AAM 25. BUDGETS

AAM 25.010 Budget Types

Two types of budgets are available for managing activity through financial reporting structures - appropriated budgets associated with appropriations and funds, and management budgets which are user-defined budgets associated with one or a combination of entities in any of the reporting structures.

AAM 25.020 Budget Transactions

Entries to establish authorizations are based on financial plans or revisions approved by the Office of Management and Budget. Financial plans are in at least as much detail as shown in the Executive Budget. Financial plans may be in more detail if such detail is needed to meet the needs of the agency or the Department of Administration.

If additional money to fund a program becomes available subsequent to legislative approval, a request to utilize such money accompanied by a proposed budget must be submitted to the Office of Management and

Budget for review and approval. Approval is indicated by a revised program order signed by the governor.

Whenever an agency wants to change recorded authorizations, it must prepare a revised program (RP). RP procedures are explained in the Revised Program Manual prepared by the Office of Management and Budget.

AAM 25.030 The Executive Budget

The executive budget is the aggregate of information, proposals, and estimates prepared and submitted to the legislature by the governor and the Office of Management and Budget.

AAM 25.040 The Appropriated Budget

The appropriated budget is the expenditure authority created by the appropriation bills that are signed into law and the related estimated revenues. The appropriated budget includes all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

The annual appropriated budget authorizes and provides the basis for control of financial operations during the fiscal year. The appropriations constitute maximum expenditure authorizations during the fiscal year, and cannot legally be exceeded unless subsequently amended by the legislature. An agency's authorized budget is given in the appropriations act (showing appropriations and allocations), and the Conference Committee Report issued by the Legislative Finance Division (showing line item amounts and funding sources comprising the totals shown in the appropriations act). Authorized positions are determined by the Office of Management and Budget and are shown in the Position Authorization and Control System (PACS). Authorizations are maintained in the same degree of detail as shown in the appropriated budget. If it is necessary for an agency to exercise a greater degree of budgetary control, additional budgetary accounts may be maintained. Budgetary transactions are recorded after the passage of the appropriations bills in accordance with the Office of Management and Budget guidelines and Department of Administration procedures.

AAM 25.050 Other Authorizations

Authorizations are also established for appropriations not contained in the General Appropriations Act. These authorizations are established in sufficient detail to meet the requirements of the agency, Department of Administration, and Office of Management and Budget.

AAM 25.060 Management Budgets

Management budgets meet specific agency management reporting requirements. Up to two separate budgets can be maintained within the financial system for any one entity, and the budgets are entirely user defined. Management budgets can be associated with the fiscal year, federal year, or can be distributed across financial periods.

AAM 25.070 Amounts Authorized

When an appropriation bill is passed by the Legislature and signed by the governor, the Office of Management and Budget establishes which specific appropriations will be considered operating and capital. The amounts authorized in the appropriations act for expenditures and estimated budgeted receipts are recorded by the Division of Finance after approval of the Office of Management and Budget.

AAM 25.080 Restrictions on Appropriations

Restrictions reduce the authorization to spend for the purpose of preventing expenditures which have been authorized in an appropriation bill. A restriction normally is initiated by an agency for internal control purposes. However, the Division of Finance may also establish restrictions at the direction of the Office of Management and Budget.

AAM 25.090 Expenditure and Revenue Controls (07-15)

Legislative appropriations are required for all authorizations to spend money and incur obligations. This includes authorizations to spend and obligate program receipts. When an appropriation is funded from budgeted revenues, it means that the appropriation may be spent only to the extent that budgeted revenues are earned. If budgeted revenues (cash receipts plus valid account receivables) fall short of the amount estimated, expenditures must be reduced accordingly.

The relationship between expenditures and appropriated revenues is reflected in the financial system. The failure of an agency to bill and collect budgeted revenues can result in the agency being compelled to curtail its spending and ultimately the program for which it is responsible.

