

BUDGET LETTER

SUBJECT: PAST YEAR BUDGET ADJUSTMENTS AND FUND RECONCILIATION FOR THE 2017-18 BUDGET CYCLE		NUMBER: 16-20
REFERENCES: GOVERNMENT CODE SECTIONS 12460, 13031, 13344, 13403; STATE ADMINISTRATIVE MANUAL; AND AUDIT MEMO 11-02; BLS 16-05, 16-07, 16-09, 16-13 AND 16-18		DATE ISSUED: July 29, 2016
		SUPERSEDES: 15-03 AND 15-16

TO: Agency Secretaries
 Department Directors
 Departmental Budget and Accounting Officers
 Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

BUDGET OFFICERS ARE REQUESTED TO FORWARD A COPY OF THIS BUDGET LETTER TO DEPARTMENTAL INTERNAL AUDITORS.

This Budget Letter (BL) provides instructions for the past year adjustments for the 2017-18 budget cycle and related information on past year fund reconciliation (BL 16-09). Budget data for past year expenditures, revenues, transfers, and loan (RTLs) must reconcile to the year-end financial statements reported to the State Controller’s Office.

To facilitate the review of these requirements in a comprehensive manner, this year the accounting and budget deliverables for the past year must be submitted as a complete package to your Department of Finance (Finance) budget analyst. To streamline workflow, submit both deliverables by fund on a flow basis, rather than waiting for all funds to be updated and reconciled. Departments should discuss with their Finance budget analyst to determine the best work flow of funds for your department. A complete past year package consists of, but is not limited to:

- 1) Expenditure information (see #4 under the Expenditures section on page 4)
- 2) Revenue information (see #3 under the Revenues, Revenue Transfers, and Loans section on page 5)
- 3) DF-303/304 Packets, including:
 - a. Form DF-117 signed by Department Director (may designate 1 level down only)
 - b. Fund Condition Statement
 - c. Any appropriate accounting reports – Reports 4, 6, 15, and/or others as needed

Prior to submitting the past year packages, departments must perform a comprehensive review. As noted in BL 16-09, the department’s Director or equivalent must sign the certification (DF-117) of the fund reconciliation for past year activity. Departments must assess their current status to determine what steps are needed to meet the deadlines below. If departments anticipate being late, they must contact their Finance budget analyst to mitigate extensive delays and obtain further instruction.

<i>Deadlines and Deliverables</i>	
September 9, 2016	Complete Past Year Package for General Fund
Early September, through October 3, 2016	Complete Past Year Package from non-shared fund administrators
Early September, through October 14, 2016	Complete Past Year Package from shared fund administrators

This BL covers these key areas:

- A. Past Year Adjustments in Hyperion
- B. Consistency between Governor's Budget and Year-End Financial Reports.
- C. Basis of Accounting.
- D. Fund Administrators' and Fund Users' Authority and Responsibilities.
- E. Certification (both fund administrator and fund users of all funds).
- F. Fund Reconciliation Instructions (both fund administrator and fund users of all funds).

GLOSSARY RELEVANT TO THIS BUDGET LETTER

- BBA = Baseline Budget Adjustments. These are baseline expenditure adjustments.
- BR = Budget Requests. These are issues identifying changes to dollar amounts and/or positions.
- BU = Business Unit. This four-digit number is equivalent to an organization code/entity.
- Category = An account code in the Chart of Accounts.
- CSL = Current Service Level (a consolidated starting point in Hyperion for all fiscal years except past year).
- ENY = Enactment Year (formerly Year of Appropriation).
- FTEs = Full Time Equivalents or Positions. These terms are used interchangeably.
- RTL = Revenues, Transfers, and Loans (**New** for this year: "loan repayments" are now included in "loans").
- Request Amounts = "Authorized" Funding.
- String = Item-ENY-Program-Category. The combination of codes to enter expenditure amounts in the Hyperion system.
- UCM = Uniform Code Manual.

