



Management Directive

Commonwealth of Pennsylvania

Governor's Office

Management Directive 310.13 Amended – Responsibilities for Annual Comprehensive Financial Reporting

Date: November 10, 2021

By Direction of: *Greg Thall*
Greg Thall, Secretary of the Budget

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Office of Comptroller Operations
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This directive establishes policy, responsibilities, and procedures for the preparation of the Annual Comprehensive Financial Report (ACFR) that complies with generally accepted accounting principles applicable to state and local governments in the United States (GAAP) as of and for each fiscal year ending June 30, and the support of the ACFR production process, including the Independent Auditor audit of the Commonwealth's Basic Financial Statements. This amendment changes the title of the directive and the name of the financial statements to align with Governmental Accounting Standards Board (GASB) updates. In addition, definitions have been added and updated, the location of some information has been moved to more appropriate sections of the directive, a Procedures section has been added and the link to the Bureau of Accounting and Financial Management Customer Service Portal has been added in the Reference section.

1. PURPOSE.

To establish policy, responsibilities, and procedures for the preparation of an ACFR that complies with GAAP as of and for each fiscal year ending June 30, and the support of the ACFR production process, including the Independent Auditor audit of the Commonwealth's Basic Financial Statements.

2. SCOPE.

This directive applies to all departments, offices, boards, commissions, offices, and councils under the Governor's jurisdiction and to legislative and judicial entities, independent agencies, and other agencies not under the Governor's jurisdiction but included in the Commonwealth Financial Reporting Entity (hereinafter referred to as "agencies").

3. OBJECTIVES.

- a. To provide for Financial Reporting that conforms, in all material respects, to the GAAP established by GASB and fairly presents the financial position, including results of operations, of the Commonwealth Financial Reporting Entity.
- b. To provide for Financial Reporting that demonstrates the Commonwealth's public accountability and enables financial statement readers to assess that accountability.
- c. To enable Commonwealth management and other financial statement readers to:
 - (1) Determine what the Commonwealth owns (its assets), what it owes (its liabilities), and what remainder is available at the end of each fiscal year.
 - (2) Determine whether Commonwealth current-year revenues were sufficient to finance current-year government operations and services.
 - (3) Determine whether the Commonwealth's financial position improved or deteriorated during the current fiscal year.
 - (4) Determine the sources and uses of Commonwealth financial resources.
 - (5) Determine how the Commonwealth financed its activities and met its cash requirements.
 - (6) Demonstrate that the Commonwealth used its resources in compliance with legally adopted budgets.
 - (7) Assess the economic condition of the Commonwealth.
- d. To identify the responsibilities of agencies and the Office of the Budget (OB), Office of Comptroller Operations (OCO) regarding the preparation of the ACFR and interpretation and application of GAAP.
- e. To ensure interagency assistance, support, and cooperation throughout the preparation of the ACFR and cooperation with the Commonwealth's Independent Auditors during the auditors' audit of the Basic Financial Statements.

4. DEFINITIONS.

- a. **ACFR Audit Management Representations Letter (AMRL).** Written confirmations requested of Commonwealth management by the ACFR auditors, in accordance with generally accepted auditing standards. The AMRL is intended to confirm oral and written representations made by management to the auditors, in response to specific inquiries or through the financial statements or schedules; to document the continuing appropriateness of such representations; and to reduce the possibility of misunderstandings concerning the matters that are the subject of the representations. Confirmations of

representations are submitted by agency heads in support of, and as a basis for, the representations made by the Governor in the AMRL.

- b. Annual Comprehensive Financial Report (ACFR).** An annual publication prepared by OB, OCO which includes an introductory section, a financial section, and a statistical section. The financial section includes management’s discussion and analysis, the Commonwealth’s Basic Financial Statements, and an auditor opinion about the fair presentation of the Basic Financial Statements. The ACFR is prepared as of and for each fiscal year ending June 30 and fulfills Financial Reporting objectives. Copies of recent ACFRs are available on the [Annual Financial Reports](#) page of the OB website.
- c. Basic Financial Statements.** A set of financial statements prescribed by GASB and prepared in accordance with GAAP. Basic Financial Statements include:

 - (8)** Government-wide financial statements, which report all resources and obligations of the Commonwealth Financial Reporting Entity, along with the total cost of providing services and all revenues reported during each fiscal year.
 - (9)** Fund financial statements, which report assets and liabilities, along with revenues and expenditures/expenses reported during each fiscal year.
 - (10)** Notes to the financial statements, which are an integral part of the financial statements and include all disclosures essential to understanding the financial statements themselves.
- d. Commonwealth Financial Reporting Entity.** Includes all Funds, agencies, and other entities for which elected Commonwealth officials are responsible (primary government) and legally separate organizations (established as independent agencies) for which the Commonwealth itself is financially accountable or for which exclusion would result in misleading financial statements.
- e. Financial Accountability.** With respect to the Commonwealth being “financially accountable” as noted in Section 4.f. of this directive, Financial Accountability exists when:

 - (1)** The Commonwealth has the ability to appoint a voting majority of an organization's governing board **and** either of the following is true: the Commonwealth has the ability to impose its will on the organization, or a potential financial burden or a potential financial benefit exists between the Commonwealth and the organization.
 - (2)** An organization is fiscally dependent on the Commonwealth, meaning that a potential financial burden or a potential financial benefit exists between the Commonwealth and the organization **and** Commonwealth approval is necessary for debt issuance, budget adoption, or establishment of rates or fees.

- g. Financial Reporting.** A method of communicating financial information to management, citizens, and other interested parties. Effective Financial Reporting is understandable, reliable, relevant, timely, consistent, and comparable.
- h. Fund.** A separate, stand-alone fiscal and accounting entity with a self-balancing set of accounts used to record financial resources, together with all related liabilities and residual balances and changes thereto, which are segregated for the purpose of reporting on specific activities, typically established based on enabling legislation enacted by the General Assembly. Funds are categorized based on definitions prescribed by GASB.
- i. Generally Accepted Accounting Principles (GAAP).** All statements, interpretations, and technical bulletins issued by GASB establish and constitute GAAP applicable to all state and local governments in the United States. Such GASB pronouncements are issued after the completion of formal, public GASB due process procedures.
- j. Governmental Accounting Standards Board (GASB).** The independent organization that establishes authoritative standards of accounting and Financial Reporting for state and local governments.
- k. Independent Auditors.** Auditors within the Department of the Auditor General or a public accounting firm responsible for performing the Commonwealth's financial audit under the adherence to generally accepted governmental auditing standards and requirements of independence.

5. POLICY.

- a.** Pursuant to *Section 701(d) of The Administrative Code of 1929, 71 P.S. § 241(d)*, the Governor has the authority and responsibility to prescribe a uniform system or systems of bookkeeping, accounting, and reporting for administrative departments, boards, offices, councils, and commissions, except the Department of the Auditor General, the Treasury Department, and the Office of Attorney General.
- b.** Pursuant to *Section 502 of The Administrative Code of 1929, 71 P.S. § 182*, departments, boards, offices, councils, and commissions shall assist one another in carrying out the duties and responsibilities prescribed therein.
- c.** Pursuant to *Executive Order 1984-03, Accounting and Financial Reporting*, the Secretary of the Budget shall be responsible for maintaining accounting and Financial Reporting systems that adhere to GAAP and publishing an audited ACFR based on criteria developed by the standard-setting bodies responsible for issuing GAAP.
- d.** The Commonwealth shall comply with GAAP for accounting and Financial Reporting purposes.
- e.** The Commonwealth shall prepare an ACFR as of and for each fiscal year ending June 30.
- f.** Agencies shall assist and support OB, OCO in gathering and providing the financial information essential to the preparation of the ACFR.

- g.** Agencies shall cooperate with and support the Commonwealth's Independent Auditors and internal auditors during the auditors' audit of the Basic Financial Statements.
- h.** Procedures shall be established and implemented by each agency, and in accordance with this directive, to:
 - (1)** Coordinate, monitor, and facilitate the performance of the ACFR Audit within the specified time frames.
 - (2)** Respond to requests or inquiries by the Independent Auditors for information relevant to the ACFR audit. Unless another reasonable arrangement is made with the auditors based on the type/quantity of request, specific requirements include:
 - (a)** Responding to Independent Auditor requests within **three (3) business days** of the date of each request.
 - (b)** Scheduling interviews requested by Independent Auditors within **two (2) business days** of the date of each request.
 - (3)** Auditor requests shall be sent directly to agency contacts via email and shall include a copy to RA-OBCOBFMGAAPAUDIT@pa.gov.