Agencies funded from a mix of budgeted and unbudgeted revenues shall collect federal and program receipts as timely as possible. This policy includes minimizing the amounts of general fund monies advanced to allow the agency to operate a current billing cycle and utilizing the federal government three day cash advance program where available. Agencies will utilize at least a two week billing cycle for program revenues unless prohibited by law or grant terms.

An authorization to spend money is contingent on the ability of an agency to earn its budgeted revenues. Budgeted revenues are associated with a particular fiscal year. If budgeted revenue for a subsequent fiscal year is received prior to the end of a fiscal year, it is recorded in the year received as either a deferred inflow of resources or unearned revenue (liability).

AAM 25.100 Tolerance Adjusted Net Available Balance (TANAB) (07-15)

The net available balance is the total authorization net of expenditures to date, including required collections of budgeted receipts. For appropriations financed by budgeted receipts, spending is contingent upon collection of the receipts, plus a tolerance factor, or "seed". The seed amount permits spending up to a predetermined dollar amount or percentage of the estimated budgeted revenues in advance of collections.

The seed amount is a system control edit built into the appropriation type (AR) structures to control the disbursements of funds or the charging of expenditures based on the availability of budgeted revenues. It is applied by setting either a fixed dollar amount or a percentage of expenditures permitted for uncollected receipts. If the seed amount is 10%, for example, up to 10% of the budgeted revenues can be spent before any are collected. The initial seed amount will be set at the greater of $500,000 or 10% of budgeted restricted revenues for the AR type.

The following formula is used to determine the tolerance adjusted net available balance.

	Net Continuing Expenditure Authorization
Minus:	Total Estimated Restricted Revenues
Plus:	Restricted Revenues Collected
Minus:	Expenditures
Plus:	Tolerance Adjustment
Equals:	Tolerance Adjusted Net Available Balance

All seed amount adjustments must be approved by the Division of Finance. No approval will be given for any adjustments in excess of predetermined greater of $500,000 or 10% without written justification that includes identification of all funding sources, expenditure projections, and program impact if adjustments are not approved.

AAM 25.110 Allocation Authority

AS 37.07.080 provides that:

1. Transfers or changes between objects of expenditures, or between allocations, may be made by the head of a state agency upon approval of the Office of Management and Budget.

2. The increase of an appropriation item, based on additional federal or other program receipts not specifically appropriated by the full legislature, may be expended in accordance with the following procedures:

    a. The governor shall submit a revised program to the Legislative Budget and Audit Committee for review;

    b. 45 days shall elapse before commencement of expenditures under the revised program unless the Legislative Budget and Audit Committee recommends that the state take part earlier in the federally or otherwise funded activity;

    c. Should the Legislative Budget and Audit Committee recommend within the 45-day period that the state not initiate the additional activity, the governor shall again review the revised program. If the governor determines to authorize the expenditure, the governor shall provide the Legislative Budget and Audit Committee with a statement of the governor's reason before commencement of expenditures under the revised program.

AAM 25.120 Transfers of Budget Authority (01-03)

With the approval of the Office of Management and Budget, transfers may be made within an appropriation from one authorization to another. Transferring authority between allocations is possible only when the appropriation bills designate lines in the bill as allocations rather than appropriations. Authority cannot be transferred between appropriations.

AAM 25.125 Transfers Between Funds (04-06)

This policy differentiates between fund-to-fund transfers (where legislation transfers an amount between funds or specifies the purpose of the transfer is to capitalize the recipient fund) versus funding source transfers where the cash in one fund is used for the expenditures of another fund. The policy is formulated on the following assumptions:

1. Specific expenditures are related to a given funding source. They may be impossible to segregate, in which case they are just included in a pool of expenditures with a mix of funding sources. Where it is possible, expenditures should be segregated by funding source.

2. When the funding source is an actual fund, the appropriation should be set up directly in the fund unless a business reason other than cash flow prevents it. This eliminates the need for any transfers, reflecting the financial activity as it was budgeted without manual procedures.

