BUDGET LETTER

	NUMBER:	19-14
SUBJECT: PAST YEAR BUDGET ADJUSTMENTS AND FUND BALANCE RECONCILIATION FOR THE 2020-21 BUDGET CYCLE	**DATE ISSUED:**	July 19, 2019
REFERENCES: GOVERNMENT CODE SECTIONS 12460, 13031, 13344; STATE ADMINISTRATIVE MANUAL; AND AUDIT MEMO 11-02; BLS 19-04, 19-05, 19-07 ,18-11, AND 19-13	**SUPERSEDES:**	18-14

TO: Agency Secretaries
        Department Directors
        Department 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 2020-21 budget cycle past year adjustments and related information on past year fund balance reconciliation (BL19-07). Budget data for past year expenditures, as well as revenues, transfers, and loans (RTLs), must reconcile to the year-end financial reports submitted to the State Controller's Office.

Deadlines	Deliverables
September 9, 2019 (Monday)	Complete Past Year Package for General Fund
On a flow basis but no later than October 3, 2019 (Thursday)	Complete Past Year Package from non-shared fund administrators
On a flow basis but no later than October 11, 2019 (Friday)	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 Balance 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 in Hyperion 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).
ENY   =   Enactment Year.
FTEs   =   Full Time Equivalents or Positions. These terms are used interchangeably.
RTL   =   Revenues, Transfers, and Loans.

Request Amount   = "Authorized" Funding.
String   = Item-ENY-Program-Category. Combination of codes to enter expenditure amounts in the Hyperion system.
UCM   = Uniform Codes Manual.

A. **PAST YEAR ADJUSTMENTS IN HYPERION**

To facilitate the review of these requirements, the accounting and budget deliverables for the past year must be submitted as a complete package to your Department of Finance budget analyst. This requires that all Hyperion adjustments have been entered prior to submission of the past year packages. Submit deliverables, by fund, on a flow basis, rather than waiting until you have updated and reconciled all funds. Work with your Finance budget analyst to determine the best work flow of funds for your department.

A complete past year package consists of:

1) A Certification of Past and Prior Year Information (Form DF-117) for each fund, signed by the Department Director (may only designate one level down), and scanned and sent to your Finance budget analyst.
2) A fully annotated Detailed Fund Balance report (DF-303) for funds that will have a Fund Condition Statement in the 2020-21 Governor's Budget. A Non-Governmental Cost Fund, Past Year Expenditure – Reconciliation report (DF-304) must be submitted for all other funds with expenditure activity. See examples in the Fund Balance Reconciliation Guide.
3) Appropriate annotated accounting reports – Year-end Reports 4, 6, 15, and/or others as needed.
4) A Fund Condition Statement, if applicable, with an adjusted beginning and ending balance that ties to the DF-303 rounded to thousands.
5) A list of BRs in the GB Exchange version reflecting past year adjustments.
6) An electronic copy of the upload templates (BBAs, and RTLs) used to upload past year information.
7) An electronic copy of the updated Past Year Expenditure Update by Item report.
8) An electronic copy of an "Invalid (in Red) and Valid Items with Dollars" report, if the department used an upload template to update data in Hyperion.

Prior to submitting the past year packages, departments must perform a comprehensive review of the reconciled information. As noted in BL 19-07, the department's Director or equivalent must sign the certification (DF-117) of the fund reconciliation for past year activity confirming the information provided to Finance is accurate and reconciles (i.e., be able to explain any differences) between budget and accounting records, and is consistent with information provided to the State Controller's Office. **Departments must assess their current status to determine what steps are needed to meet the deadlines noted above.** If you anticipate being late, contact your Finance budget analyst to mitigate extensive delays and obtain further instruction.

Until the State Controller's Office control functions are transitioned into FI$Cal (PeopleSoft) for accounting, departments need to reconcile the legacy system coding structure used to prepare year-end financial reports and the account/category codes used in Hyperion. To minimize workload on the departments, the following tools are available:

1. A translation from legacy to Hyperion account category codes.
2. A past year baseline budget adjustment upload template designed specifically for past year expenditure update purposes. Please do not use an old version, as it may not reflect current programs or chart of account information in Hyperion. A job aid on how to upload data into Hyperion is available online.
3. Past Year Expenditure Update by Item report in Hyperion
4. Past Year Incremental RTL Adjustments report in Hyperion.

