
- Encourage analysts to work with agencies to make sure that they are aware of FATS documentation requirements and how to properly fill out transaction briefs on FATS requests.

Sincerely,



Richard D. Brown

G:\FISCAL\05 APA Audit\Formal Response To 2005 APA Audit.Doc Paul Bender

cc: Don Darr
Paul Bender
Mike Barton

Appendix

Code of Virginia, Section 2.2-1501 (Department of Planning and Budget) Duties of Department.

The Department shall have the following duties:

1. Development and direction of an integrated policy analysis, planning, and budgeting process within state government.
2. Review and approval of all sub-state district systems boundaries established or proposed for establishment by state agencies.
3. Formulation of an executive budget as required in this chapter. In implementing this provision, the Department shall utilize the resources and determine the manner of participation of any executive agency as the Governor may determine necessary to support an efficient and effective budget process notwithstanding any contrary provision of law. The budget shall include reports, or summaries thereof, provided by agencies of the Commonwealth pursuant to subsection E of § 2.2-603.
4. Conduct of policy analysis and program evaluation for the Governor.
5. Continuous review of the activities of state government focusing on budget requirements in the context of the goals and objectives determined by the Governor and the General Assembly and monitoring the progress of agencies in achieving goals and objectives.
6. Operation of a system of budgetary execution to ensure that agency activities are conducted within fund limitations provided in the appropriation act and in accordance with gubernatorial and legislative intent. The Department shall make an appropriate reduction in the appropriation and maximum employment level of any state agency or institution in the executive branch of government that reports involuntary separations from employment with the Commonwealth due to budget reductions, agency reorganizations, workforce down-sizing, or voluntary separations from employment with the Commonwealth, as provided in the second and third enactments of the act of the General Assembly creating the Workforce Transition Act of 1995 (§ 2.2-3200.). In the event an agency reduces its workforce through privatization of certain functions, the funds associated with such functions shall remain with the agency to the extent of the savings resulting from the privatization of such functions.
7. Development and operation of a system of standardized reports of program and financial performance for management.
8. Coordination of statistical data by reviewing, analyzing, monitoring, and evaluating statistical data developed and used by state agencies and by receiving statistical data from outside sources, such as research institutes and the federal government.

9. Assessment of the impact of federal funds on state government by reviewing, analyzing, monitoring, and evaluating the federal budget, as well as solicitations, applications, and awards for federal financial aid programs on behalf of state agencies.
10. Review and verify the accuracy of agency estimates of receipts from donations, gifts or other nongeneral fund revenue.
11. (Effective until July 1, 2008) Development, coordination, and implementation of a performance management system involving strategic planning, performance measurement, evaluation, and performance budgeting within state government. The Department shall ensure that information generated from these processes is useful for managing and improving the efficiency and effectiveness of state government operations, and is available to citizens and public officials.
12. (Effective July 1, 2008) Development, coordination, and implementation of a performance management system involving strategic planning, performance measurement, evaluation, and performance budgeting within state government. The Department shall ensure that information generated from these processes is useful for managing and improving the efficiency and effectiveness of state government operations, and is available to citizens and public officials. The Department shall submit annually on or before the second Tuesday in January to the Chairman of the House Appropriations Committee and the Chairman of the Senate Finance Committee a report that sets forth state agencies' strategic planning information and performance measurement results pursuant to this subdivision for the immediately preceding fiscal year.
13. Development, implementation, and management of an Internet-based information technology system to ensure that citizens have access to performance information.
14. Development, implementation, and management of an Internet-based information technology system to ensure that citizens have access to meeting minutes and information pertaining to the development of regulatory policies.
15. Development, coordination, and management of a school efficiency review program.

Code of Virginia, Section 2.2-1508 (Department of Planning and Budget) Submission of executive budget to General Assembly.

- A. On or before December 20 in the year immediately prior to the beginning of each regular session of the General Assembly held in an even-numbered year, the Governor shall submit to the presiding officer of each house of the General Assembly printed copies of a budget document, which shall be known as "The Executive Budget," based on his own conclusions and judgment, containing the following:
 1. For each agency, the amount and number of positions appropriated for the current appropriation year and the amount and number of positions recommended for each year of the ensuing biennial period beginning with the first day of July thereafter, accompanied by an explanation of the recommended amount and number of positions.