3. Funding source transfers should not adversely affect the cash flow circumstances of other funds, particularly the general fund.

4. The activities of one funding source recipient should not cause a shortfall for another recipient. Recipient agencies affected by an overappropriated funding source should contact the Office of Management and Budget, which will determine corrective action when a funding source falls short.

Fund-to-Fund Transfers. The Division of Finance will authorize fund-to-fund transfers as a lump sum within 90 days of the effective date of the appropriation (by September 30 for appropriations effective July 1). Interest on transferred amounts will not be paid unless the recipient agency requested the transfer and the Division of Finance did not authorize it within this timeframe.

Funding Source Transfers. Procedures vary depending upon amount of the appropriated funding source:

1. Appropriations less than $500,000 – The Division of Finance will authorize the transfer as a lump sum at the request of the recipient agency within 90 days of the effective date of the appropriation (by September 30 for appropriations effective July 1).

2. Appropriations of $500,000 or more – Amounts shall be advanced to the recipient entity quarterly or semi-annually based on projected disbursements provided to the Division of Finance by the recipient agency.

The recipient agency must reconcile at yearend and process transactions to reverse any transferred amount in excess of related expenditures by August 31. Extensions to this deadline may be granted by the Division of Finance in cases where the agency is required to provide yearend input necessary for the Comprehensive Annual Financial Report. No interest will be paid on funding source transfer amounts.

All transfers of $5 million or more require one-week notice to Investment Portfolio and Cash Management staff in the Division of Treasury. The

Division of Finance will provide this notice before authorizing the transfer if necessary.

Transfers for Payroll. State agencies sometimes process payroll on behalf of component units or corporations that use the statewide payroll system, but not the statewide financial system. For these circumstances, the component unit or corporation shall transfer cash sufficient to cover expenditures to the general fund by the date payroll is issued. Late transfers may result in payroll warrants being withheld until cash is transferred to the general fund.

AAM 25.130 Account Controls (04-08)

Changes made to authorized budget accounts require approval by the Office of Management and Budget in accordance with their revised program policies and procedures before they are recorded in the accounting records. Except for the grants line item, commissioners are delegated authority to approve operating budget transfers of expenditure authorization between line items within an allocation, and/or transfers between allocations within an appropriation. Movement of funds into and out of the grants line item must be approved by the Office of Management and Budget. An increase in an appropriation based on additional federal or other program receipts not specifically appropriated by the full legislature must be approved by the Office of Management and Budget and comply with the Legislative Budget and Audit Committee's review process pursuant to AS 37.07.080 (h).

AAM 25.140 Reappropriations Authority

AS 37.25.010 (a) provides: "The unexpended balance of a one-year appropriation authorized in an appropriation bill lapses on June 30 of the fiscal year for which appropriated. However, a valid obligation (encumbrance) existing on June 30 is automatically reappropriated for the fiscal year beginning on the succeeding July 1 if it is recorded with the Department of Administration by August 31 of the succeeding fiscal year."

If an appropriation is for one year, it is expected that the funds will be used within the year and any excess funds will lapse. These sections should not be construed in any way to circumvent the budget process or as an excuse for poor planning. The financial staff of each agency is expected and encouraged to exercise caution and good judgement in this area to ensure compliance with the intent of the appropriation bill, i.e., the law.

If a significant amount of encumbrances are deleted due to an accounting error, approval of the Office of Management and Budget is required prior to reinstatement.

The following paragraphs are general policy guidelines. It is the responsibility of all agency personnel and certifying officers to make certain that all actions are based on sound accounting and budgetary practices, are in the best interest of the state, and adequate justification and supporting documentation is on file for each transaction.