5. [Valid Item List from Finance's website.](#) Use the 2018-19 tab for these past year adjustments.
6. [Fund Balance Reconciliation Guide](#).

EXPENDITURES

Rules for Past Year Rolled Over Data in Hyperion—Similar to last year, individual approved expenditure BRs have been consolidated and used to create the new CSL amount for 2018-19 (the past year in the new 2020-21 budget cycle). For additional information on data rolled over from the 2019-20 budget cycle please refer to forthcoming 2020-21 Budget Rollover BL.

1. **Past Year Expenditure Update by Item report (Initial Expenditure Report)**—This BI report provides the concatenated items (XXXX 001 0001) instead of separate fields for BU, Reference, and Fund, making it easier for users to transfer data from the Excel report exported from Hyperion to the past year upload template. The report also provides users with more report parameters to select and customize their reports. See Attachment for more details.

   Hyperion is now available for the new budget cycle. Departments should run the Past Year Expenditure Update by Item report from the GB Public Initials version. This report shows the amounts of each expenditure string (Item-ENY- program-category) and the associated FTEs.

   The report has three sections:

   a. **GB Public Initials.** This section reflects the rolled over values for 2018-19 when the 2019-20 Budget was enacted.

   b. **Past Year Actuals.** Departments are to populate this section (see 2. below) to show the reconciled past year budgetary expenditures and FTEs.

   c. **Changes to Initial.** This section is used to calculate the difference between (a) and (b) (see Attachment). Add an Excel formula to subtract section a. from section b. (i.e., Past Year Actuals *minus* GB Public Initials *equals* Changes to Initial).

   Each of the three sections has five columns for each expenditure string:
   a. Request Amount (the Authorized Amount for 2018-19, including Budget Revisions and Executive Orders and other adjustments reflected in Hyperion when the 2019-20 Budget was enacted are displayed under the "GB Public Initials" section)
   b. Estimated Savings
   c. Estimated Carryovers
   d. Budgetary Expenditures (request adjusted for savings and carryovers equals budgetary expenditures)
   e. FTEs (filled full time equivalent positions)

2. **Update of Past Year Actuals—** Departments are responsible for tracking their authorized expenditure levels, but are not required to perform an initial validation of expenditure authority in Hyperion before updating budgetary expenditures. When determining the final budgetary expenditures from accounting documents, departments must confirm if the change in budgetary expenditures is a result of adjustments to savings, and/or carryovers (since the rollover) and reflect the correct/updated amounts in each respective column. **If the encumbrance period for the expenditure authority has expired, the difference should be reflected as savings (not as revised authority levels nor carryovers).** Both carryovers and savings are generally entered as negative amounts. For information about carryovers and reappropriations, see [How to Record Carryovers and Reappropriations in Hyperion.](#)

The "Changes to Initial" section of the report will be used to calculate the difference between reconciled past year actuals and the rolled over initial amounts.

3. **Reflecting Expenditure Changes in Hyperion**—After departments have determined the incremental adjustments to the rolled over initial past year spending and positions, they will need to reflect those adjustments in **a new BR.**

   Post the calculated differences in Hyperion by either entering information directly or using an upload template in the GB Dept Working version. Include the completed "Past Year Expenditure Update by Item" report used to update Hyperion with the submission of BRs/upload templates to your Finance budget analyst.

   Note: Total actual filled positions and wages and salaries dollars must match the 2018-19 (past year) column of the 2020-21 Salaries and Wages.

   Always use the most current upload template from Finance's website to make sure you are using **the latest chart of account codes, programs, and available categories.** Please inform your Finance budget analyst once the BR is available for review in the GB Exchange, and include an "Invalid (in Red) & Valid Items with dollars" report with your submission of updated past year report(s) and **upload template(s)**.

