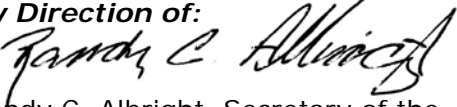


# MANAGEMENT DIRECTIVE

## Commonwealth of Pennsylvania Governor's Office

<b>Subject:</b> Responsibilities for Comprehensive Annual Financial Reporting	<b>Number:</b> 310.13 Amended
<b>Date:</b>  October 5, 2016	<b>By Direction of:</b>  Randy C. Albright, Secretary of the Budget
<b>Contact Agency:</b> Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management, Telephone 717.787.6496	

This directive establishes policy, responsibilities, and procedures for the preparation of a Comprehensive Annual Financial Report (CAFR) 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 ended June 30, and the support of the CAFR production process, including the independent auditor examination of the commonwealth's basic financial statements. This amendment adds a definition of "CAFR audit management representations letter" and revises section 6.b. to include responsibilities for coordinating the preparation, approval, and signature of this letter. Changes are indicated by marginal dots.

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for the preparation of a CAFR that complies with GAAP as of and for each fiscal year ended June 30, and the support of the CAFR production process, including the independent auditor examination of the commonwealth's basic financial statements.
- 2. SCOPE.** This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction. Legislative and judicial entities, independent agencies, and other agencies not under the Governor's jurisdiction but included in the commonwealth financial reporting entity should adopt policy and procedures to prepare financial reports that conform to GAAP.

### 3. OBJECTIVES.

- a. To provide for financial reporting that conforms, in all material respects, to the GAAP established by the Governmental Accounting Standards Board (GASB) and fairly present 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. 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 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.
- c. To identify the responsibilities of agencies and the Office of the Budget (OB), Office of Comptroller Operations regarding the preparation of the CAFR and interpretation and application of GAAP.
- d. To ensure interagency assistance, support, and cooperation throughout the preparation of the CAFR and cooperation with the commonwealth's independent auditors during the auditors' examination of the basic financial statements.

### 4. DEFINITIONS.

- a. **Basic Financial Statements.** A set of financial statements prescribed by GASB and prepared in accordance with GAAP. Basic financial statements:
  - (1) Include 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.
  - (2) Include fund financial statements, which report assets and liabilities, along with revenues and expenditures/expenses reported during each fiscal year.

- (3) Include 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.
- b. **CAFR Audit Management Representations Letter (GAMRL).** Written confirmations requested of commonwealth management by the CAFR auditors, in accordance with generally accepted auditing standards. The GAMRL 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 GAMRL.
  - c. **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.
  - d. **Comprehensive Annual Financial Report (CAFR).** An annual publication prepared by OB, Office of Comptroller Operations which includes an introductory section, a financial section, a statistical section, and other required content as determined by GASB. 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 CAFR is prepared as of and for each fiscal year ended June 30 and fulfills financial reporting objectives. Copies of recent CAFRs are available on the [Annual Financial Reports](#) page of the OB website.
  - e. **Financial Accountability.** With respect to the commonwealth being "financially accountable" as noted in section 4.b. 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.
  - f. **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. The commonwealth achieves its ongoing financial reporting objectives through the issuance of the CAFR.

- g. 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.
- h. 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. GASB also issues implementation guides, which are issued without employing GASB's due process procedures.
- i. Governmental Accounting Standards Board (GASB).** The independent organization that establishes standards of accounting and financial reporting for state and local governments.

## 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, 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, and commissions shall assist one another in carrying out the duties and responsibilities prescribed therein.
- c.** Pursuant to *Executive Order 1984-3, 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 CAFR 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 and participate in GASB standard-setting due process procedures.
- e.** The commonwealth shall prepare a CAFR as of and for each fiscal year ended June 30.
- f.** Agencies shall assist and support OB, Office of Comptroller Operations in gathering and providing the financial information essential to the preparation of the CAFR.
- g.** Agencies shall cooperate with and support the commonwealth's independent auditors, internal auditors, and auditors of the Department of the Auditor General during the auditors' examination of the basic financial statements.

