

# BUDGET LETTER

		<b>NUMBER:</b>	17-17
<b>SUBJECT:</b> PAST YEAR BUDGET ADJUSTMENTS AND FUND BALANCE RECONCILIATION FOR THE 2018-19 BUDGET CYCLE		<b>DATE ISSUED:</b>	July 21, 2017
<b>REFERENCES:</b> GOVERNMENT CODE SECTIONS 12460, 13031, 13344, 13403; STATE ADMINISTRATIVE MANUAL; AND AUDIT MEMO 11-02; BLS 17-02, 17-05, 17-06, 17-07, 17-09, 17-11, AND 17-16		<b>SUPERSEDES:</b>	16-20

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 2018-19 budget cycle past year adjustments and related information on past year fund reconciliation ([BL 17-07](#)). Budget data for past year expenditures, as well as revenues, transfers, and loans (RTLs), must reconcile to the year-end financial statements reported to the State Controller’s Office.

Deadlines	Deliverables
<b>September 8, 2017 (Friday)</b>	Complete Past Year Package for General Fund
<b>On a flow basis but no later than October 2, 2017 (Monday)</b>	Complete Past Year Package from non-shared fund administrators
<b>On a flow basis but no later than October 13, 2017 (Friday)</b>	Complete Past Year Package from shared fund administrators

The 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. 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).
- ENY = Enactment Year.
- FTEs = Full Time Equivalents or Positions. These terms are used interchangeably.
- RTL = Revenues, Transfers, and Loans.
- Request Amounts = “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 in a comprehensive manner, the accounting and budget deliverables for the past year must be submitted as a complete package to your Department of Finance budget analyst. 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 to your Finance budget analyst for the purpose of department updating data in Hyperion for your portion of each fund consists of:

- 1) Form [DF-117](#) (for every fund) signed by Department Director (may designate 1 level down only).
- 2) Fully annotated DF-303 (for funds with fund condition statement in the Governor's Budget) or DF-304 (all other funds with expenditure activity).
- 3) Appropriate annotated accounting reports—Reports 4, 6, 15, and/or others as needed.
- 4) Fund Condition Statement (if applicable)
- 5) List of BRs in the GB Exchange reflecting past year adjustments.
- 6) An electronic copy of any of the upload templates (BBAs, RTLs, and COBBAs) department used to upload past year information.
- 7) An electronic copy of the updated past year report(s).
- 8) An electronic copy of an "Invalid Items in Red" report, only if the data is uploaded (not keyed in).

Prior to submitting the past year packages, departments must perform a comprehensive review. As noted in [BL 17-07](#), 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 (departments are able to explain any differences) between budget and accounting records, and is consistent with information provided to the Controller's Office. **Departments must assess their current status to determine what steps are needed to meet the deadlines above.** If departments anticipate being late, they must contact their Finance budget analyst to mitigate extensive delays and obtain further instruction.

Until departments and the State Controller's Office control functions are transitioned into FISCAL (PeopleSoft) for accounting, departments need to reconcile the legacy system coding structure used to prepare financial statements and the account/category codes used in Hyperion. Because of 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 category codes](#) for each department.
2. A CALSTARS "Past Year Expenditure" file, available upon request for CALSTARS departments. The CALSTARS report translates 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. (It will be updated late July/early August. Please do not use the old version.)
4. **NEW!** Past Year Incremental Expenditure and Revenue Adjustments Reports. Reports will be made available for departments when the system is ready late July/early August.
5. [Valid Item List](#). Please use the 2016-17 tab.
6. [Fund Balance Reconciliation Guide](#).

## EXPENDITURES

**NEW AND IMPROVED! Rules Improved for Past Year Rolled Over Data in Hyperion**—Beginning this fiscal year, all individual approved expenditure BRs will be consolidated to create the new CSL amount for 2016-17 (the past year in the new budget cycle). The volume of data to review and update will be significantly reduced making the process to update past year totals more streamlined. Please see [BL 17-11](#) for more details.

