

GUIDELINES FOR ACCOUNTING PROCEDURES  
FOR  
CONSTRUCTION GRANT PROJECTS

LP-67

TEXAS WATER DEVELOPMENT BOARD

REVISED JUNE 1987

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## ABSTRACT

THE GUIDELINES AND EXAMPLES CONTAINED IN THIS PUBLICATION WERE COMPILED TO AID GRANTEES IN MEETING THE FINANCIAL MANAGEMENT REQUIREMENTS OF CONSTRUCTION GRANT PROJECTS. AS SUCH, THE EXAMPLES ARE NOT INTENDED TO TAKE THE PLACE OF EXISTING FINANCIAL MANAGEMENT SYSTEMS WHICH WOULD ACHIEVE THE SAME RESULTS. HOWEVER, THE MINIMUM REQUIREMENTS CONTAINED IN THIS GUIDE SHOULD EXIST IN ONE FORM OR ANOTHER WITHIN A GRANTEE'S SYSTEM.

QUESTIONS AND COMMENTS ON GRANTEE FINANCIAL MANAGEMENT AND ACCOUNTING REQUIREMENTS ARE WELCOMED BY THE FINANCIAL MANAGEMENT SECTION OF THE CONSTRUCTION GRANTS DIVISION, TEXAS WATER DEVELOPMENT BOARD. (TELEPHONE (512) 463-8421).

## TABLE OF CONTENTS

<u>CHAPTER</u>		<u>PAGE</u>
	ABSTRACT . . . . .	iii
I.	MINIMUM ACCOUNTING PROCEDURES . . . . .	1
II.	MINIMUM PROPERTY MANAGEMENT PROCEDURES . . . . .	7
III.	ADMINISTRATIVE EXPENSES, FORCE ACCOUNT, AND INDIRECT COSTS . . . . .	19
IV.	CONSTRUCTION GRANT ACCOUNTING SYSTEM . . . . .	25
V.	GENERAL GOVERNMENTAL ACCOUNTING SYSTEM . . . . .	45
VI.	THE SINGLE AUDIT ACT . . . . .	59

## FIGURES

1.	SAMPLE ENTRIES FOR TIME SHEET . . . . .	5
2.	SAMPLE ENTRIES FOR STEP 3 PROJECT LEDGER . . . . .	6
3.	SAMPLE PROPERTY MANAGEMENT PROCEDURES . . . . .	11
4.	EXAMPLE - INDIRECT COST RATE COMPUTATION . . . . .	24
5.	SAMPLE TRANSACTIONS . . . . .	30
6.	SAMPLE SUBSIDIARY LEDGER AND JOURNALS, . . . . .	31
7.	SAMPLE MONTHLY FINANCIAL STATEMENT . . . . .	41
8.	SAMPLE CHART OF ACCOUNTS - CONSTRUCTION FUND . . . . .	55

CHAPTER I  
MINIMUM ACCOUNTING PROCEDURES

## MINIMUM ACCOUNTING PROCEDURES

THE ACCOUNTING PROCEDURES IN THIS CHAPTER ARE FOR BASIC AND SIMPLIFIED SYSTEMS.

### A. FINANCIAL MANAGEMENT SYSTEM

FEDERAL GRANT REGULATIONS REQUIRE THAT A GRANTEE MAINTAIN AN ADEQUATE FINANCIAL MANAGEMENT SYSTEM. SUCH A SYSTEM WILL PROVIDE:

1. ACCOUNTABILITY AND CONTROL OF ALL PROPERTY, FUNDS AND ASSETS.
2. ACCURATE, CURRENT AND COMPLETE DISCLOSURE OF THE FINANCIAL RESULTS OF EACH GRANT PROGRAM.
3. ACCOUNTABILITY OF PROJECT FUNDS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES, CONSISTENTLY APPLIED.
4. RECORDS THAT IDENTIFY THE SOURCE AND APPLICATION OF FUNDS.
5. ACCOUNTING RECORDS WHICH ARE SUPPORTED BY SOURCE DOCUMENTS.
6. WRITTEN PURCHASING POLICY WHICH SETS FORTH PROCEDURES FOR COMPETITIVE BIDDING.
7. SEGREGATION OF ELIGIBLE AND INELIGIBLE PROJECT COSTS.

B. MINIMUM RECORDS

IN ORDER TO ASSURE COMPLIANCE WITH THE REGULATIONS FOR AN ADEQUATE SYSTEM, THE FOLLOWING MINIMUM RECORDS SHOULD BE KEPT:

1. SEPARATE BANK ACCOUNT - TO BE USED FOR THE CONSTRUCTION GRANT PROJECT, IN WHICH ALL RECEIPTS AND DISBURSEMENTS ARE MADE. A CHECKBOOK SHOULD BE MAINTAINED WITH A MONTHLY RECONCILIATION MADE BETWEEN THE BANK ACCOUNT AND ACCOUNTING RECORDS. CHECKS WRITTEN ON THE ACCOUNT SHOULD BE CROSS-REFERENCED TO SOURCE DOCUMENTS AND PROJECT LEDGER.
2. PROJECT LEDGER - TO RECORD ALL RECEIPTS AND DISBURSEMENTS, AND TO CLASSIFY EXPENDITURES AS EITHER ELIGIBLE OR INELIGIBLE, AND ADMINISTRATIVE, ENGINEERING, PUBLIC PARTICIPATION, CONSTRUCTION, OR MISCELLANEOUS. (SEE FIGURE 2 - SAMPLE ENTRIES FOR PROJECT LEDGER).
3. ORIGINAL DOCUMENTS - ARE THE SOURCE DOCUMENTS FOR ALL TRANSACTIONS, TO BE RETAINED AND CROSS-REFERENCED TO CANCELLED CHECKS AND THE PROJECT LEDGER. EXAMPLES OF ORIGINAL DOCUMENTS ARE INVOICES AND TIME SHEETS.
4. PAYROLL RECORDS - TO DOCUMENT PAYROLL INFORMATION FOR ALL EMPLOYEES CHARGED TO THE PROJECT. TIME SHEETS SHOULD BE USED

TO ACCOUNT FOR ALL OF EACH SUCH EMPLOYEE'S TIME, AND SIGNED BY EMPLOYEE AND SUPERVISOR. THE TIME SHEETS SHOULD DISTRIBUTE LABOR HOURS BETWEEN THE GRANTS PROGRAM AND ALL OTHER ACTIVITIES. (SEE SAMPLE ENTRIES FOR TIME SHEET).

5. PROPERTY RECORDS - MAINTAINED FOR ALL GRANT PROPERTY INCLUDING INFORMATION SUCH AS DATE ACQUIRED, DESCRIPTION, SERIAL NUMBER, WITH AMOUNT PAID AND LOCATION. ANNUAL INVENTORY SHOULD BE MADE WITH RECONCILIATION TO PROPERTY RECORDS.
  
6. FILING SYSTEM - FOR RETAINING ALL DOCUMENTS PERTAINING TO THE PROJECT. THERE SHOULD BE A SYSTEM FOR FILING ACCOUNTING DOCUMENTS, WHICH ARE CROSS-REFERENCED TO THE PROJECT LEDGER TO PROVIDE A CLEAR AUDIT TRAIL OF ALL TRANSACTIONS. THE FILES SHOULD ALSO CONTAIN ALL OFFICIAL PROJECT DOCUMENTS SUCH AS CONTRACTS, CANCELLED CHECKS AND BANK STATEMENTS, LETTERS, MEMOS OR OTHER APPROVAL RECORDS.