   NEW: To improve coordination and reduce system kick outs, departments and Finance budget analysts should use BR sequencers that match the last three digits of the BR identifier in Hyperion (See "Budget Request Naming Convention in Hyperion" for additional information). For example, BR identifier: BR0010 with BR Name: 0250-010-BBA-2020-GB. For consistency, all departments must use the following **BR title**: Past Year Expenditure Adjustments.

4. **Reconciliation to Year End Financial Reports**—After budget adjustments are made**,** the final past year (2018-19) budgetary expenditure amounts in Hyperion must reconcile to dollar amounts departments reported to the Controller's Office on their year-end financial statements.

   a. If using source documents other than year-end financial reports, the documents must be approved by your Finance budget analyst **prior** to submittal of past year information, and must reconcile to the appropriate DF-303 or DF-304. The documents must be prepared based on sound methodologies and must contain complete and accurate information. If there are revisions to year-end statements, work with your Finance budget analyst to provide appropriate updated documents.

   b. Provide a written explanation of any discrepancies between the budget documents and the year-end financial reports to your Finance budget analyst. This written explanation should be included on the appropriate DF-303 or DF-304. Unapproved discrepancies may require a revision of the past year expenditures or year-end financial reports. Finance will utilize departments' final (or best available) budgetary expenditures to inform budget decisions and to display in the Governor's Budget.

5. **Required Backup Information**—Submit your full Final Budget Report (Year-end Report 6, Report 15, or equivalent report) documentation to your Finance budget analyst to support past year actual expenditures. For non-governmental cost funds, departments may need to reconcile expenditures with other appropriate documentation if the expenditures do not reconcile to the Report 6. Run the report that shows the total budgetary expenditures of the fund. Neatly annotate this report to demonstrate the total budgetary expenditure amount of the fund matches the total budgetary expenditure shown as past year actuals in the Past Year Expenditure Update by Item report and on the DF-303 or DF-304. Coordinate other documentation with your Finance budget analyst.

6. **Treatment of Federal Funds and Reimbursements**—Similar to other funds, departments with federal funds and reimbursements must determine if the change in budgetary expenditures is a result of a change in spending authority, savings, and/or carryovers (since the rollover). If the encumbrance period for the expenditure authority has expired, departments should reflect the difference as savings.

   Federal and reimbursement 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.

REVENUES, REVENUE TRANSFERS, AND LOANS

1. **Past Year Incremental RTL Adjustments Report (Initial RTL Report)**—Each department should run this FR report in Hyperion from the GB Public Initials version, which contains the 2018-19 amounts when the 2019-20 budget was enacted (see Attachment).

   The report has three sections:
   a. Revenues
   b. Revenue Transfers
   c. Loans

2. **Updating the Past Year RTLs**—Enter the past year actuals in the file. Add an Excel formula under the "Difference" columns to calculate the changes. (Past Year Actuals *minus* GB Public Initials *equals* differences.)

3. **Reflecting Revenue Changes in Hyperion**—Reflect all adjustments in **a new BR.**

   NEW: To improve coordination and reduce system kick outs, departments and Finance budget analysts should use BR sequencers that match the last three digits of the BR identifier in Hyperion (see "Budget Request Naming Convention in Hyperion" for additional information). For example, BR identifier: BR0012 with BR Name: 0250-012-RTL-2020-GB. For consistency, all departments must use the following **BR title**: Past Year Revenue Adjustments.

   Send an electronic copy of the updated past year report(s) to your Finance budget analyst, and inform your Finance budget analyst once the BR is available for review in the GB Exchange.

   As always, departments must use the most current version of the RTL upload template for uploading data.

4. **Updating Revenue Transfers and Loans**—The process for departments to update past year revenue transfers and loans for the 2020-21 budget cycle is the same as the previous years, which differs from updates to expenditures and revenues. For adjustments to revenue transfers and loans, use the existing BRs that have been individually retained and brought forward as part of the budget rollover process for the 2020-21 budget cycle.

   Do not create a new BR. Update the existing BR in the GB Dept Working version in Hyperion by replacing existing values with the final updated value for those BRs **rather than making an incremental adjustment** used for expenditure adjustments.

