

**ACCOUNTING  
(Chapter 1)**

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## **INTRODUCTION**

Financial management is necessary for the control of district financial affairs. A financial management policy should be developed which includes rules for conducting all aspects of financial control and transactions. All phases of the financial management process should have documentation showing when and why money was received and disbursed.

Citizens entrust resources to you for the specific purpose of providing services. Therefore, it is not enough simply to ensure that assets are safeguarded; they also must be used efficiently and effectively to achieve their intended purpose.

## **ACCOUNTING SYSTEM**

A good accounting system should do the following:

- Assemble information on all finance-related transactions and events.
- Provide the ability to analyze all data collected.
- Classify data in accordance with the chart of accounts.
- Record data in the appropriate books of accounts.
- Report data to management and to outside parties in an appropriate format and in a timely manner.
- Maintain accountability of assets.
- Retain data according to the State of Oregon's retention schedule for special districts.

The complexity of the accounting system will be determined by the needs of the individual district. A basic accounting system will include at least the following:

- A general ledger.
- Subsidiary ledgers as necessary, including revenue, expenditures, and payroll.
- Written documentation supporting, authorizing and explaining individual financial transactions including invoices, bank statements, purchase orders, payroll, and fund transfers.
- Any other data deemed necessary to prepare financial statements.

## **POLICY AND PROCEDURES MANUAL**

An accounting policies and procedures manual should clearly outline the specific authority and responsibility of individual employees, thus providing the essential foundation needed for establishing employee accountability. It also serves as a reference tool for employees seeking guidance on the proper handling of less frequently encountered transactions and situations. In addition, an accounting policies and procedures manual lessens the threat to continuity posed by employee turnover.

It is also important that an accounting policies and procedures manual do more than simply describe the appropriate handling of transactions and events. The accounting policies and procedures manual should also clearly communicate the design and objective of the district's internal control structure. Employees are more likely to perform control procedures faithfully if they are aware of their purpose and importance.

## **FUND ACCOUNTING**

Public accounting and budgeting is based on funds. Revenues and expenses must be kept separate by each type of fund. The main types of funds include the General Fund, Special Revenue Fund, Debt Service Fund, Enterprise Fund, Trust Fund and Reserve Funds.

- General Fund - Composed of accounts for the financial operations of the district, which are not accounted for in any other fund. The principal sources of revenue are property taxes and interest income. Primary expenditures in the General Fund are made for general district services and administration.
- Special Revenue Fund - Authorized for a specific purpose and generally operate on a year-to-year basis until the fund is discontinued or revised by proper legislative authority. In the event the fund is discontinued, any excess funds should be returned to the originating jurisdiction or the General Fund.
- Debt Service Fund - Used to account for the payment of principal and interest on all general obligation long-term debt, including that payable exclusively from revenue-producing enterprises. Resources cannot be diverted or used for any other purpose.
- Capital Projects Fund - Operate until the capital project is completed. Upon completion, any remaining cash is transferred to the Debt Service Fund, the originating source of the funds, or the General Fund.
- Internal Service Fund - Finances and accounts for services furnished by a department or agency to other departments or agencies within the district. Amounts expended from the fund are restored from either operating earnings or as operating expenditures from other funds to the Internal Service Fund.
- Enterprise Fund - Established to finance and account for acquiring, operating, and maintaining facilities and services which are self-supporting from user charges and fees (such as water and sewer).
- Trust and Agency Fund - Assets are sometimes held or revenue received by districts in a fiduciary capacity to be used for a certain specified purpose.
- Reserve Fund - Accumulates money for financing the cost of any service, project, property, or equipment that the district can legally perform or acquire. Some districts will even have a reserve fund established for debt service in the event revenues are insufficient to meet

future payment obligations on long-term obligations.