6. RESPONSIBILITIES

- a. The Secretary of the Budget, through the Office of the Budget, Deputy Secretary for Comptroller Operations,** shall direct the development and publication of financial policies and guidelines consistent with GAAP, the development and maintenance of the Commonwealth accounting and Financial Reporting systems, and the publication of an audited ACFR.
- b. The Office of the Budget, Deputy Secretary for Comptroller Operations** shall ensure that the OCO carries out its responsibilities relative to Financial Reporting set forth in *Management Directive 305.03 Amended, Responsibilities of Comptroller Operations*, including:
 - (1)** Coordinating the preparation of the ACFR.
 - (2)** Overseeing accounting and reporting functions for Commonwealth Funds.
 - (3)** Supervising the timely review, processing, and recording of transactions and balances.
 - (4)** Developing, reviewing, and coordinating the issuance of payables, accounting, auditing, financial management, and Financial Reporting policies and procedures affecting agencies.
- c. BAFM** shall:
 - (1)** Coordinate the preparation, publication, and distribution of the ACFR, including communicating, planning, and process requirements to Commonwealth management, auditors, and agencies.
 - (2)** Interpret policy and provide guidance on the application of GAAP.

- (3) Evaluate new Fund types, agencies, or other entities for inclusion and appropriate classification within the Commonwealth Financial Reporting Entity.
- (4) Determine and communicate items necessary to support the ACFR preparation effort.
- (5) Facilitate agency efforts to provide requested information to BAFM and Independent Auditors on a timely basis.
- (6) Complete the preparation of the ACFR.
- (7) Coordinate the AMRL process from preparation of the transmittal packages to forwarding it for approval and signature.

d. Agency Heads shall:

- (1) Ensure the establishment and maintenance of procedures and internal controls necessary to implement prescribed accounting and Financial Reporting policies, guidelines, and standards within all agency financial systems and business operations.
- (2) Ensure the timely, accurate, and complete processing and recording of all transactions and balances in accordance with prescribed accounting and Financial Reporting policies, guidelines, and standards.

e. Agencies shall:

- (1) Provide all data, data files, reports, actuarial valuations, audit reports, and other items requested by OB, OCO and other agencies by the date requested.
- (2) Cooperate with and support the Independent Auditors and the auditor audit of the Basic Financial Statements.

7. PROCEDURES.

a. BAFM.

- (1) Communicates changes in ACFR requirements to Commonwealth management, auditors, and agencies, when applicable.
- (2) Upon establishment of new Fund types, agencies, or other entities, determines relationship to the Commonwealth Financial Reporting Entity and, if required to be included, the appropriate classification within the Commonwealth Financial Reporting Entity.
- (3) Requests data, data files, reports, actuarial valuations, audit reports, and all other items necessary to support the ACFR preparation effort from agencies on an ongoing basis.
- (4) Posts fiscal year-end accounting adjustments (e.g., revenue and expenditure accruals, reclassifications, and eliminations) to the SAP accounting system and other accounting/reporting systems to ensure the Basic Financial Statements conform to GAAP.

- (5) Prepares drafts of the ACFR statements for auditor review and coordinates issuance of the final audited report.
- (6) Prepares and facilitates the distribution of AMRL transmittal packages to agency heads, reviews confirmations of representations, makes appropriate modifications to the Governor's AMRL, and forwards it for approval and signature.

b. Agencies.

- (1) Provide responses to requests by OB, OCO, Independent Auditors, and other agencies for data, data files, reports, actuarial valuations, audit reports, and other items:
 - (a) by the date requested, and
 - (b) in the requested format as applicable.
- (2) Notify BAFM of significant program changes and transactions that impact related financial accounting and reporting.

8. REFERENCE.

Additional information on the ACFR is located on the [Bureau of Accounting and Financial Management Customer Service Portal](#).

This directive replaces, in its entirety, *Management Directive 310.13 Amended*, dated October 5, 2016.