2. A statement of historical and projected trends that influence the general economic conditions in the Commonwealth and a statement of the economic assumptions upon which revenue projections are based.
3. A statement of the Governor's proposed goals, objectives, and policies in the areas of:
 - a. Administration of justice;
 - b. Education, including intellectual and cultural development;
 - c. Individual and family services;
 - d. Resources and economic development, including specific references to economic development and management of natural resources;
 - e. Transportation; and
 - f. General government, including therein or as separate categories areas of multiple impacts, such as telecommunications, energy, and urban development.
4. A statement organized by function, primary agency, and proposed appropriation item that sets forth:
 - a. Identification of common programs and services;
 - b. Service attainments or lack of attainments and service terminations or reductions for the biennium;
 - c. Major goals, objectives, and specific outcomes related to expenditures for programs;
 - d. Program measures and performance standards to be used in monitoring and evaluating services; and the development of appropriate evaluation cycles, within available resources;
 - e. The amount of each primary agency's budget that is direct aid to localities.
5. A statement of proposed capital appropriations organized by the primary agency that sets forth the program need for the project and the proposed source of funding.
6. A listing of all activity, program-related, agency, or departmental evaluations performed in the previous two years with guidance indicating the manner in which the public can gain access to the full text of such studies.

7. A schedule and description of all data processing or other projects in which the Commonwealth has entered into or plans to enter into a contract, agreement or other financing agreement or such other arrangement that requires that the Commonwealth either pay for the contract by foregoing revenue collections, or allows or assigns to another party the collection on behalf of or for the Commonwealth any fees, charges, or other assessment or revenues to pay for the project. Such schedule shall include by agency and project (i) a summary of the terms, (ii) the anticipated duration, and (iii) cost or charges to any user, whether a state agency or institutions or other party not directly a party to the project arrangements. The description shall also include any terms or conditions that bind the Commonwealth or restrict the Commonwealth operations and the methods of procurement employed to reach such terms.
- B. On or before December 20 of the year immediately prior to the beginning of the regular session of the General Assembly held in odd-numbered years, the Governor shall submit to the presiding officer of each house of the General Assembly printed copies of a budget document, which shall be known as "Executive Amendments to the Appropriation Act," describing all gubernatorial amendments proposed to the general appropriation act enacted in the immediately preceding even-numbered session.
- C. The Department of Planning and Budget shall prepare "The Executive Budget" and the "Executive Amendments to the Appropriation Act" in a manner and with language that can be easily understood by the citizens of the Commonwealth and that provides, to the extent practical, a cross-reference to the Governor's recommended budget bill or amendments to the Appropriation Act. Such documents shall also be placed on the Internet to provide easy access by the public.

Code of Virginia, Section 2.2-1509 (Department of Planning and Budget) Budget Bill.

- A. (Effective until July 1, 2008) On or before December 20 of the year immediately prior to the beginning of each regular session of the General Assembly held in an even-numbered year, the Governor also shall submit to the presiding officer of each house of the General Assembly, at the same time he submits "The Executive Budget," copies of a tentative bill for all proposed appropriations of the budget, for each year in the ensuing biennial appropriation period, which shall be known as "The Budget Bill." "The Budget Bill" shall be organized by function, primary agency, and proposed appropriation item and shall include (i) an identification of, and authorization for, common programs and (ii) the appropriation of funds according to programs. Strategic plan information and performance measurement results developed by each agency shall be made available to the General Assembly as it considers "The Budget Bill." Except as expressly provided in an appropriation act, whenever the amounts in a schedule for a single appropriation item are shown in two or more lines, the portions of the total amount shown on separate lines are for information purposes only and are not limiting. No such bill shall contain any appropriation the expenditure of which is contingent upon the receipt of revenues in excess of funds unconditionally appropriated.

- B. (Effective July 1, 2008) On or before December 20 of the year immediately prior to the beginning of each regular session of the General Assembly held in an even-numbered year, the Governor also shall submit to the presiding officer of each house of the General Assembly, at the same time he submits "The Executive Budget," copies of a tentative bill for all proposed appropriations of the budget, for each year in the ensuing biennial appropriation period, which shall be known as "The Budget Bill." "The Budget Bill" shall be organized by function, primary agency, and proposed appropriation item and shall include an identification of, and authorization for, common programs and the appropriation of funds according to programs. Except as expressly provided in an appropriation act, whenever the amounts in a schedule for a single appropriation item are shown in two or more lines, the portions of the total amount shown on separate lines are for information purposes only and are not limiting. No such bill shall contain any appropriation the expenditure of which is contingent upon the receipt of revenues in excess of funds unconditionally appropriated.
- C. The salary proposed for payment for the position of each cabinet secretary and administrative head of each agency and institution of the executive branch of state government shall be specified in "The Budget Bill," showing the salary ranges and levels proposed for such positions.
- D. "The Budget Bill" shall include all proposed capital appropriations, including each capital project to be financed through revenue bonds or other debt issuance, the amount of each project, and the identity of the entity that will issue the debt.
- E. Concurrently with the submission of "The Budget Bill," the Governor shall submit a tentative bill involving a request for authorization of additional bonded indebtedness if its issuance is authorized by, or its repayment is proposed to be made in whole or in part, from revenues or appropriations contained in "The Budget Bill."
- F. On or before December 20 of the year immediately prior to the beginning of each regular session held in an odd-numbered year of the General Assembly, the Governor shall submit to the presiding officer of each house printed copies of all gubernatorial amendments proposed to the general appropriation act adopted in the immediately preceding even-numbered year session. In preparing the amendments, the Governor may obtain estimates in the manner prescribed in §§ 2.2-1504, 2.2-1505, and 2.2-1506. On the same date he shall also submit a tentative bill during the second year of the appropriation period, a request for authorization of additional bonded indebtedness if its issuance is authorized by, or its repayment is proposed to be made in whole or in part, from revenues or appropriations contained in the proposed gubernatorial amendments.
- G. The proposed capital appropriations or capital projects described in, or for which proposed appropriations are made pursuant to, this section shall include the capital outlay projects required to be included in "The Budget Bill" pursuant to § 2.2-1509.1. The Governor shall propose appropriations for such capital outlay projects in "The Budget Bill" in accordance with the minimum amount of funding and the designated sources of funding for such projects as required under § 2.2-1509.1.

