

# BUDGET LETTER

<b>SUBJECT:</b> BUDGETING AND ACCOUNTING RELATIONSHIP, COORDINATION, AND FUND RECONCILIATION	<b>NUMBER:</b> 14-04
<b>REFERENCES:</b> GOVERNMENT CODE SECTIONS 12460, 13031, 13344, 13403; STATE ADMINISTRATIVE MANUAL, AND AUDIT MEMO 11-02	<b>DATE ISSUED:</b> April 3, 2014
	<b>SUPERSEDES:</b> 13-02, 13-10

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 ACCOUNTING OFFICERS AND AUDITORS.**

This Budget Letter (BL) reminds and informs state departments of existing and new requirements for reporting past/prior year financial data when submitting budget documents during the development of the Governor's Budget. This BL covers these key areas:

- A. Consistency between Governor's Budget and Year-End Financial Reports.
- B. Basis of Accounting.
- C. Management of Funds and Fund Administrators' Authority and Responsibilities.
- D. Fund Users' 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).

**A. Consistency between Governor's Budget and Year-End Financial Reports**

Government Code section 12460 requires information in the State 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 bases provided in regulations, budget letters, and other directives of the Department of Finance (Finance). The State Controller's Annual Report reflects a culmination of information submitted by departments. It is critical that departments' submittal of year-end financial reports to the State Controller's Office (SCO) reflects correct and reconciled information.

As specified in the State Administrative Manual (SAM) (<http://sam.dgs.ca.gov>) section 6400, it is important that fund balance, revenues, expenditures, and other data included in the past year's presentation of the Governor's Budget reconciles with similar data published in the SCO's Budgetary/Legal Basis Annual Report. Therefore, departments must ensure that data included in the budget schedules reconcile with year-end financial reports. In very limited circumstances, 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).

## **B. 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.

## **C. Management of Funds and Fund Administrators' Authority and Responsibilities**

Finance designates an administering department for each fund. The administering department is responsible for the overall management of the fund. The fund administrator of a shared fund has the authority to request from the users of the fund, all the necessary accounting reports and reconciliations required to reconcile and manage the fund. The shared fund administrator is responsible for coordinating the timely receipt of information from the fund users. Shared fund administrators are encouraged to contact fund users prior to year-end to set expectations of due dates and discuss any potential delays in a fund users submission of the required documents. It is the responsibility of the fund administrator (of both shared and non-shared funds) to communicate to Finance any potential problems that may prevent the timely submission of reports to Finance and the mitigating measures. Attachment I outlines the authority and responsibilities of a fund administrator and fund user for both shared and non-shared funds.

Finance and the designated administering departments, in collaboration with the SCO, will reconcile fund balances between amounts in the Governor's Budget and those to be published in the SCO's Budgetary/Legal Basis Annual Report.

## **D. Fund Users' Responsibilities**

Fund users are departments that spend from a fund, collect revenues for a fund, or transfer cash to or from a fund. Departments that levy assessments for statewide projects/programs are not considered fund users. A fund user is responsible for calculating its own portion of the prior year adjustment, and reconciling past year revenues, expenditures, and transfers between its year-end financial reports and budget documents, if appropriate. Fund users must provide necessary and timely information to the designated fund administrator to facilitate the overall reconciliation of the fund. It is the fund user's responsibility to communicate to the fund administrator any potential problems that may prevent the submission of timely reports and the mitigating measures.

## **E. Certification**

In accordance with Government Code section 13031, fund administrators and fund users must sign Form DF-117, Certification of Past and Prior Year Information (Attachment II). Each department head or his/her designee (who must be at least one level above both budgeting and accounting) must certify the following:

- Past/prior year information provided to Finance is accurate and reconciles between budget and accounting records, and
- Budget and accounting information are consistent with information provided to the SCO.