C. INTERNAL CONTROL PROCEDURES

THE KEY ELEMENTS OF INTERNAL CONTROL ARE AS FOLLOWS:

1. A PLAN OF FINANCIAL ORGANIZATION TO PROVIDE APPROPRIATE SEGREGATION OF RESPONSIBILITIES.



2. NO ONE PERSON SHOULD HAVE COMPLETE CONTROL OVER ALL PHASES OF A TRANSACTION INVOLVING EXPENDITURES OF FUNDS.
3. RECORDKEEPING SHOULD BE SEPARATED FROM OPERATIONS IN THE HANDLING AND CUSTODY OF ASSETS.
4. WRITTEN PROCEDURES CONCERNING HOW THINGS ARE DONE AND WHO HAS THE RESPONSIBILITY OF DOING AND APPROVING THEM.
5. WRITTEN APPROVALS AT EACH MAJOR STEP OF THE PROCESS.
6. AN INTERNAL REVIEW TO VERIFY THAT THE ESTABLISHED PROCEDURES WERE FOLLOWED.
7. INDEPENDENT AUDITS SHOULD BE MADE AT THE GRANTEE'S INITIATIVE AT LEAST EVERY TWO YEARS.
8. A SYSTEMATIC METHOD SHOULD BE ESTABLISHED TO ASSURE TIMELY AND APPROPRIATE RESOLUTION OF AUDIT FINDINGS AND RECOMMENDATIONS.
9. COST/PRICE ANALYSIS OF CONTRACTOR PROPOSALS SHOULD BE CARRIED OUT IN ACCORDANCE WITH EPA GRANT REGULATIONS.

SAMPLE TIME SHEET

CITY OF ANYTOWN  
TIME AND LEAVE REPORT

TIME PERIOD Jan. 1-31, 1981  
ORGANIZATION NO. \_\_\_\_\_

EMPLOYEE NAME John Doe  
EMPLOYEE NO. 111-22-3333

DESCRIPTION OF WORK OR LEAVE TIME	DAY OF MONTH																															TOTAL	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31		
Public Participation(EPA)						2			1						3															1		7	
General City Business		6			8	6	8	8	7			8	8	8	5	8				8	8	4	8	8			7	8	8	7	8	154	
Vacation Time		2																														2	
Sick Time																					4						1					5	
Holiday	8																															8	
																																	FIGURE 1

-5-

John Doe  
SIGNATURE OF EMPLOYEE

Joe White  
SIGNATURE OF SUPERVISOR

SAMPLE ENTRIES (FIGURE 2)

GRANTEE: City of Hometown, Texas

EPA CONSTRUCTION GRANT  
STEP 3 PROJECT LEDGER  
PROJECT #C-48- 5555-03

LEDGER SHEET # 1 OF 6

DATE	DESCRIPTION	CHECK NUMBER	RECEIPTS	PAYMENTS	BREAKDOWN OF PAYMENTS								
					ENGINEERING		CONSTRUCTION		ADMINISTRATIVE AND FORCE ACCOUNT		TOTAL		
					ELIGIBLE	INELIGIBLE	ELIGIBLE	INELIGIBLE	ELIGIBLE	INELIGIBLE	ELIGIBLE	INELIGIBLE	
5-05-81	The Daily News Invoice #63 For Bid Advertising	1670		300.00						300.00		300.00	
5-26-81	ABC Engineering Invoice #600 Const. Bids and Contract Review	1671		1,263.00	1,200.00	(1) 63.00						1,200.00	63.00
5-31-81	Total Eligible Costs For May Payment Request #1 Submitted				1,200.00					300.00		1,500.00	63.00
6-26-81	EPA Grant Check (P.R.#1) 75% of Eligible Expenses		1,125.00										
6-28-81	ABC Engineering Invoice #601 General Supervision 95% Eligible	1672		316.00	300.00	(1) 16.00						300.00	16.00
6-29-81	AAA Construction Co. (Estimates #1) 3% Complete 95% Eligible	1673	(2)	24,000.00			22,800.00	1,200.00				22,800.00	1,200.00
6-30-81	Resident Inspection For June City Force Account 95% Eligible	p. 507 p. 508 p. 509	(3)	842.00					800.00	(1) 42.00		800.00	42.00
6-30-81	Fringe Benefit Expenses For June 11.5% of Res. Insp. Salaries			97.00					92.00	(1) 5.00		92.00	5.00
6-30-81	Total Eligible Costs For June Payment Request #2 Submitted				300.00		22,800.00		892.00			23,992.00	1,263.00
7-24-81	EPA Grant Check (P.R. #2) 75% of Eligible Expenses		17,994.00										
7-28-81	ABC Engineering Invoice #602 Final Plan of Operations	(4)			500.00							500.00	
	(1) Since 95% of Construction is Eligible, only 95% of Engineering and Inspection is Eligible.	(2)	Construction complete (\$26,667) less 10% retainage equals \$24,000 due contractor				(4) Cost incurred, not yet paid (when paid, enter check number and amount of payment)						
		(3)	Resident Inspector's salary paid from city's General Operating Funds (payroll)										

-6-

FIGURE 2

CHAPTER II  
MINIMUM PROPERTY MANAGEMENT PROCEDURES

## MINIMUM PROPERTY MANAGEMENT PROCEDURES

FEDERAL REGULATIONS REQUIRE THAT A GRANTEE COMPLY WITH THE FOLLOWING PROPERTY MANAGEMENT STANDARDS. RECIPIENTS MAY USE THEIR OWN PROPERTY MANAGEMENT SYSTEM IF THE SYSTEM MEETS THE FOLLOWING MINIMUM STANDARDS.

A. MAINTAIN ACCURATE RECORDS REFLECTING:

1. A DESCRIPTION OF THE PROPERTY.
2. MANUFACTURER'S SERIAL NUMBER, MODEL NUMBER, OR OTHER IDENTIFICATION.
3. SOURCE OF THE PROPERTY, INCLUDING ASSISTANCE IDENTIFICATION NUMBER.
4. WHETHER TITLE IS VESTED IN THE RECIPIENT OR THE FEDERAL GOVERNMENT.
5. UNIT ACQUISITION DATE AND COST.
6. THE PERCENTAGE OF THE FEDERAL SHARE OF THE COST.
7. LOCATION, USE, AND CONDITION OF PROPERTY AND THE DATE THE INFORMATION WAS RECORDED.
8. ULTIMATE DISPOSITION DATA, INCLUDING SALES PRICE OR THE METHOD

USED TO DETERMINE THE PRICE, OR THE METHOD USED TO DETERMINE CURRENT FAIR MARKET VALUE WHERE A RECIPIENT COMPENSATES EPA FOR ITS SHARE.