## **BANKING SERVICES**

Major banking services must meet the following minimum criteria:

- Institution must be listed on the Oregon State Treasurer's list of qualified depositories.
- Be insured by the Federal Deposit Insurance Corporation (FDIC)
- Be able to facilitate transfers to and from the Local Government Investment Pool managed by the Oregon State Treasurer (or any other investment option)

## **CONTROL POLICIES AND PROCEDURES**

The primary focus of control policies and procedures is to process transactions correctly. Transaction processing controls, including documentation requirements, should be designed with these objectives in mind:

- Recorded transactions are valid and supported by appropriate documentation; none of which are fictitious.
- All valid transactions are recorded; none are omitted.
- Transactions are properly authorized.
- Transaction dollar amounts are properly calculated and accurately recorded.
- Transactions are properly classified in the accounts.
- Transaction accounting/posting is complete; no required fields for sub-ledger entries are omitted.
- Transactions are recorded in the proper accounting period (fiscal year).
- Duties are segregated. As much as practical, no single individual should be able to (1) authorize a transaction, (2) record the transaction in the accounting system, and (3) take custody of the assets resulting from that transaction.
- Access to assets and records is controlled.

### *Policy standards*

All transactions must be supported by appropriate documentation. In all cases, the documentation must be complete and accurate and must allow a transaction to be traced from the source documentation, through its processing, to the financial reports. All documentation should be readily available for examination.

Records of transactions and significant accounting events may be initiated and stored in a variety of media and physical formats. These records should be retained the minimum length of time and authorized for disposition in accordance with the requirements described in the Oregon Archived Division's records retention schedule for special districts.

### *Documentary Evidence*

Regardless of the format used for storage purposes, all recorded transactions, (including adjusting entries and transfers) should be supported by copies of source documents (such as vendor invoices, receiving records, cash receipts, timesheets, loan documents, or bank

statements) and other supporting information sufficient to provide clear evidence of the following:

- The authenticity of the transaction.
- The purpose or reason for the transaction.
- The vendor/customer involved in the transaction, when applicable.
- That the transaction was properly authorized.

#### *Risk Assessment*

Risk assessment is the identification, measurement, and management of risks relevant to the achievement of the organization's objectives. Risks include external and internal events or circumstances that may occur and adversely affect operations. Once risks are identified, management should consider their significance, the likelihood of their occurrence, and how to manage them. Management may initiate plans, programs, or actions to address specific risks or it may decide to accept a risk because of cost or other considerations. Risks can arise or change due to circumstances such as the following:

- Changes in operating environment.
- New personnel.
- New or revamped information systems.
- Rapid growth.
- New technology.
- New activities or lines of service.
- Organization restructure.
- Accounting pronouncements (adoption of new accounting principles or changing accounting principles).

#### **BONDING**

The governing body of a district must require a bond or an irrevocable letter of credit of any member of the governing body or any officer or employee of the district who is charged with possession and control of district funds and properties. The amount of the bond shall be fixed by the governing body of the district, and the premium shall be paid from the district funds. The letter of credit shall be issued by a commercial bank (ORS 198.220).

All board members or employees can be bonded for a minimal additional charge to the cost (premium) of bonding only one board member. It is practical and beneficial to take the necessary steps to bond all board members and the district manager.

#### **INVESTMENTS**

Districts should have an established and documented investment policy. Funds that are not needed for immediate cash flow should be invested in safe investments that offer the maximum yield possible. An investment policy should be adopted by the governing body and reviewed and updated periodically. The Oregon State Treasurer's Investment Policy for Local Governments is available online at the State Treasury Department website.

### **Public Funds Collateralization Program**

ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. ORS 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS 295 creates a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

### **AUDITS**

Oregon local governments are subject to Municipal Audit Law, ORS 297.405 to 297.555. Unless otherwise specified in the Oregon Revised Statutes, all districts must be audited.

Audits and reviews must be conducted in accordance with the “Minimum Standards for Reviews of Oregon Municipal Corporations” adopted by the Secretary of State Audit’s Division. These rules prescribe the financial statements that must be included in audit or review reports, the minimum procedures that must be followed, and the standards that must be followed in an audit or review.

- A district with expenditures of less than \$150,000, and whose chief fiscal officer is bonded for the total amount of money received during the year may file unaudited financial statements with the Secretary of State’s Office within 90 days after its fiscal or calendar year ends.
- A district, other than a county or school district, with expenditures of more than \$150,000 but less than \$500,000, and whose chief officer responsible for receiving or disbursing moneys on behalf of the district was covered during the entire year by a fidelity or faithful performance bond in an amount at least equal to 10 percent of the total receipts for the year, but not less than \$10,000 and whose financial statements have been reviewed by a licensed municipal auditor may file “review reports” with the Secretary of State’s Office within 180 days after its fiscal or calendar year ends.
- A district, including counties and school districts, that must have its financial statements reviewed or audited, must contract with an accountant licensed as a municipal auditor by the Oregon Board of Accountancy.