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

## **F. Fund Reconciliation Instructions**

Instructions for reconciling funds for the past year are available on the Finance website at: <http://www.dof.ca.gov/accounting/Fund%20Reconciliation/>. Please note: New for 2013-14 past year activities is a standard reconciliation form, Form DF-304, for non-governmental cost funds that will not have a Fund Condition Statement in the 2015-16 Governor's Budget. The Fund Reconciliation Packet (DF-303) applies only for funds with a Fund Condition Statement to be published in the 2015-16 Governor's Budget.

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

/s/ Todd Jerue

TODD JERUE  
Chief Operating Officer

Attachments

### **Responsibilities and Authority of Fund Administrators and Fund Users**

Department of Finance (Finance) designates an administering department for each fund. The administering department for each fund is responsible for the overall management of the fund. The administering department is indicated in the description of the fund in the Manual of State Funds, which can be found at: [http://www.dof.ca.gov/accounting/manual\\_of\\_state\\_funds/](http://www.dof.ca.gov/accounting/manual_of_state_funds/)

This section outlines the responsibilities of a fund administrator for both non-shared and shared funds, and users of shared funds. Responsibilities pertaining to Fund Condition Statements apply only when a Fund Condition Statement is prepared and to be published in the 2015-16 Governor's Budget.

#### **Responsibilities of a Fund Administrator that is the sole user (non-shared) of the fund:**

1. Verifies the accuracy of departmental accounting records by performing monthly reconciliations with source documents and corresponding appropriation and general ledger accounts maintained by the State Controller's Office (SCO).
2. Calculates prior year adjustments and keeps documentation for such adjustments.
3. Submits Fund Condition Statement to Finance with prior year adjustments and appropriate backup documents, past year revenues, transfers, loans, and past year expenditures. Works with Finance to determine any special adjustments or reserves.
4. Ensures accuracy and consistency of data between budget documents (e.g., Fund Condition Statement) and year-end financial reports submitted to the SCO.
5. Ensures both sets of documents are prepared with the same method and on the same accounting basis as in the Governor's Budget and Budget Act per Government Code section 12460. No variance should exist. No exceptions, unless approved by Finance or authorized in law.
6. Reports changes to Finance and/or SCO for any changes in past year fund condition (prior year adjustments, past year revenues, or past year expenditures).
7. Coordinates with Finance budget analyst who oversees the fund to ensure there are no other statewide changes to be included in the Fund Condition Statement.
8. Tracks and manages changes and ensures a prudent reserve is maintained. Works with Finance to determine the level necessary for a prudent reserve.
9. Provides all necessary information per Finance's request on a timely basis when Finance performs its review of the fund's components, including the following:
  - DF-303, Detailed Fund Balance Report (applies to funds with a Fund Condition Statement in the Governor's Budget).
  - Year-end financial reports or other backup documents related to the fund's prior year adjustments and past year revenues/expenditures.
  - DF-117, Certification of Past and Prior Year Information.

#### **Authority and Responsibilities of a Shared Fund Administrator:**

1. Performs all responsibilities as listed above.
2. Possesses authority to request information from user department(s). User departments include departments that collect revenues and/or spend from the fund. The shared fund administrator can request the following information from user departments at any time:

- DF-303, Detailed Fund Balance Report (applies to funds with a Fund Condition Statement in the Governor's Budget).
  - Copies of the year-end financial reports or other backup documents related to the fund's prior year adjustments and past year revenues/expenditures.
  - Copies of reconciliations and reports as necessary to allow the shared fund administrator to reconcile departmental account and fund balances to SCO.
  - DF-117, Certification of Past and Prior Year Information.
3. Reviews data from other fund users for reasonableness. Except for budget development period (when changes are tracked by Finance), tracks and manages changes and ensures a prudent reserve is maintained. Works with Finance to determine the level necessary for a prudent reserve. Once all budget proposals are developed and approved, Finance will share a copy of the Fund Condition Statement with the fund administrator.
  4. Based on latest available information, provides a letter of support or opposition to fund users when they ask for a determination of sufficiency of the fund to fund a proposal. Fund users are not to provide details of the proposal, but must obtain a letter of support from fund administrators regarding adequacy of fund balance.
  5. Assists Finance when requested in determining the use of the fund for new purposes.