A. PAST YEAR ADJUSTMENTS IN HYPERION

Until departments and State Controller's Office (SCO) control functions are transitioned into FISCAL (PeopleSoft) for accounting, departments will need to reconcile between the legacy system coding structure used to prepare financial statements and the account/category codes used in Hyperion. Due to this reconciling process, departments may encounter difficulty preparing their past year budget adjustments for Hyperion during this transition period. To minimize workload on the departments, the following tools are available:

1. A translation from legacy to Hyperion account codes for each department. (Link on page 4.)
2. A CALSTARS "Past Year Expenditure" file that CALSTARS departments can request. The CALSTARS report translated expenditures from legacy expenditure codes to appropriate account category codes in Hyperion.
3. A past year baseline budget adjustment upload template specifically for past year expenditure update purposes.

EXPENDITURES

1. **Past Year Incremental Expenditure Adjustments Report (Initial Expenditure Report)**—In early to mid-August, departments will be provided a past year expenditure report which reflects the expenditures and positions (FTEs) of the 2015-16 fiscal year as of the 2016 Budget Act. This report shows amounts of each expenditure string (Item-ENY-program-category), including reimbursements, and associated FTEs.

This report has three sections:

- a. Initial amounts extracted from Hyperion. These reflect the rolled over values, as described in BL 16-13, for 2015-16 when the 2016-17 Budget was enacted. Departments will validate this starting point – see 2a below.
- b. Past year actuals. Departments are to update this section (see 2b below) to show the reconciled past year budgetary expenditures and FTEs.
- c. Incremental changes. This automatically calculates the difference between (a) and (b), so no need to update.

Each of the three sections has five columns for each expenditure string:

- a. Request amount (the authorized amount)
- b. Estimated Savings
- c. Estimate Carryovers
- d. Budgetary Expenditures (request minus savings and carryovers equals budgetary expenditures)
- e. FTEs (actual filled positions)

2. Validation of Initial Expenditure Authority and Update of Past Year Actuals

- a. **Validation of Initial Expenditure Authority**—The first step is to ensure that the amounts shown in the Request amount (authorized) column are correct. Departments should work with their Finance Analyst to ensure this step is complete before updating past year actuals (Section b below). Examples of changes could include missing pending budget revisions, missing records (formerly known as “missing 10s), or changes to category distribution. If there is a change in the authorized amount, enter those incremental adjustments in the request amount column, noting the legal budgetary authority for the adjustment. Such changes require new BRs since they are changes to the CSL/rolled over data. Once departments and their Finance analysts agree on the starting point for the Request column, departments can move on to post past year actuals.
- b. **Past Year Actual Updates**—Once departments have completed validation and initials are good, your Finance budget analyst will send you another Initial Expenditure report reflecting the new BRs, if any.

After determining the final budgetary expenditures from accounting documents, the departments must determine if the change in budgetary expenditures is a result of a change in savings and/or carryovers (since the rollover). If the encumbrance period for the expenditure authority has expired, the difference should be reflected as savings.

Total actual filled positions can be obtained from the State Controller’s Office Schedule 8 report.

3. **Post the five updated amounts in the Past Year Actual Section of the reports.** The incremental change section of the reports will be calculated (using past year actuals minus the initial amounts). Your analyst will add formulas to this section of the report prior to sending it to you.
4. **How Will Changes Be Reflected in Hyperion**—Once the incremental adjustments to past year spending and positions have been determined, those adjustments will be made in one **new BR**. Use the following BR name and title:

- XXXX-00X-BBA-2017-GB, title: Past Year Adjustments

Departments are required to electronically send a copy of the updated past year report(s) to your Finance budget analyst. Departments should work with your Finance budget analysts to determine whether the department or the Finance analyst will enter/upload incremental adjustments into Hyperion. Departments entering/uploading data into Hyperion should inform your Finance budget analyst once the BR is available for Finance to review. The August 2016 version of past year upload templates must be used for uploading data.