- B. CONDUCT A PHYSICAL INVENTORY OF PROPERTY, AND RECONCILE THE RESULTS WITH THE PROPERTY RECORDS, AT LEAST ONCE EVERY TWO YEARS. YOUR INVENTORY MUST VERIFY THE CURRENT USE AND CONTINUED NEED FOR THE PROPERTY.
- C. MAINTAIN A CONTROL SYSTEM TO PREVENT LOSS, DAMAGE, OR THEFT. (YOU MUST THOROUGHLY INVESTIGATE AND DOCUMENT ANY LOSS, DAMAGE OR THEFT OF NONEXPENDABLE PERSONAL PROPERTY.)
- D. MAINTAIN ADEQUATE MAINTENANCE PROCEDURES THAT ENSURE THE PROPERTY IS IN GOOD CONDITION AND THAT INSTRUMENTS USED FOR PRECISION MEASUREMENTS ARE PERIODICALLY CALIBRATED.
- E. MAINTAIN PROPER SALES PROCEDURE WHICH PROVIDE FOR COMPETITION RESULTING IN THE HIGHEST POSSIBLE RETURN.
- F. MAINTAIN IDENTIFICATION OF FEDERALLY OWNED PROPERTY.

SAMPLE PROPERTY MANAGEMENT PROCEDURES

FIGURE 3

ENTITY: \_\_\_\_\_

PROPERTY AND EQUIPMENT CONTROL

POLICY AND PROCEDURES

POLICY

IT IS THE POLICY OF THIS ENTITY TO MAINTAIN ACCOUNTABILITY OF ALL TANGIBLE PROPERTY AND EQUIPMENT PURCHASED, OR OTHERWISE ACQUIRED, OR FURNISHED BY OTHER AGENCIES. THIS ACCOUNTABILITY SHALL BE MAINTAINED BY RECORDS KEPT BY THE \_\_\_\_\_, AND THE RECORDS SHALL BE VERIFIED AT LEAST ONCE EVERY TWO YEARS BY A PHYSICAL INVENTORY OF THE PROPERTY IN THE ENTITY'S POSSESSION, AND RECONCILED APPROPRIATELY.

GENERAL

THIS PROCEDURE DESCRIBES THE REQUIREMENTS AND PROCEDURES FOR MAINTAINING ACCOUNTABILITY OF ALL TANGIBLE NONEXPENDABLE PERSONAL PROPERTY IN POSSESSION OF THE ENTITY. ALL ITEMS, EITHER OWNED BY THE ENTITY, OR LOANED OR FURNISHED TO IT FROM OTHER SOURCES, HAVING AN INDIVIDUAL UNIT VALUE OF \$500 OR MORE AND A USEFUL LIFE OF TWO YEARS OR MORE ARE COVERED BY THIS PROCEDURE. LAND, PERMANENT BUILDINGS AND STRUCTURES ARE EXCLUDED FROM THIS PROCEDURE.

## DEFINITIONS

ACQUISITION VALUE OR INDIVIDUAL UNIT VALUE: THE PRICE OF THE ITEM PAID AT THE TIME OF PURCHASE BY THE ENTITY, INCLUDING APPLICABLE TAXES, FREIGHT, AND INSTALLATION COSTS. DONATED ITEMS OR ITEMS OTHERWISE FURNISHED SHALL HAVE THEIR ACQUISITION VALUE ESTIMATED ON THE BASIS OF THE CURRENT MARKET REPLACEMENT VALUE. INDIVIDUAL ITEMS ACQUIRED AS PART OF A PACKAGE CONTRACT SHALL ALSO HAVE THEIR ACQUISITION VALUE ESTIMATED AT THE CURRENT MARKET REPLACEMENT VALUE.

NONEXPENDABLE PERSONAL PROPERTY: ANY TANGIBLE ITEM OF PROPERTY, NOT INCLUDING LAND, PERMANENT BUILDINGS OR STRUCTURES HAVING A USEFUL LIFE OF TWO YEARS OR MORE. THIS INCLUDES ANY ITEMS ATTACHED TO A PERMANENT STRUCTURE THAT CAN BE REMOVED OR REPLACED, AND ITEMS THAT HAVE BEEN INSTALLED ON OTHER NONEXPENDABLE PROPERTY. AN EXAMPLE IS A RADIO INSTALLED ON A VEHICLE. BOTH RADIO AND THE VEHICLE MUST BE IDENTIFIED, AND SEPARATELY.

## PROCEDURE

1. AT THE TIME AN ITEM OF NONEXPENDABLE PERSONAL PROPERTY IS RECEIVED BY THE ENTITY, EITHER THROUGH DIRECT PURCHASE, AS PART OF A PACKAGE CONTRACT, DONATION, OR SOME OTHER MEANS, THE ITEM SHALL BE ASSIGNED AN ENTITY IDENTIFICATION NUMBER, AND A TAG CONTAINING THIS NUMBER SHALL BE PERMANENTLY AFFIXED TO THE ITEM, IN A CONSPICUOUS PLACE. AN



ENTRY SHALL BE MADE IN THE ENTITY'S PROPERTY LOG MAINTAINED BY THE \_\_\_\_\_ AND AN INDIVIDUAL PROPERTY CARD SHALL BE PREPARED AND MAINTAINED ON FILE BY THE \_\_\_\_\_.

2. WHEN AN ITEM, OR GROUP OF ITEMS IS RECEIVED, BUT BEFORE THE ITEM IS PLACED IN SERVICE, THE FOLLOWING ACTIONS WILL BE PERFORMED:
  - A. A COPY OF THE CONTRACT OR PURCHASE ORDER SHALL BE SENT TO THE \_\_\_\_\_.
  - B. AN ENTITY IDENTIFICATION NUMBER SHALL BE ASSIGNED, AND AN IDENTIFICATION TAG BEARING THAT NUMBER SHALL BE AFFIXED TO THE ITEM. THE IDENTIFICATION NUMBER OF THE ITEM SHALL BE PROVIDED TO THE \_\_\_\_\_.
  - C. THE \_\_\_\_\_ SHALL ENTER THE ITEM IN THE ENTITY PROPERTY LOG, INCLUDING ALL OF THE FOLLOWING INFORMATION:
    - (1) DESCRIPTION OF THE ITEM
    - (2) MANUFACTURER'S SERIAL NUMBER
    - (3) ENTITY IDENTIFICATION NUMBER
    - (4) DATE OF ACQUISITION - THIS IS THE DATE THE ENTITY TOOK ACTUAL POSSESSION OF THE ITEM.

- (5) ACQUISITION COST - THIS IS THE PRICE PAID FOR THE ITEM, INCLUDING APPLICABLE TAXES, FREIGHT AND ANY INSTALLATION COSTS. IF THIS COST INFORMATION IS NOT AVAILABLE BECAUSE THE ITEM IS NOT A DIRECT ENTITY PURCHASE, THE VALUE MAY BE ESTIMATED BASED ON CURRENT MARKET REPLACEMENT COSTS.
- (6) GRANT NUMBER - IF THE ITEM IS ACQUIRED USING FUNDS PROVIDED UNDER A FEDERAL GRANT, THE GRANT NUMBER SHALL BE ENTERED.
- (7) CONTRACT OR P.O. NUMBER - THE CONTRACT OR PURCHASE ORDER UNDER WHICH THE ITEM WAS PROCURED.
- (8) OWNERSHIP - SHOW THE ENTITY'S NAME (CITY, DISTRICT, ETC.) IF PROCURED BY THE ENTITY, OR IF ON LOAN FROM ANOTHER AGENCY, IDENTIFY THE AGENCY.
- (9) LOCATION - THE PHYSICAL LOCATION OF THE ITEM WHEN IN USE. IF THE ITEM IS A VEHICLE OR PORTABLE, SHOW ITS RESPONSIBLE DEPARTMENT.
- (10) RESPONSIBLE DEPARTMENT - THE DEPARTMENT RESPONSIBLE FOR THE ITEM, AND TO WHICH THE ITEM IS ASSIGNED.