5. **Use of Items**—Each expenditure and RTL adjustment requires a three-part item consisting of the BU, a reference number, and the fund number. 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**—After adjustments are made in Hyperion, values must reconcile between all past year RTL data and the year-end financial statements reported to the Controller's Office. 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 departments have reported to the Controller's Office; departments must submit a written explanation for any difference(s) to its Finance budget analyst on the DF-303 or DF-304, and Finance will display departments' final (or best available) budgetary amounts 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 Reports (Section D of the DF-303) prepared by departments and annotated per the Fund Balance Reconciliation Guide.

8. **Required Backup Information**—Submit a complete set of Year-end Reports 4, 6, and/or 15 to your Finance budget analyst. Neatly annotate the amount that is shown as Past Year Actuals on the Past Year Incremental RTL Adjustments report.

NOTE:

ROUNDING—all data entered into Hyperion must end 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 reduce rounding issues in Hyperion reports and budget publications. For example, if the initial rolled over amount was $22,745,000 and the actual was $22,750,898, enter an incremental adjustment of +$6,000 to provide the final amount of $22,751,000.

ROUNDING TO TENTH DECIMAL FOR POSITION—For budget purposes, do not reflect FTEs beyond the tenth decimal position. This level of precision is unnecessary and creates additional workload and reconciliation problems. All FTEs should be rounded to the nearest tenth position (e.g., 1.75 FTEs should be rounded to 1.8 FTEs) to avoid rounding issues in Hyperion. **Users must not enter FTE amounts beyond the tenth decimal position.**

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

Government Code section 12460 requires information in the Controller's 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 basis 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 State Administrative Manual (SAM) 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 Controller's Budgetary/Legal Basis Annual Report. Therefore,

departments must ensure that budget information reconciles with year-end financial reports. In very limited circumstances there are may be differences between the amounts in the Governor's Budget and the year-end financial reports (e.g., pending budget decisions or legislation). In these instances, departments must separately note the discrepancies for any fund on the Certification of Past and Prior Year Information (Form DF-117), signed by the Department Director.

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 19-07, SAM section 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; however, departments that levy assessments for statewide projects/programs are not considered fund users whose costs are displayed as expenditures. Instead, these costs are part of prior year adjustments.

E. CERTIFICATION

As detailed in BL 19-07 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, confirming the reconciliation between accounting and budget documents. The certification must be signed by the department's Director or equivalent or may be delegated down one level (e.g., Chief Deputy Director).

Departmental budget and accounting staff must coordinate in this reconciliation effort. The department Director or the Chief Deputy Director should not sign this certificate until the internal coordination and reconciliation has been completed.

The certification is required for **ALL** funds with a fund balance or any past/prior year revenues or expenditures. Fund users are responsible for submitting a complete package to both the fund administrator and their Finance budget analyst.

F. FUND BALANCE RECONCILIATION INSTRUCTIONS

Comprehensive instructions for reconciling fund balances for the 2018-19 fiscal year are available on Finance's website at: http://dof.ca.gov/Accounting/Policies_and_Procedures/Fund_Reconciliation/. Departments must submit a Fund Reconciliation Packet (DF-303) to Finance for funds that will have a Fund Condition Statement in the 2020-21 Governor's Budget. Form DF-304, Non-Governmental Cost Fund Past Year Expenditure Reconciliation, must be submitted for all other funds with expenditure activity. Departments must adhere to the deadlines provided in this BL and work with their respective Finance budget analyst to ensure funds are reconciled on a timely basis.

Package of Deliverables—Hyperion provides the flexibility to complete the past year reconciliation one fund at a time; therefore, to streamline workflow, allow more flexibility in the timing of deliverables, and facilitate review, departments must complete and turn in deliverables by FUND.

Packages are due to Finance on a flow basis by FUND no later than Thursday, October 3 for non-shared funds, and by Friday, October 11 for shared funds. A fund is not considered complete until all entities using a shared fund have submitted their certification and final documents to the shared fund administrator. Finance will return incomplete packages to the DF-117 signatory for further reconciliation. Departments administering a fund should coordinate with all departments using a shared fund in advance of the deadline to ensure the timeline for submission to Finance is met.

If you have any questions contact your Finance budget analyst who will coordinate questions amongst other areas within Finance, if needed.

/s/ Thomas Todd

Thomas Todd
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