5. **Reconciliation to Year End Financial Statements**—After budget adjustments are made, the final past year (2015-16) budgetary expenditure amounts in Hyperion must reconcile to dollar amounts reported to the SCO on the year-end financial statements.
 - a. If source documents other than year-end financial statements are being used by departments, these source documents must be approved by your Finance budget analyst prior to submittal of past year information, and reconcile to the appropriate DF-303 or DF-304.
 - b. Departments must provide a written explanation of any discrepancies between the budget documents and the year-end financial statements to their Finance budget analyst. Unapproved discrepancies may require a revision of the past year expenditures or year-end financial statements. Final budgetary amounts will be shown in the Governor's Budget as past year expenditures.
6. **Required Backup Information**—Departments must submit their Final Budget Report (Year-end Report 6) documentation to their Finance budget analyst to verify past year actual expenditures. For nongovernmental cost funds, expenditures may need to be reconciled with other appropriate documentation if they do not reconcile to the Report 6.
7. **Legacy to Hyperion Code Translation**—available on Finance's website at [http://dof.ca.gov/Budget/Fiscal Resources for Budget/](http://dof.ca.gov/Budget/Fiscal_Resources_for_Budget/).
8. **CALSTARS Past Year Expenditures**—CALSTARS departments may request an improved "Past Year Expenditures (HD)" file through the CALSTARS G.2 screen. This file provides past year budgetary expenditure amounts from legacy expenditure codes translated to appropriate account category codes in Hyperion. This data can also be summarized using the CALSTARS Q35 report.

CALSTARS departments can obtain reimbursement data from the CALSTARS Q24 report. In 2016-17, reimbursements in Hyperion are shown under "Fund 0995." Please see the Reimbursements section below for additional information.

Assistance is available from the CALSTARS Hotline at (916) 327-0100 or email: hotline@dof.ca.gov.

REVENUES, REVENUE TRANSFERS, AND LOANS

1. **Past Year Incremental RTL Adjustments Report (Initial RTL Report)**—By mid-August, each department will receive the Past Year Incremental RTL Adjustments report containing 2015-16 amounts when the 2016-17 Budget was enacted. The report has these sections:
 - a. Revenues
 - b. Revenue Transfers
 - c. Loans
2. **How to Update the Past Year RTLs**—Departments are to enter the past year actuals. The RTL file will calculate the incremental sections of the report.
3. **How Will Revenue Changes Be Reflected in Hyperion**—Once the incremental adjustments to past year revenues are determined, all adjustments will be made in one **new BR**. Use the following BR name and title:
 - XXXX-001-RTL-2017-GB, title: Past Year Revenue Adjustments

Departments are required to electronically send a copy of the updated past year report(s) to your Finance budget analyst. Departments should work with your Finance budget analysts to determine whether the department or the Finance analyst will enter/upload incremental adjustments into Hyperion. Departments entering/uploading data into Hyperion should inform your Finance budget analyst once the BR is available for Finance review. The August 2016 version of the RTL upload template must be used for uploading data.

4. **How to Update Revenue Transfers and Loans**—The process to update past year revenue transfers and loans for the 2017-18 budget cycle is different than updating expenditures and revenues. For adjustments to revenue transfers and loans, the existing BRs must be used since those have been rolled over intact in the budget rollover process for the 2017-18 budget cycle.

Departments/Finance analysts will need to update Hyperion by replacing (overlying) the existing values with the final updated value for those BRs (not the incremental adjustment value).

Since all the rolled over revenue transfers and loans have last cycle's BR name (i.e., XXXX-XXX-RTL-BR-2016-XX), Finance budget analysts will be updating all those BRs to reflect FY 2017 and GB (Governor's Budget) i.e., XXXX-XXX-RTL-2017-GB. This will be done once the Finance budget analyst has reviewed the past year data provided via Hyperion or upload templates.