AAM 25.150 Determination of Reappropriation Amounts

The amount reappropriated for a fiscal year appropriation is determined as follows:

1. Valid encumbrances as of June 30 are reappropriated in the accounts for the new fiscal year.

2. All direct disbursements and new encumbrances submitted on or after July 1 to be charged against the prior year causes a like amount to be reappropriated if the transaction is processed prior to August 31 and sufficient unencumbered balance is available.

AAM 25.160 Fiscal Year Obligations (10-10)

Basic to the reappropriation process is the concept of a “valid obligation” and the determination of which fiscal year’s authorizations should be charged for the proposed expenditure. If a valid obligation does not exist at the end of the fiscal year, excess funds are lapsed.

A “valid obligation” is an amount which the state may be required legally to meet out of its resources. They include not only actual liabilities, but also encumbrances.

The criteria used to make the determination as to which fiscal year’s authorizations should be charged may vary as follows.

Payroll

Payroll costs are to be charged to the fiscal year in which wages are earned.

Travel and Moving

As a general rule, the date of travel or the date of the move determines which fiscal year’s authorization is to be charged. For reappropriation purposes, this date also determines if a “valid obligation” exists at June 30.

However, if a travel/move spans two fiscal years, the travel/move need not be prorated, but can be charged to the fiscal year receiving the most benefit.

If the travel/move was specifically budgeted, the anticipated cost of the travel is to be charged to the fiscal year's authorization in which it was specifically budgeted.

Services

As a general rule, the date service is received determines the fiscal year's authorization to be charged. The costs for services received from doctors, dentists, lawyers, accountants, consultants, janitors, maintenance workers, carpenters, window washers, and others performing services for the state on a weekly or monthly basis shall be charged only to the current fiscal year's authorization. The reasoning behind this is that when the funds were appropriated for these services, it was intended that they be expended in the current year and any excess funds would lapse.

Absent avoidable administrative delay, a contract for services to conduct a specific project, prepare a specific report, etc., in which the length of time for completion of the services extends into the following fiscal year, may be encumbered at year-end. To be a valid encumbrance, the contract must be signed and work under way before June 30, and:

- the contract is for a "fixed price" and the product/service to be provided is not severable as to fiscal year; or
- the specific item or project is identifiable in the department's budget, approved program, revised program under AS 37.07.080, and/or financial plans required by AS 37.07.050.

Reimbursable Services Agreements (RSAs)

RSAs are contracts for services between state agencies. RSAs must be released as of June 30, unless a valid obligation exists between the servicing agency and an external third party by June 30.

Advertising Orders

Advertising ordered but not received prior to the fiscal year end shall be charged to the fiscal year in which the advertising services are provided.

Utility and Service Charges

At times, invoices for rental payments, heat, light, telephone, and other charges are partly for June and partly for July. Such invoices need not be prorated. They may be charged to either fiscal year to the end that each fiscal year receives charges for twelve months.

Materials, Supplies, and Equipment

As a general rule, the fiscal year to be charged for materials, supplies, and equipment depends on the order date, but it can also be influenced by the date that the items are received as well as the date the items are consumed or put into use.

Items ordered and received by June 30th are generally accrued as liabilities and charged to the fiscal year in which they are received. When the items are clearly identifiable as consumed or used in the subsequent fiscal year, the prepaid asset account 10603 may be used instead of expenditures, and the purchase charged to the subsequent fiscal year by immediately clearing the prepaid asset account.

Items ordered by, but received after June 30th, are recognized as obligations using encumbrances, or the memo encumbrances function in the financial system, when they are charged to the prior fiscal year. Alternatively, items received after June 30th may be charged to the subsequent fiscal year at agency discretion.

An obligation to purchase materials, supplies, or equipment may be established by delivering to the vendor a complete and approved purchasing document (purchase order or delivery order) by June 30. An obligation may also be established by documentation of a verbal order communicated to the vendor by June 30 in cases where the purchasing document is not required. Vendor includes both parties external to the state as well as Internal Service Fund sources.