#### **Responsibilities of Shared Fund Users:**

1. Verifies the accuracy of departmental accounting records by performing monthly reconciliations with source documents and corresponding appropriation and general ledger accounts maintained by the SCO.
2. Ensures the accuracy and consistency of data between budget documents (e.g., Fund Condition Statement, if applicable) and year-end financial reports submitted to the SCO.
3. Provides all necessary information requested by the fund administrator to manage and reconcile the fund on a timely basis, including the following:
  - DF-303, Detailed Fund Balance Report (applies to funds with a Fund Condition Statement in the Governor's Budget).
  - Year-end financial reports or other backup documents related to the fund's prior year adjustments and past year revenues/expenditures.
  - Reconciliations and reports necessary to allow the shared fund administrator to reconcile departmental account and fund balances to SCO.
  - DF-117, Certification of Past and Prior Year Information.
  - Amount of new spending requests (from Budget Change Proposals or requests for spring Finance Letters) to ensure there is sufficient fund balance available in the fund. Other confidential information is not necessary. Proposals that could result in additional revenue to the fund should also be communicated.

Note: Assessments by statewide projects/programs are not considered fund users for purposes of the responsibilities above.

STATE OF CALIFORNIA  
Certification of Past and Prior Year Information  
DF-117  
(Revised 4/2014)

Department of Finance  
915 L Street  
Sacramento, CA 95814  
IMS Mail Code: A-15

Fund Number and Name \_\_\_\_\_

Org Code/Department Title \_\_\_\_\_

- As the **Non-Shared Fund Administrator**<sup>1</sup>, our department has fully reconciled the past/prior accounting/budgeting information for fiscal year 2013-14 to reflect full compliance with state law; the information is accurate and reconciles between budgeting and accounting records. I certify (or declare) under penalty of perjury that the budgeting and accounting information provided to the Department of Finance reconciles to the year-end financial reports submitted to the State Controller's Office.
- As the **Shared Fund Administrator**<sup>1</sup>, our department has coordinated with all fund users of this fund and has fully reconciled the past/prior accounting/budgeting information for fiscal year 2013-14 to reflect full compliance with state law; the information is accurate based on the representation of fund user(s) for their portion of the fund, and reconciles between budgeting and accounting records. I certify (or declare) under penalty of perjury that based on the representation of fund user(s) for their portion of the fund, the budgeting and accounting information provided to the Department of Finance reconciles to the year-end financial reports submitted to the State Controller's Office.
- As a **Shared Fund User**<sup>1</sup>, our department has provided the designated fund administrator of this fund with all necessary information to assist in the overall fund reconciliation. Our department has fully reconciled our portion of the past/prior accounting/budgeting information for fiscal year 2013-14 to reflect full compliance with state law; the information is accurate and reconciles between budgeting and accounting records. I certify (or declare) under penalty of perjury that the budgeting and accounting information provided to the designated fund administrator and the Department of Finance reconciles to the year-end financial reports submitted to the State Controller's Office.
- As a **Fund Administrator or User of a fund without a Fund Condition Statement**<sup>2</sup>, our department has fully reconciled the past/prior accounting/budgeting information for fiscal year 2013-14 to reflect full compliance with state law; the information is accurate and reconciles between budgeting and accounting records. I certify (or declare) under penalty of perjury that the budgeting and accounting information provided to the Department of Finance reconciles to the year-end financial reports submitted to the State Controller's Office.

\_\_\_\_\_  
Signature (Department Head or Designee)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name, Title<sup>3</sup>

\_\_\_\_\_  
Phone #

<sup>1</sup> This certification applies to funds with a Fund Condition Statement in the Governor's Budget.

<sup>2</sup> This certification applies to funds that do not have a Fund Condition Statement in the Governor's Budget: (1) most non-governmental costs funds (including bond and federal funds) and (2) certain funds (e.g., General Fund/Special Deposit Fund) that are administered on a statewide level. Please refer to the State Funds Manual, or contact your Finance budget analyst for additional information.

<sup>3</sup> Must be at least one level above both accounting and budgets.