Code of Virginia, Section 2.2-1509.1 (Department of Planning and Budget) Budget Bill to include appropriations for capital outlay projects.

A. For purposes of this section:

"Projected general fund revenues" for a fiscal year means the estimated general fund revenues for such year as contained in the six-year revenue plan submitted in the prior calendar year pursuant to § 2.2-1503.

"Capital outlay project" means the same as that term is defined in § 2.2-1503.2.

B. In "The Budget Bill" submitted pursuant to § 2.2-1509, the Governor shall provide for the funding of capital outlay projects, as specified herein. Such funding recommendations shall be in addition to any appropriation for capital outlay projects from the Central Maintenance Reserve of the general appropriation act.

1. The Governor shall include in "The Budget Bill" submitted pursuant to § 2.2-1509 a biennial appropriation for the capital improvement plan required by § 2.2-1503.2. The biennial appropriation shall not be less than two percent of the projected general fund revenues for the biennium.

a. When the projected general fund revenues for a fiscal year or years are eight percent or greater than the projected general fund revenues for the immediately preceding fiscal year the amount of the biennial appropriation for the capital improvement plan that the Governor shall provide from general fund revenues shall not be less than two percent of the projected general fund revenues for each fiscal year.

b. When the projected general fund revenues for a fiscal year or years are at least five percent but less than eight percent greater than the projected general fund revenues for the immediately preceding fiscal year, the Governor may recommend funding of up to one-half of the required biennial appropriation from alternative financing mechanisms, including, but not limited to, bonded indebtedness. The Governor shall submit such bill or bills for consideration by the General Assembly as are necessary to implement such alternative financings, and shall include in "The Budget Bill" submitted pursuant to § 2.2-1509 proposed appropriations from general fund revenues for the remaining one-half of the required biennial appropriation.

c. When the projected general fund revenues for a fiscal year or years are less than five percent greater than the projected general fund revenues for the immediately preceding fiscal year, the Governor may recommend funding of up to the entire required biennial appropriation from alternative financing mechanisms, including, but not limited to, bonded indebtedness. The Governor shall submit such bill or bills for consideration by the General Assembly as are necessary to implement such alternative financings.

2. In implementing the provisions of this section, the amount of general funds to be included in the biennial appropriation for the capital improvement plan shall be calculated on a year-to-year basis, but may be apportioned on a biennial basis; provided, however, that the combined total of general fund appropriations and alternative financing mechanisms for the capital improvement plan included in "The Budget Bill" submitted pursuant to § 2.2-1509 shall equal at least two percent of the projected general fund revenues for the biennium.
- C. The capital outlay projects proposed under this section and to be included in "The Budget Bill" submitted pursuant to § 2.2-1509 shall be consistent with those capital outlay projects included in the corresponding fiscal year of the current six-year capital improvement plan submitted under § 2.2-1503.2. The Governor may deviate from the plan and may propose other projects in "The Budget Bill" so long as he substantially complies with the capital improvement plan and justifies the inclusion of such other projects.

Code of Virginia, Section 2.2-1509.2 (Department of Planning and Budget) Budget Bill to include amounts diverted from Transportation Trust Fund and Highway Maintenance and Operating Fund.

If any money in the Highway Maintenance and Operating Fund or the Transportation Trust Fund established pursuant to § 33.1-23.03:1 is proposed to be used for any purpose other than administering, planning, constructing, improving, and maintaining the roads embraced in the systems of highways for the Commonwealth and its localities and/or furthering the interests of the Commonwealth in the areas of public transportation, railways, seaports, and/or airports, then the Governor, if such diversion is proposed by the Governor, shall include with any such proposal a plan for repayment of funds diverted within three years of such use in "The Budget Bill" submitted pursuant to § 2.2-1509. If such diversion of funds from the Highway Maintenance and Operating Fund or the Transportation Trust Fund is proposed by the General Assembly as an amendment to the Budget Bill, such amendment shall include language setting out the plan for repayment of such funds within three years.