## 6. RESPONSIBILITIES.

- a. **The Secretary of the Budget, through the Deputy Secretary for Comptroller Operations,** shall be responsible for the formulation 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 CAFR.
- b. **The Deputy Secretary for Comptroller Operations** shall ensure that the Office of Comptroller Operations carries out its responsibilities relative to financial reporting set forth in *Management Directive 305.3, Responsibilities of Comptroller Operations*, including:
  - (1) Coordinating the preparation of the CAFR.
  - (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 under the Governor's jurisdiction.
- c. **Office of the Budget, Office of Comptroller Operations, Bureau of Accounting and Financial Management (BAFM)** shall:
  - (1) Coordinate the preparation, publication, and distribution of the CAFR; communicate planning and process requirements with commonwealth management, auditors, agencies under the Governor's jurisdiction, legislative and judicial entities, independent agencies, and other agencies not under the Governor's jurisdiction but included in the commonwealth financial reporting entity.
  - (2) Interpret policy and provide guidance on the application of GAAP. Initiate communications with standard-setting bodies responsible for issuing GAAP and coordinate implementation of new or amended requirements with affected commonwealth agencies, entities, and organizations.
  - (3) Evaluate each new fund type, agency, or other entity to determine if the fund type, agency, or other entity should be included in the commonwealth financial reporting entity and, if included, the appropriate classification within the commonwealth financial reporting entity.
  - (4) Request data, data files, reports, actuarial valuations, audit reports, and all other items necessary to support the CAFR preparation effort. Such requests may be made via email or other written correspondence.
  - (5) Facilitate agency efforts to provide requested information to BAFM and independent auditors on a timely basis.

- (6) Post fund- and business area-specific accounting adjustments and enterprise-wide adjusting entries (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.
- (7) Complete the CAFR financial section information.
- (8) Coordinate the GAMRL process by preparing and facilitating the distribution of GAMRL transmittal packages to agency heads, reviewing confirmations of representations, making appropriate modifications to the Governor's GAMRL, and forwarding it for approval and signature.

d. **Agency Heads** shall:

- (1) Ensure the establishment and maintenance of procedures and controls necessary to implement prescribed accounting and financial reporting policies, guidelines, and standards.
- (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.
- (3) Ensure the existence of appropriate financial controls and accountability within all agency financial systems and business operations.

e. **Agencies** shall:

- (1) Provide all data, data files, reports, actuarial valuations, audit reports, and other items requested by OB, Office of Comptroller Operations and other agencies by the date requested.
- (2) Cooperate with and support the independent auditors and the auditor examination of the basic financial statements. 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 business days** of the date of each request.
  - (b) Scheduling interviews requested by independent auditors within **two business days** of the date of each request.

**NOTE:** Auditor requests may be sent directly to agency contacts via email, with a copy to [ra-co-bfm-cafr-audit@pa.gov](mailto:ra-co-bfm-cafr-audit@pa.gov); other written correspondence; telephone; or in-person.

7. **REFERENCE:** The following commonwealth policies address processes that affect financial reporting:

- a. *Management Directive 305.11, Depositing Checks, Money Orders, and Cash.*

- b. *Management Directive 310.14, (SAP) General Capital Asset and Other Fixed Asset Accounting and Reporting in SAP.*
- c. *Management Directive 310.25 Amended, Transfers of Revenues and Expenses in SAP.*
- d. *Management Directive 310.29, Using Value (Service) Date in SAP.*
- e. *Management Directive 310.31, Purchase Order Receiving, Invoice Processing and Invoice Reconciliation Processes.*
- f. *Management Directive 310.36, Identifying, Recording, and Reporting Computer Software as a Capital Asset.*
- g. *Management Directive 310.37, Approving, Monitoring, and Accounting for New Information Technology Application Projects.*
- h. *Management Directive 325.2, Audit Inquiry Relative to Agency Litigation, Claims, and Assessments.*
- i. *Management Directive 325.3, Performance of Audit Responsibilities.*
- j. *Management Directive 325.11, Evaluating Agency Internal Controls and Financial Risk through Self Assessment.*
- k. *Management Directive 325.12, Standards for Internal Controls in Commonwealth Agencies.*

**This directive replaces, in its entirety, *Management Directive 310.13*, dated December 21, 2012.**