#### *Purpose of the Audit*

The auditor’s main purpose is to independently review the financial statements to attest to their fairness. In addition to this, the auditor will also:

- Comment on the compliance of the district’s financial affairs with applicable laws and budget requirements.

- Assist the district in revising its accounting system to increase efficiency and ease of function.
- Help the district institute procedures that will increase accuracy of record keeping and strengthen internal controls.

*Documents to be audited*

- General ledger and related subsidiary ledgers posted accurately and up-to-date.
- Books of original entry that provide, in an orderly manner, the summarization of transactions.
- Source documents supporting the transactions in the books of original entry filed in a neat and orderly manner. (Source documents include all revenues as well as all expenditures).
- Explanations of apparent differences between general ledger balances and source documents.
- Copies of reports required to be filed with government agencies and an explanation of any differences between amounts reported and the accounting reports.
- Specifically, the above would include such items as minutes of regular meetings, budget committee meetings, insurance forms and policies, copies of adopted resolutions that may not be included in the regular minutes, copies of the ballot title and abstracts of any bond issues, copies of published newspaper notices of budget committee meetings and hearings, a copy of the proceeding year's budget, county tax turn over documents, right-of-way documents, and copies of lease contracts on equipment.

*The Audit Report*

At the conclusion of the audit examination, the auditor will issue an audit report. This report will contain:

- The financial statement of the district with appropriate notes.
- The auditor's opinion on these statements.
- The auditor's comments about the district's financial affairs and its compliance with legal requirements.

Recommendations on how the district may improve its accounting system or more effectively conduct its financial affairs.

**RECORDS RETENTION**

Districts are required to follow the State of Oregon's Records Retention Policy, which is located on the State Archive Division's website. Unless otherwise provided in the schedules, the Division recommends that records not specifically be mentioned shall be maintained for a

period of not less than two years. Minutes should be maintained forever.

Records typically have a four-stage life cycle:

- The period of creation, when data or information is generated.
- The period of active use, which can range from a few days to several years. During this period, users frequently reference the record and need quick access to it. Therefore, the record should be maintained in the office area.
- The period of inactivity. During this period, the record is in storage or is kept either because of legal reasons or because of infrequent reference needs. Some records have no inactive period while others may remain in this stage for several years, or permanently.
- The final stage in the cycle is destruction, which occurs when the record is no longer required by law to be kept. With confidential or proprietary records, special attention must be taken to ensure destruction is total and that records can in no way be recreated.

## **RESOURCES**

Audits of Public Funds and Financial Records (ORS 297)

[https://www.oregonlegislature.gov/bills\\_laws/ors/ors297.html](https://www.oregonlegislature.gov/bills_laws/ors/ors297.html)

Borrowing and Bonds of Local Governments (ORS 287)

[https://www.oregonlegislature.gov/bills\\_laws/ors/ors287.html](https://www.oregonlegislature.gov/bills_laws/ors/ors287.html)

Depositories of Public Funds and Securities (ORS 295)

[https://www.oregonlegislature.gov/bills\\_laws/ors/ors295.html](https://www.oregonlegislature.gov/bills_laws/ors/ors295.html)

Minimum Standards of Audits (OAR 162-001-000 through 162-020-0330)

<https://secure.sos.state.or.us/oard/displayChapterRules.action>

Oregon Local Budget Law (ORS 294)

[https://www.oregonlegislature.gov/bills\\_laws/ors/ors294.html](https://www.oregonlegislature.gov/bills_laws/ors/ors294.html)

Oregon State Treasury: <http://www.oregon.gov/treasury/Pages/index.aspx>

SDAO Reference Library/Accounting: <http://www.sdao.com/S4/MemberHome.aspx>

Secretary of State Archives Division: <http://sos.oregon.gov/archives/Pages/default.aspx>

Secretary of State Audits Division: <http://sos.oregon.gov/audits/Pages/default.aspx>