5. **Use of Items Instead of "BU", "Reference", "Fund" separately**—New to Hyperion this year is the concept of items (BU, reference, and fund). Each expenditure and RTL will require a 3-part item consisting of the BU, a reference identifier, and the fund. For example, if BU 0250 has a proposed expenditure and/or revenue adjustment to the General Fund, the expenditure item would be "0250 XXX 0001" and the revenue item would be "0250 787 0001." Please note that for RTLs, there are specific reference numbers to use depending on the type of RTL:

Revenues: 787
Transfers: 788
Loans: 789

6. **Reconciliation to Year End Financial Statements**—All past year RTL data must reconcile to the year-end financial statements reported to the SCO. Revenue data, excluding transfers and loans, must be reconciled with the Statement of Revenue (Year-end Report 4). Transfers and loans must be

reconciled with the Final Budget Report (Year-end Report 6) or the Reconciliation of Agency Accounts with Transactions per State Controller Report (Year-end Report 15). Finance's approval is required for any difference between final revenue data reflected in Hyperion and revenue data reported to the SCO; departments must submit an explanation for any differences. Final budgetary amounts will be shown in the Governor's Budget.

7. **Relationship to Past Year Fund Balance Reconciliation**—Past year RTL data must tie to any related Detailed Fund Balance Report (DF-303) prepared by the department.
8. **Required Backup Information**—Departments must submit a copy of Year-end Reports 4, 6, and/or 15 to their Finance budget analyst.
9. **CALSTARS Data**—CALSTARS departments may use the CALSTARS Q24 report to assist in preparing past year RTLs.

Assistance is available from the CALSTARS Hotline at (916) 327-0100 or email: hotline@dof.ca.gov.

ROUNDING—**New** this year: all rolled over data ends with “000.” Departments must also round all actual expenditure and RTL amounts to the nearest thousand (e.g., \$2,000 instead of the actual \$1,992) to avoid rounding issues in Hyperion reports and budget publications. For example, if the initial rolled over amount was \$22,745,000 and your actual was \$22,750,898, you would enter an incremental adjustment of +\$6,000 to provide the final amount of \$22,751,000 to Finance.

REIMBURSEMENTS—As noted in BL 16-13, starting with the 2017-18 Governor's Budget process, reimbursements will no longer be reflected under the associated expenditure item or the account/category code of 48XXXXX in Hyperion. Reimbursements will now be tracked under a new non-budget act item, utilizing Fund 0995 and specific spending category code(s) of 5XXXXXX. This is similar to how reimbursements were treated and recorded in the legacy budget systems.

Reimbursements have been globally converted to XXXX-XXX-0995 items and budgeted to an unallocated account category code (AC 5550000) during the rollover process. BL 16-13 instructs departments to work with their Finance budget analysts to allocate these reimbursements to the appropriate account category codes for 2017-18 and forward in the fall. Please note that departments are not required to allocate amounts in AC 5550000 to other account category codes for past year or current year.

Please refer to a new write-up on “Treatment of Reimbursements (including Past Year Update)” for more detail on how to properly reflect reimbursements in Hyperion.

[http://www.dof.ca.gov/Budget/Fiscal Resources For Budget/](http://www.dof.ca.gov/Budget/Fiscal_Resources_For_Budget/).

TREATMENT OF FEDERAL FUNDS—**New** this year: Departments with federal funds must determine if the change in budgetary expenditures is a result of a change in savings and/or carryovers (since the rollover). If the encumbrance period for the expenditure authority has expired, the difference should be reflected as savings. Federal authority under the “Request Amount” column can still be adjusted similar to other fund sources to reflect an increase in expenditure authority (such as in the case of Section 28.00) and should be reflected as a positive amount. This is a departure from past practice where changes in federal funds were not reflected as savings/carryovers but were instead reflected as changes to authorized/request amount.