D. THE \_\_\_\_\_ SHALL MAKE UP A PROPERTY CARD, WHICH CONTAINS THE SAME INFORMATION AS THE PROPERTY LOG, FOR EACH

INDIVIDUAL ITEM. THE LOCATION ENTRY ON THIS CARD SHALL BE REVISED EACH TIME THE ITEM IS MOVED TO A NEW LOCATION, AND/OR THE RESPONSIBLE DEPARTMENT CHANGES. THE ACQUISITION VALUE SHOWN ON THE PROPERTY CARD, AND ON THE PROPERTY LOG MUST AGREE AT THE TIME OF ACQUISITION.

3. AT LEAST ONCE EVERY TWO YEARS A COMPLETE INVENTORY OF ALL ENTITY PROPERTY SHALL BE CONDUCTED. THE PURPOSE OF THIS INVENTORY IS TO ASSURE THAT ALL ENTITY PROPERTY IS ACTUALLY IN THE POSSESSION OF THE ENTITY AND PROPERLY ACCOUNTED FOR.

THE INVENTORY FOR EACH ENTITY DEPARTMENT SHALL BE CONDUCTED BY A PERSON WHO IS NOT ASSIGNED TO THE DEPARTMENT AND WHO HAS NO CONNECTION WITH THE DEPARTMENT BEING INVENTORIED.

THE INVENTORY SHALL CONSIST OF ACTUALLY LOCATING EACH ITEM LISTED ON THE PROPERTY LOG. THE PERSON CONDUCTING THE INVENTORY SHALL PHYSICALLY IDENTIFY THE PROPERTY ITEM BY DESCRIPTION, MANUFACTURER'S SERIAL NUMBER AND CITY IDENTIFICATION NUMBER FROM THE IDENTIFICATION TAG ON THE ITEM. THE LOCATION AND RESPONSIBLE DEPARTMENT SHALL BE NOTED ON AN INVENTORY SHEET. THE PHYSICAL CONDITION OF THE ITEM SHALL ALSO BE NOTED. THIS SHEET WILL THEN BE SENT TO THE \_\_\_\_\_ WHO WILL VERIFY THAT THE DATA ON THE INVENTORY SHEET MATCHES THE INFORMATION ON THE PROPERTY LOG. A COPY OF THE INVENTORY SHEET SHALL ALSO BE SENT TO THE \_\_\_\_\_ WHO WILL VERIFY THE INFORMATION ON THE PROPERTY CARDS.

IF ANY PROPERTY ITEMS ARE LOCATED, WHICH ARE NOT TAGGED, THEN THESE ITEMS SHALL BE TAGGED IMMEDIATELY, AND THE APPROPRIATE ENTRIES MADE IN THE PROPERTY LOG, AND NEW PROPERTY CARDS PREPARED.

4. IF ANY ITEMS ARE MISSING AT COMPLETION OF THE INVENTORY, OR IF ANY ITEM IS LOST, STOLEN OR VANDALIZED AT ANY TIME, THE RESPONSIBLE DEPARTMENT HEAD SHALL IMMEDIATELY NOTIFY THE LOCAL POLICE DEPARTMENT TO INITIATE THE APPROPRIATE INVESTIGATION. THE \_\_\_\_\_ AND THE \_\_\_\_\_ SHALL ALSO BE NOTIFIED OF THE LOSS, AND THE ACTION BEING TAKEN TO RECOVER THE LOST ITEM.

5. IF ANY ITEM OF PROPERTY IS DISPOSED OF, THE \_\_\_\_\_ SHALL BE NOTIFIED AND PROVIDED THE FOLLOWING INFORMATION FOR THE PROPERTY LOG:

A. THE DISPOSITION OF THE PROPERTY, AND REASON

B. THE DATE DISPOSED OF

C. DOLLAR AMOUNT OF REVENUE FROM THE DISPOSAL ACTION

THIS SAME INFORMATION SHALL ALSO BE PROVIDED TO THE \_\_\_\_\_ FOR ENTRY IN THE APPROPRIATE PROPERTY CARD.

THIS POLICY AND PROCEDURE APPROVED AND ADOPTED:

---

SIGNATURE

DATE

---

SIGNATURE

DATE

---

SIGNATURE

DATE

---

SIGNATURE

DATE

---

SIGNATURE

DATE

CHAPTER III  
ADMINISTRATIVE EXPENSES, FORCE ACCOUNT  
AND INDIRECT COSTS

## ADMINISTRATIVE EXPENSES, FORCE ACCOUNT AND INDIRECT COSTS

### A. ADMINISTRATIVE EXPENSES

GRANTEE ADMINISTRATIVE WORK RELATED TO A GRANT PROJECT MAY BE ALLOWABLE AND ELIGIBLE FOR REIMBURSEMENT. COSTS OF SALARIES, BENEFITS, AND EXPENDABLE MATERIAL THE GRANTEE INCURS FOR A PROJECT MUST CLEARLY BE FOR THE BENEFIT OF THAT PROJECT AND NOT BE ORDINARY OPERATING EXPENSES OF LOCAL GOVERNMENT.

SUCH ORDINARY OPERATING EXPENSES OF LOCAL GOVERNMENT AS SALARIES OF MAYORS, CITY COUNCIL MEMBERS, AND CITY ATTORNEYS ARE UNALLOWABLE. HOWEVER, IF THE GRANTEE HAS AN APPROVED INDIRECT COST AGREEMENT, WHICH CONTAINS THESE EXPENSES, THESE COSTS MAY BE ALLOWABLE IF THE INDIRECT COST AGREEMENT IS INCORPORATED IN THE GRANT AGREEMENT. (INDIRECT COSTS OF GRANTEES, PAGE 22).

ALL ADMINISTRATIVE, MISCELLANEOUS, AND PUBLIC PARTICIPATION EXPENSES MUST BE INCLUDED IN THE GRANT APPLICATION AND GRANT AGREEMENT. DOCUMENTATION IS NECESSARY FOR REIMBURSEMENT OF THESE COSTS. TIME SHEETS, LABOR DISTRIBUTIONS, PAYROLL RECORDS, INVOICES, RECEIPTS, CANCELLED CHECKS, REQUISITIONS, TRAVEL EXPENSE STATEMENTS, AND ANY OTHER DOCUMENT SHOWING EXPENDITURES FOR GOODS OR SERVICES, AND PROOF OF PAYMENT, ARE THE TYPES OF DOCUMENTS REQUIRED.

## B. FORCE ACCOUNT

WHENEVER A GRANTEE USES ITS OWN EMPLOYEES OR MATERIAL FOR WORK UNDER A GRANT PROJECT, THIS TYPE OF WORK IS CALLED FORCE ACCOUNT.

USE OF THE FORCE ACCOUNT METHOD REQUIRES PRIOR WRITTEN APPROVAL BY THE TMDB PROJECT ENGINEER WHEN THE COSTS ARE OVER \$25,000 IN STEP 3, UNLESS THE GRANT AGREEMENT STIPULATES THE FORCE ACCOUNT METHOD. A GRANTEE SHOULD USE EPA FORM 5700-41 TO DETAIL THE COSTS OF THE PROPOSED FORCE ACCOUNT WORK IN THE GRANT APPLICATION.