1. **Past Year Incremental Expenditure Adjustments Report (Initial Expenditure Report)**—In early August, departments will be provided a past year expenditure report which reflects the expenditures and positions (FTEs) of the 2016-17 fiscal year as of the 2017 Budget Act. This report shows amounts of each expenditure string (Item-ENY-fund-program-category) and associated FTEs.

This report has three sections:

- a. **Initial amounts extracted from Hyperion.** These reflect the rolled over values, as described above, for 2016-17 when the 2017-18 Budget was enacted. Departments will validate this starting point – see 2.a. below.
- b. **Past year actuals.** Departments are to update this section (see 2.b. below) to show the reconciled past year budgetary expenditures and FTEs.
- c. **Incremental changes.** This section 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 for 2016-17, including Budget Revisions and Executive Orders and other adjustments reflected in Hyperion when the 2017-18 Budget was enacted)
- b. Estimated Savings
- c. Estimated Carryovers
- d. Budgetary Expenditures (request, minus savings and carryovers, equals budgetary expenditures)
- e. FTEs (actual filled positions)

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

- a. **Validation of Expenditure Authority**—The first step is to ensure that the amounts shown in the Request Amount (Authorized) column are correct and reconcile to the year-end financial statements reported to the State Controller’s Office. Departments should work with their Finance budget analyst to ensure this step is complete before updating past year actuals (see 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 a new BR for each adjustment because they are changes to the CSL/rolled over data. Once departments and their Finance budget analysts agree on the past year expenditure authority for the Request Amount column, departments can post past year actuals.

In the event there is a prior year (before 2016-17) adjustment to a **multi-year appropriation** (i.e., an appropriation that has more than one year of encumbrance availability), the Request Amount (appropriation authority) and the carryover in past year should be adjusted to reflect the prior year adjustment. For more information about multi-year appropriations, refer to Sec. 4.2 B (page 11) and 4.4 E (page 13) of the [Fund Balance Reconciliation Guide](#).

- b. **Update of Past Year Actuals**—After departments have completed validation and Request Amounts are updated, your Finance budget analyst will send you another Initial Expenditure report reflecting the new BRs, if any, from the Finance GB Working Version. Departments must compare this information to their Department Working Version to ensure the values for past year Expenditure Authority in both versions are the same. Departments can also run the Past year Incremental Expenditure and Revenue reports newly available in Hyperion under department reports to validate their spending authority, budgeted expenditures, and RTLs after updating Hyperion.

When determining the final budgetary expenditures from accounting documents, the departments must confirm if the change in budgetary expenditures is a result of adjustments to savings and/or carryovers (since the rollover). **If the encumbrance period for the expenditure authority has expired, the difference should be reflected as savings (not as revised authority levels).** 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 incremental change section of the report will be calculated (using past year actuals minus the adjusted initial amounts). Your Finance budget analyst will add formulas to this section of the report prior to sending it to you. The calculated differences for Estimates Savings, Estimated Carryovers, and FTEs will be used to update Hyperion with Past Year Adjustments. Departments should post these updated amounts in the five columns of the Past Year Incremental Expenditure Adjust Report and update the system by entering information directly or through the use of an upload template.

Total actual filled positions must match the 2016-17 column of the 2018-19 Salaries and Wages.

3. **Reflecting Expenditure Changes in Hyperion**—After the incremental adjustments to past year spending and positions have been determined, those adjustments will be reflected in **one new BR**, using the following BR name and title:

- XXXX-00X-BBA-2018-GB, title: Past Year Adjustments

Departments are required to electronically send a copy of the updated past year report(s) to their Finance budget analyst. Departments entering/uploading data into Hyperion should inform their Finance budget analyst once the BR is available for Finance review in the GB Exchange. For upload templates, **the [most current version](#) (will be available late July/early August) of the [past year upload template](#) must be used when uploading data to reflect the latest account codes and available categories. (Do not use the current January 2017 version).** In addition, submission of upload templates used to upload data into Hyperion must include an “Invalid Items in Red” report. **NEW!** The “Invalid Items in Red” report will be available to departments in late July/early August.