B. CONSISTENCY BETWEEN GOVERNOR'S BUDGET AND YEAR-END FINANCIAL REPORTS

Government Code section 12460 requires information in the State Controller's Office (SCO) Budgetary/Legal Basis Annual Report to account for funds on the same basis as that of the applicable Governor's Budget and Budget Act. Government Code section 13344 requires state departments to prepare and maintain financial and accounting data for inclusion in the Governor's Budget, Budget Act and related documents, and the Budgetary/Legal Basis Annual Report described in section 12460, according to the methods and bases provided in regulations, budget letters, and other directives of Finance. The State Controller's Annual Report reflects the culmination of correct and reconciled information submitted by departments.

As specified in the State Administrative Manual (SAM) (<http://sam.dgs.ca.gov>) section 6400, it is important that fund balances, revenues, expenditures, and other data included in the past year's presentation of the Governor's Budget reconcile with data published in the SCO's Budgetary/Legal Basis Annual Report. Therefore, departments must work with your Finance budget analyst on the very limited circumstances where there may be differences between the amounts in the Governor's Budget and the year-end financial reports (e.g., pending budget decisions or legislation).

C. BASIS OF ACCOUNTING

Unless otherwise specified in law, the General Fund and special funds are accounted for and maintained on a modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized if the underlying transaction has occurred as of the last day of the fiscal year and the amount is measurable and available to finance expenditures of the current period (i.e., the actual collection will occur either during the current period or after the end of the current period to be used to pay current year-end liabilities). Expenditures are accrued when the obligations are created, except for amounts payable from future fiscal year appropriations. Additional information is included in SAM section 10200 et seq.

D. FUND ADMINISTRATORS' AND FUND USERS' AUTHORITY AND RESPONSIBILITIES

As detailed in BL 16-09, SAM 6401 outlines the authority and responsibilities of a fund administrator and fund user for both shared and non-shared funds.

The designated fund administering department is responsible for the fund balance reconciliation. Departments that levy assessments for statewide projects/programs are not considered fund users.

E. CERTIFICATION

As detailed in BL 16-09 and in accordance with Government Code section 13031, fund administrators and fund users must sign Form DF-117, Certification of Past and Prior Year Information. The certification must be signed by the department's Director or equivalent.

The certification is required for **ALL** funds with any past/prior year activity.

F. FUND RECONCILIATION INSTRUCTIONS

Comprehensive instructions for reconciling funds for the 2015-16 fiscal year are on the Finance website at: http://dof.ca.gov/Accounting/Policies_and_Procedures/Fund_Reconciliation/. A Fund Reconciliation Packet (DF-303) must be submitted for funds that will have a Fund Condition Statement in the 2017-18 Governor's Budget. A Form DF-304, Non-Governmental Cost Fund Past Year Expenditure Reconciliation, must be submitted for non-governmental cost funds that will not have a Fund Condition Statement in the 2017-18 Governor's Budget. Departments must adhere to the deadlines provided in this BL and work with your Finance budget analyst to ensure funds are reconciled on a timely basis.

Package of Deliverables—In previous years, the special fund reconciliation process had been tracked as a separate deliverable from the past year expenditure and revenue update processes. In the pre-Hyperion system, past year needed to be completed all at once as an entire package in order to continue with the budget building process. Hyperion provides the flexibility to complete the exercise one fund at a time. However, in an effort to streamline workflow, allow more flexibility in the timing of deliverables, and facilitate review, deliverables must now be completed and turned in by FUND.

Packages are due on a flow basis by FUND no later than October 3 (non-shared funds) and October 14 (shared funds). A fund is not considered complete until all entities using a shared fund have submitted final documents to the shared fund administrator. Incomplete packages will be returned to the DF-117 signatory.

If you have any questions, please contact your Finance budget analyst. If necessary, your Finance budget analyst will coordinate questions amongst other areas within Finance.

/s/ Veronica Chung-Ng

Veronica Chung-Ng
Program Budget Manager