DOCUMENTATION IS NECESSARY FOR REIMBURSEMENT FOR FORCE ACCOUNT WORK. LABOR COSTS SHOULD BE SUPPORTED BY TIME SHEETS WHICH ACCOUNT FOR ALL OF THE TIME OF EACH EMPLOYEE (SEE SAMPLE ENTRIES FOR TIME SHEET). PAYROLL RECORDS, INCLUDING LABOR DISTRIBUTION, SHOULD DOCUMENT ALL LABOR COSTS. MATERIALS AND SUPPLIES PURCHASED FOR THE PROJECT WILL REQUIRE INVOICES AND PROOF OF PURCHASE (CANCELLED CHECKS) AS SUPPORTING DOCUMENTS. IN SOME INSTANCES, MATERIAL MAY BE OBTAINED FROM SUPPLIES ON HAND. SOME METHOD OF EQUITABLE ALLOCATION OF THE MATERIAL TO THE GRANT PROJECT MUST BE USED TO SUPPORT THE COSTS CLAIMED.

## C. INDIRECT COSTS OF GRANTEE

INDIRECT COSTS ARE THOSE COSTS INCURRED FOR A COMMON OR JOINT PURPOSE BENEFITING MORE THAN ONE COST OBJECTIVE. SINCE THE COSTS ARE NOT



READILY IDENTIFIABLE TO A PARTICULAR COST OBJECTIVE, THEY ARE USUALLY ACCUMULATED IN A POOL. THIS GROUPING MAY CONSIST OF CATEGORIES SUCH AS RENT, TELEPHONE, UTILITIES, SALARIES OF SUPPORT PERSONNEL, AND OTHER ITEMS OF AN OVERHEAD NATURE. AN INDIRECT COST RATE IS SIMPLY THE RELATIONSHIP OF THIS COST POOL TO A DIRECT COST BASE EXPRESSED AS A PERCENTAGE.

IN ORDER FOR A GRANTEE TO CLAIM INDIRECT COSTS FOR REIMBURSEMENT UNDER FEDERAL GRANTS, AN INDIRECT COST AGREEMENT MUST BE NEGOTIATED, APPROVED IN ADVANCE, AND INCORPORATED IN THE GRANT AGREEMENT. (SEE FIGURE 3 - INDIRECT COST RATE COMPUTATION).

FURTHER INFORMATION ON INDIRECT COSTS MAY BE OBTAINED FROM (1) OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-87, COST PRINCIPLES APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS; (2) OASC-10, A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES, U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE.

FIGURE 4

EXAMPLE - INDIRECT COST RATE COMPUTATION (RATE INCLUDES BOTH G&A AND  
FRINGE BENEFITS)

ALLOWABLE DIRECT LABOR COSTS (EXCLUDING RELEASE TIME)\* \$143,000

<u>CATEGORY</u>	<u>NON-ALLOWABLE INDIRECT COST</u>	<u>ALLOWABLE INDIRECT COST</u>
INDIRECT SALARIES		\$ 46,200
VACATION LEAVE		10,200
SICK LEAVE		4,900
MILITARY LEAVE		800
HOLIDAY LEAVE		1,200
GROUP INSURANCE		1,500
FICA TAX		10,000
TEC UNEMPLOYMENT TAX		1,200
MAINTENANCE AND REPAIR		9,900
SUPPLIES		2,600
TELEPHONE		1,200
RENT		4,800
UTILITIES		1,500
INDIRECT TRAVEL		1,000
DEPRECIATION		3,000
CONTINGENCIES	\$ 2,000	
CONTRIBUTIONS	1,400	
ENTERTAINMENT	6,000	
INTEREST EXPENSE	7,000	
	<u>\$16,400</u>	<u>\$100,000</u>

COMPUTATION: ALLOWABLE INDIRECT COST ÷ ALLOWABLE DIRECT LABOR COSTS

$$\frac{\$100,000}{\$143,000} = \text{INDIRECT COST RATE OF 70\% OF DIRECT LABOR}$$

\*RELEASE TIME INCLUDES VACATION, SICK, MILITARY, AND HOLIDAY LEAVE.

CHAPTER IV  
CONSTRUCTION GRANT ACCOUNTING SYSTEM

## CONSTRUCTION GRANT ACCOUNTING SYSTEM

THE ACCOUNTING PROCEDURES IN THIS CHAPTER ARE FOR MORE ADVANCED OR SOPHISTICATED SYSTEMS.

### BACKGROUND INFORMATION

THE ENVIRONMENTAL PROTECTION AGENCY (EPA) CONSTRUCTION GRANTS PROGRAM, AS AUTHORIZED BY THE WATER QUALITY ACT OF 1987, PROVIDES FOR GRANT AND LOAN ASSISTANCE TO CONSTRUCT PUBLICLY OWNED WASTE TREATMENT WORKS. THIS ACT ALSO CONTAINS REQUIREMENTS CONCERNING RECORDKEEPING AND AUDITS FOR GRANTEEES. THE ENVIRONMENTAL PROTECTION AGENCY HAS DELEGATED THE RESPONSIBILITY OF ADMINISTERING THE CONSTRUCTION GRANTS AND LOANS PROGRAM TO THE TEXAS WATER DEVELOPMENT BOARD (TWDB).

UNDER THE TEXAS WATER CODE, THE TEXAS CONSTITUTION PROVIDES FOR FINANCIAL ASSISTANCE IN THE CONSTRUCTION OF TREATMENT WORKS FOR POLITICAL SUBDIVISIONS OF THE STATE. A POLITICAL SUBDIVISION MEANS THE STATE, A COUNTY, CITY OR OTHER BODY POLITIC OR CORPORATE OF THE STATE. FINANCIAL ASSISTANCE MEANS ANY LOAN OF WATER QUALITY ENHANCEMENT FUNDS MADE TO A POLITICAL SUBDIVISION FOR THE CONSTRUCTION OF TREATMENT WORKS THROUGH THE PURCHASE OF BONDS OR OTHER OBLIGATIONS OF THE POLITICAL SUBDIVISION.

## CONSTRUCTION GRANTS

ANY MUNICIPAL ENTITY RECEIVING A FEDERAL GRANT, A STATE LOAN OR A COMBINATION GRANT/LOAN FOR THE CONSTRUCTION OF SEWER TREATMENT WORKS IS CHARGED WITH THE ACCOUNTABILITY OF THE REQUIREMENTS THESE CARRY. IN ORDER TO HAVE AN ACCEPTABLE ACCOUNTING SYSTEM, THERE MUST BE BOOKS AND RECORDS SHOWING ALL FINANCIAL TRANSACTIONS; DOCUMENTATION OF ALL RECEIPTS AND DISBURSEMENT TRANSACTIONS; AND THESE MUST BE GROUPED INTO THE PROPER ACCOUNTS. THE CONSTRUCTION FUND IS TO BE USED FOR THE RECORDING OF THESE PROJECT TRANSACTIONS.