4. **Reconciliation to Year End Financial Statements**—After budget adjustments are made, the final past year (2016-17) budgetary expenditure amounts in Hyperion must reconcile to dollar amounts reported to the Controller’s Office on the year-end financial statements.

- a. If source documents other than year-end financial statements are being used by departments, they 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](#). If there has been a revision to the year-end statements, departments should work with their Finance analysts to provide appropriate updated documents.
  - 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 (or best available) budgetary expenditures will be shown in the Governor's Budget.
5. **Required Backup Information**—Departments must submit their Final Budget Report (Year-end Report 6) documentation to their Finance budget analyst to support 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. Please coordinate other documentation with your Finance budget analyst.
  6. **Legacy to Hyperion Code Translation**—An [Excel file](#) providing a crosswalk between Legacy Codes and Hyperion Visible Codes is available on Finance's website.
  7. **CALSTARS Past Year Expenditures**—CALSTARS departments may request a "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."

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

## REVENUES, REVENUE TRANSFERS, AND LOANS

1. **Past Year Incremental RTL Adjustments Report (Initial RTL Report)**—By early August, each department will receive the Past Year Incremental RTL Adjustments report containing 2016-17 amounts when the 2017-18 Budget was enacted. The report has these sections:
  - a. Revenues
  - b. Revenue Transfers
  - c. Loans
2. **Updating the Past Year RTLs**—Departments enter the past year actuals in the file. The RTL file will calculate the incremental sections of the report.
3. **Reflecting Revenue Changes in Hyperion**—After the incremental adjustments to past year revenues are determined, all adjustments will be reflected in **one new BR**. Use the following BR name and title:
  - XXXX-001-RTL-2018-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 inform their Finance budget analyst once the BR is available for Finance review in the GB Exchange.

The **most current version** of the **RTL upload template** must be used for uploading data. (The new version will be available late July/early August).

4. **Updating Revenue Transfers and Loans**—Similar to last year, the process to update past year revenue transfers and loans for the 2018-19 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 2018-19 budget cycle.

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

5. **Use of Items Instead of “BU”, “Reference”, “Fund” separately**—Each expenditure and RTL adjustment requires 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 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 reported to the Controller’s Office; departments must submit an explanation for any differences. Final (or best available) 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 (Section D. of the DF-303) prepared by the department and annotated per the [Fund Balance Reconciliation Guide](#).
8. **Required Backup Information**—Departments must submit a complete set 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](mailto:hotline@dof.ca.gov).

**ROUNDING**—All rolled over data 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 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.

**TREATMENT OF FEDERAL FUNDS AND REIMBURSEMENTS**—Similar to last year and other funds, departments with federal funds and reimbursements 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 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.

## **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 the [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 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), and determine if notes are required in budget publications.

## **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 17-07](#), [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 17-07](#) 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. The certification must be signed by the department's Director or equivalent. Signing the certification may be delegated down only one level, such as to the Chief Deputy Director.

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 analyst.

## **F. FUND BALANCE RECONCILIATION INSTRUCTIONS**

Comprehensive instructions for reconciling fund balances for the 2016-17 fiscal year are on the Finance website at: [http://dof.ca.gov/Accounting/Policies\\_and\\_Procedures/Fund\\_Reconciliation/](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 2018-19 Governor's Budget. A 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 your Finance budget analyst to ensure funds are reconciled on a timely basis.

***Departmental budget and accounting staff must coordinate in this reconciliation effort.***

**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, deliverables must be completed and turned in by FUND.

Packages are due on a flow basis by FUND no later than Monday, October 2 (non-shared funds) and Friday, October 13 (shared funds). A fund is not considered complete until all entities using a shared fund have submitted final documents to the shared fund administrator. Shared fund users should work with the fund administrator on a deadline that will allow the shared fund administrator adequate time to reconcile the shared fund by the October 13 deadline. 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

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Program Budget Manager