RECOMMENDED STANDARDS TO BE CARRIED OUT ARE:

1. THE ACCOUNTING SYSTEM SHOULD BE A DOUBLE ENTRY SYSTEM SET UP UNDER THE FUND CONCEPT.
2. THERE SHOULD BE A CASH RECEIPTS JOURNAL FOR THE RECORDING AND IDENTIFICATION OF ALL MONIES RECEIVED.
3. THERE SHOULD BE A CASH DISBURSEMENT JOURNAL FOR THE RECORDING OF ALL CHECKS ISSUED WITHDRAWING FUNDS FROM THIS PROJECT ACCOUNT. APPROPRIATE DISTINCTION MUST BE MADE BETWEEN DIRECT AND INDIRECT COSTS, ALLOWABLE AND UNALLOWABLE COSTS, AND ELIGIBLE AND INELIGIBLE COSTS.
4. THERE SHOULD BE A SEPARATE BANK ACCOUNT IN WHICH ALL SEWER TREATMENT WORKS PROJECT MONIES ARE TO BE DEPOSITED INTACT; ALL PROJECT EXPENDITURES ARE TO BE PAID FROM THIS BANK ACCOUNT.

5. A GENERAL LEDGER SHOULD BE MAINTAINED TO RECORD ALL ACCOUNTING TRANSACTIONS.
6. A SUBSIDIARY LEDGER SHOULD BE MAINTAINED TO ACCUMULATE ALL PROJECT COSTS BY SEPARATE PROJECTS.
7. JOURNAL VOUCHERS SHOULD BE USED TO DOCUMENT AND RECORD TRANSACTIONS WHICH ARE NOT RECORDED FROM THE CASH RECEIPTS OR CASH DISBURSEMENTS JOURNALS.
8. RECORDING OF ALL TRANSACTIONS PERTAINING TO THE CONSTRUCTION PROJECT MUST BE SUPPORTED BY APPROPRIATE DOCUMENTATION.
9. PAYROLL RECORDS SHOULD BE MAINTAINED TO ACCUMULATE THE PAYROLL DATA FOR EACH EMPLOYEE. IN ADDITION, TIME AND WORK REPORTS MUST BE MAINTAINED INDICATING THE AREAS WORKED AND TIME WORKED BY EACH EMPLOYEE ON THIS PROJECT.

A SAMPLE TRANSACTIONS AND BOOKKEEPING SYSTEM FOLLOWS:

FIGURE 5

SAMPLE TRANSACTIONS

1. TO OPEN A NEW BANK ACCOUNT IN THE CONSTRUCTION FUND, THE CITY OF NEARVIEW TRANSFERRED \$1,000.00 FROM ITS GENERAL FUND ON OCTOBER 2, 1976.
2. THE THIRD NATIONAL BANK OF NEARVIEW CHARGED THE CITY OF NEARVIEW \$10.00 FOR PRINTING CHECKS.
3. PAID FOR BID ADVERTISEMENTS.
4. THE CITY OF NEARVIEW RECEIVED THE BOND PROCEEDS FROM THE WATER QUALITY ENHANCEMENT FUND OF \$250,000.00 AND THE ACCRUED INTEREST OF \$3,437.00.
5. CHEATHAM & CHEATHAM, ATTORNEYS AT LAW, WERE PAID LEGAL FEES OF \$6,000.00.
6. SECOND SOUTHWEST COMPANY, THE CITY FINANCIAL ADVISORS WERE PAID FOR HANDLING THE BOND ISSUE. \$7,500.00.
7. PURCHASED \$200,000.00 IN CERTIFICATES OF DEPOSIT.
8. RECEIVED FROM EPA PROCEEDS FOR STEP #1 GRANT.
9. PAID ENGINEERING FIRM FOR STEP #1 SEWER PROJECT.
10. RECEIVED FROM EPA PROCEEDS FOR STEP #2 GRANT.
11. PAID ENGINEERING FIRM FOR STEP #2 SEWER PROJECT.
12. MADE TRANSFER OF MONEY LOANED FROM GENERAL FUND.
13. MADE TRANSFER OF INTEREST ACCRUED ON BONDS AT DATE OF SALE TO INTEREST AND SINKING FUND.
14. TOTAL AND RULE JOURNALS FOR THE MONTH; POST TOTALS TO GENERAL LEDGER.







**CONSTRUCTION FUND**

**Cash Disbursement Journal**

CD-1

Date	Payee	Ck. No.	Bk. Ch. Amt.		Transfers	Construction	Subsidiary Account	General Ledger	
			Cr.	Dr.				Acct. No.	Dr.
1976									
10-5	Third Nat'l. Bk.	04	1,000			10.00	Co.		(2)
10-5	Dailey Times	01	30.00			30.00	Bid. Adv.		(3)
10-12	Cheatham & Cheatham	02	6,000.00			6,000.00	Local		(4)
10-12	Second South West Co.	03	7,500.00			7,500.00	Band. fee		(5)
10-12	Third Nat'l. Bk.	04	200,000.00	200,000.00					(6)
10-15	Nodam & Swindam	05	4,197.00			4,197.00	Engineer's		(7)
10-26	Nodam & Swindam	06	18,920.00			18,920.00	Engineer's		(8)
10-26	City of Nearview - Gen. Fd.	07	1,000.00		1,000.00				(9)
10-26	City of Nearview - I & S Fd.	08	3,437.00					Accrued Int.	3,437.00
	<b>Totals</b>		<b>241,094.00</b>	<b>200,000.00</b>	<b>1,000.00</b>	<b>36,657.00</b>			<b>3,437.00</b>

















**FIGURE 7**

**Monthly Financial Statement**

Name: City of Nearview WPC-Tex 123

**Schedule of Receipts and Disbursements**  
 For the Period from 10-1-76 through 10-31-76

<u>RECEIPTS:</u>	<u>Month</u>	<u>Year to Date</u>
Fund Transfers	\$ 1,000.00	\$ 1,000.00
Federal Grant - EPA	24,387.00	24,387.00
Bonds - TWDB Enhancement Fund	250,000.00	250,000.00
Premiums or (discounts) on bonds issued	3,437.00	3,437.00
Accrued Interest on Bonds issued	3,437.00	3,437.00
Earned Interest Income	_____	_____
Other: _____	_____	_____
_____	_____	_____
_____	_____	_____
<b>Total Receipts</b>	<b>\$ 278,824.00</b>	<b>\$ 278,824.00</b>

<u>DISBURSEMENTS:</u>	<u>Month</u>	<u>Year to Date</u>
Architectural - Engineering Fees	\$ 23,117.00	\$ 23,117.00
Engineering - Staking/Inspection	_____	_____
Engineering - O & M Manual	_____	_____
Engineering - Other	_____	_____
Construction Costs	_____	_____
Financial Advisor	7,500.00	7,500.00
Legal	6,000.00	6,000.00
Interest	_____	_____
Investments Purchased	200,000.00	200,000.00
Other: <u>Transfer - to paid advance GF</u>	1,000.00	1,000.00
<u>Transfer - Debt Service Fd.</u>	3,437.00	3,437.00
<u>Bid Advertisement</u>	30.00	30.00
<u>Supplies - Checks Printed</u>	10.00	10.00
<b>Total Disbursements</b>	<b>\$ 241,094.00</b>	<b>\$ 241,094.00</b>
<b>Net receipts over disbursements</b>	<b>\$ 37,730.00</b>	<b>\$ 37,730.00</b>

\_\_\_\_\_  
 (Date) (Signature)



CHAPTER V  
GENERAL GOVERNMENTAL ACCOUNTING SYSTEM

## GENERAL GOVERNMENTAL ACCOUNTING SYSTEM

GOVERNMENTAL ENTITIES MUST COMPLY WITH MANY AND VARIED LEGAL REGULATIONS THAT AFFECT THEIR FINANCIAL MANAGEMENT AND ACCOUNTING. A GOVERNMENT ACCOUNTING SYSTEM MUST MAKE IT POSSIBLE TO SHOW THAT ALL APPLICABLE LEGAL PROVISIONS HAVE BEEN COMPLIED WITH AS WELL AS TO DETERMINE FAIRLY, THE FINANCIAL POSITION AND RESULTS OF FINANCIAL OPERATIONS OF THE GOVERNMENTAL UNIT. THUS, FUND ACCOUNTING EVOLVED BECAUSE PORTIONS OF A GOVERNMENT'S RESOURCES MAY BE RESTRICTED AS TO HOW THE MONEY CAN BE SPENT.

THIS MANUAL HAS BEEN PREPARED TO ASSIST THE ENTITIES IN ESTABLISHING AN ACCEPTABLE ACCOUNTING SYSTEM.

A FUND IS DEFINED AS AN INDEPENDENT FISCAL AND ACCOUNTING ENTITY WITH A SELF-BALANCING SET OF ACCOUNTS RECORDING CASH AND/OR OTHER RESOURCES TOGETHER WITH ALL RELATED LIABILITIES, OBLIGATIONS, RESERVES, AND EQUITIES WHICH ARE SEGREGATED FOR THE PURPOSE OF CARRYING ON SPECIFIC ACTIVITIES OR ATTAINING CERTAIN OBJECTIVES IN ACCORDANCE WITH SPECIAL REGULATIONS, RESTRICTIONS, OR LIMITATIONS. GOVERNMENTAL ACCOUNTING SYSTEMS SHOULD BE ORGANIZED AND OPERATED ON A FUND BASIS WITH A COMPLETE SELF-BALANCING GROUP OF ACCOUNTS ESTABLISHED AND MAINTAINED FOR EACH FUND.

AN ACCOUNTING SYSTEM CAN BE DESCRIBED AS THE MEANS BY WHICH THE MANAGEMENT OF AN ENTITY ACCOMPLISHES THE COLLECTING, PROCESSING, AND REPORTING OF THE ESSENTIAL DATA THAT REFLECTS THE RESULTS OF THE OPERATIONS CARRIED OUT UNDER ITS DIRECTION AND SUPERVISION. AN ACCOUNTING SYSTEM INCLUDES THE FORMS, RECORDS, PROCEDURES, AND DEVICES

UTILIZED IN RECORDING, SUMMARIZING, AND REPORTING THE OPERATING AND FINANCIAL DATA REQUIRED BY MANAGEMENT FOR ITS OWN USE IN CONTROLLING THE ACTIVITIES FOR WHICH IT IS RESPONSIBLE AND FOR PRESENTATION TO INTERESTED PARTIES OUTSIDE THE ENTITY. SINCE GOVERNMENTAL UNITS ARE ORGANIZED BY THE CITIZENRY TO PROVIDE FOR THE MANAGEMENT OF PUBLIC AFFAIRS AND TO PROVIDE OTHER SERVICES TO THE GENERAL PUBLIC, A PRINCIPAL PURPOSE OF PRESENTING FINANCIAL STATEMENTS IS TO REPORT ON THE STEWARDSHIP OF PUBLIC OFFICIALS WITH RESPECT TO PUBLIC FUNDS.

THE VARIETY OF OPERATING PROCEDURES EMPLOYED BY DIFFERENT ENTITIES, THE RANGE OF SIZES AND OPERATING STAFFS, THE DIFFERENT TYPES OF SERVICES PROVIDED AND NUMEROUS OTHER FACTORS COMBINE TO CREATE GREAT ACCOUNTING DIVERSITY AMONG GOVERNMENTAL ENTITIES. THEREFORE, AN ATTEMPT IS MADE TO DESCRIBE A MINIMUM SET OF ACCOUNTING REQUIREMENTS AND A GENERAL ACCOUNTING SYSTEM.

AN ACCOUNTING SYSTEM HEREIN DESCRIBED IS A DOUBLE ENTRY MANUAL SYSTEM. ALL ACCOUNTING RECORDS SHOULD BE MAINTAINED ON A FISCAL YEAR BASIS. THE JOURNALS MUST BE CLOSED AT THE END OF EACH ACCOUNTING CYCLE AND MUST BE CLOSED AT THE END OF THE ENTITY'S FISCAL YEAR. ADDITIONALLY, THE GENERAL LEDGER AND SUBSIDIARY LEDGERS MUST BE CLOSED AT THE END OF THE ENTITY'S FISCAL YEAR.

### BOOKS OF ORIGINAL ENTRY

THE FOLLOWING BOOKS OF ORIGINAL ENTRY ARE DEFINED WITH A BRIEF DESCRIPTION OF THEIR USE:

1. CASH RECEIPTS JOURNAL - THIS IS A MULTI-COLUMN, SPECIAL PURPOSE JOURNAL USED TO RECORD ALL TRANSACTIONS INVOLVING CASH RECEIVED BY THE ENTITY. ENTRIES ARE MADE BY FUND TO SPECIFIC CASH, LIABILITY AND REVENUE ACCOUNTS. MONTHLY, THIS JOURNAL IS CLOSED; COLUMN TOTALS ARE POSTED TO THE APPROPRIATE ACCOUNTS IN THE GENERAL LEDGER.
2. CASH DISBURSEMENTS JOURNAL - THIS IS A MULTI-COLUMN, SPECIAL PURPOSE JOURNAL USED TO RECORD ALL TRANSACTIONS INVOLVING CASH DISBURSED BY THE ENTITY. ENTRIES ARE MADE BY FUND, TO SPECIFIC CASH LIABILITY AND EXPENSE ACCOUNTS. MONTHLY, THIS JOURNAL IS CLOSED; COLUMN TOTALS ARE POSTED TO THE APPROPRIATE ACCOUNTS IN THE GENERAL LEDGER.
3. GENERAL JOURNAL - THIS IS A GENERAL PURPOSE JOURNAL USED TO RECORD ALL NON-CASH TRANSACTIONS OF THE ENTITY. NO SUMMARIZATION TAKES PLACE IN THIS JOURNAL, THUS THE DEBIT AND CREDIT ELEMENTS OF EACH ENTRY MUST BE POSTED TO THE GENERAL LEDGER.

THERE ARE CERTAIN ESSENTIAL REQUIREMENTS OF THESE JOURNALS. SPECIFIC COLUMN HEADINGS IN THE JOURNAL SHEETS SHOULD BE PRINTED OR WRITTEN IN ADVANCE FOR ACCOUNTS TO WHICH FREQUENT ENTRIES ARE EXPECTED TO BE MADE. TWO OR MORE EXTRA DISTRIBUTION COLUMNS SHOULD BE PROVIDED FOR GENERAL LEDGER ACCOUNTS. COLUMNS SHOULD BE PROVIDED FOR DATES, NAMES, AND EXPLANATIONS, AS WELL AS ALLOWING FOR INDICATION BY CHECKMARK THAT POSTINGS HAVE BEEN MADE TO THE SUBSIDIARY LEDGERS.

## GENERAL LEDGERS

A LEDGER IS A FINAL BOOK OF RECORD IN BUSINESS TRANSACTIONS WHERE A SUMMARY OF ACCOUNTS IS KEPT IN WHICH ALL DEBITS AND CREDITS FROM THE JOURNALS ARE POSTED UNDER APPROPRIATE HEADINGS. IN MOST CASES THE LEDGER REFERRED TO IS KNOWN AS THE "GENERAL LEDGER".

FOR GOVERNMENTAL ENTITIES THE GENERAL LEDGER IS A MULTI-FUND GENERAL LEDGER. THE INDIVIDUAL ASSET, LIABILITY, FUND BALANCE, REVENUE AND EXPENSE ACCOUNTS ARE GROUPED BY FUND IN THE GENERAL LEDGER. EACH ACCOUNT HAS SPACES FOR ENTERING THE DATE OF THE ENTRY, THE SOURCE OF THE ENTRY, DEBIT AND CREDIT AMOUNTS, DESCRIPTION OF THE ENTRY, AND THE ACCOUNT BALANCE. ONLY ONE GENERAL LEDGER IS NEEDED TO ACCOUNT FOR ALL FUNDS.

## SUBSIDIARY LEDGERS

SUBSIDIARY LEDGERS ARE USED TO MAINTAIN DETAILED INFORMATION ON A GIVEN GENERAL LEDGER ACCOUNT. THE DETAILED INFORMATION IS MAINTAINED IN SUBSIDIARY ACCOUNTS. THE AGGREGATE BALANCE OF THE SUBSIDIARY ACCOUNTS MUST EQUAL THE BALANCE IN THE CORRESPONDING GENERAL LEDGER CONTROL ACCOUNT. THE EQUALITY OF THE BALANCE OF A GIVEN GENERAL LEDGER CONTROL ACCOUNT AND THE RELATED SUBSIDIARY LEDGER ACCOUNT BALANCES SHOULD BE VERIFIED AT THE END OF EACH ACCOUNTING CYCLE. THE MORE COMMON TYPES OF SUBSIDIARY LEDGERS INCLUDE ACCOUNTS RECEIVABLE LEDGERS, ACCOUNTS PAYABLE LEDGERS, TAX ACCOUNTS RECEIVABLE LEDGERS, FIXED ASSETS LEDGERS, AND CONSTRUCTION PROJECT LEDGERS.



A CONSTRUCTION PROJECT LEDGER IS A SUBSIDIARY LEDGER WHICH SERVES TO ACCOUNT FOR THE COST OF FIXED ASSETS BEING CONSTRUCTED BY THE ENTITY. SUBSIDIARY ACCOUNTS ARE MAINTAINED FOR EACH CONSTRUCTION PROJECT WITH CONSTRUCTION COSTS BEING ACCUMULATED BY PROJECT. EACH ACCOUNT IN THIS SUBSIDIARY LEDGER HAS COLUMNS FOR ENTERING THE DATE OF THE TRANSACTIONS, THE SOURCE DOCUMENT NUMBER, A DESCRIPTION OF THE TRANSACTION AND MONETARY COLUMNS FOR DEBITS, CREDITS, AND THE ACCOUNT BALANCE.

## FILES

THE DOCUMENT FILES MAINTAINED BY A GOVERNMENTAL UNIT CAN BE GROUPED INTO THREE CLASSES: (1) TRANSACTION SOURCE DOCUMENT FILES, (2) ACCOUNTING RELATED DOCUMENT FILES, AND (3) NON-ACCOUNTING DOCUMENT FILES.

### 1. TRANSACTION SOURCE DOCUMENT FILES -

THE FOLLOWING DISCUSSION OUTLINES THOSE DOCUMENTS WHICH CONSTITUTE EVIDENCE OF AN ACCOUNTING TRANSACTION. THESE FILES ARE GROUPED ACCORDING TO THE FOLLOWING CATEGORIES:

- A. CASH RECEIPTS FILES - THIS IS A FILE OF ALL CASH RECEIPTS TRANSACTIONS. THIS FILE IS IN SEQUENCE BY CASH RECEIPTS SOURCE DOCUMENT NUMBER.
- B. SERVICE RECEIPTS FILES - THIS IS A FILE OF ALL SERVICE RECEIPT TRANSACTIONS (RECEIPTS FROM PROVIDING WATER, SEWER AND OTHER SERVICES). THIS FILE IS IN SEQUENCE BY CASH RECEIPTS SOURCE DOCUMENT NUMBER.

- C. TAX RECEIPTS FILE - THIS IS A FILE OF ALL TAX RECEIPTS TRANSACTIONS. COPIES OF THE ORIGINAL TAX BILL MARKED PAID AND WITH THE DATE OF PAYMENT ARE BATCHED AND ATTACHED TO A CASH RECEIPTS SOURCE DOCUMENT.
- D. CASH DISBURSEMENTS FILE - THIS IS A FILE OF ALL CASH DISBURSEMENT TRANSACTIONS. THIS FILE IS IN SEQUENCE BY CASH DISBURSEMENTS SOURCE DOCUMENT NUMBER.
- E. ASSETS PURCHASED FILE - THIS FILE CONTAINS COPIES OF JOURNAL VOUCHERS, WITH ALL SUPPORTING DOCUMENTATION ATTACHED, THAT REFLECT PURCHASES OF FIXED ASSETS, CONSTRUCTED FIXED ASSETS TRANSFERRED TO THE GENERAL FIXED ASSETS FUND, DONATED FIXED ASSETS, CAPITALIZATION OF ORGANIZATIONAL COST AND BETTERMENTS AND IMPROVEMENTS TO FIXED ASSETS. SEPARATE FILE FOLDERS ARE MAINTAINED FOR EACH FIXED ASSET SUBSIDIARY ACCOUNT AND THE FOLDERS ARE IN SEQUENCE BY FIXED ASSET PROPERTY NUMBER.
- F. CONSTRUCTION DISBURSEMENT FILE - THIS IS A FILE OF ALL CASH DISBURSEMENT TRANSACTIONS FOR THE CONSTRUCTION OF FIXED ASSETS. SEPARATE FILE FOLDERS ARE MAINTAINED FOR EACH CONSTRUCTION CONTRACT AND THE FOLDERS ARE IN SEQUENCE.
- G. JOURNAL VOUCHER FILE - THIS IS A FILE OF ALL GENERAL TRANSACTIONS. THESE TRANSACTIONS INCLUDE THE OPENING,

ADJUSTING AND CLOSING ENTRY TRANSACTION SOURCE DOCUMENTS  
AND ALL OTHER NON-CASH TRANSACTION SOURCE DOCUMENTS.  
THIS FILE IS IN SEQUENCE BY JOURNAL VOUCHER NUMBER.

2. ACCOUNTING RELATED DOCUMENT FILES -

THE FOLLOWING DISCUSSION OUTLINES SOME TYPICAL DOCUMENT FILES WHICH CONTAIN INFORMATION OF SOME ACCOUNTING SIGNIFICANCE, BUT DO NOT DIRECTLY SUPPORT AN ENTRY TO THE ACCOUNTING RECORDS. THIS LIST SHOULD NOT BE CONSIDERED COMPLETE, BUT SHOULD BE VIEWED AS INDICATIVE OF THE DOCUMENT FILES INCLUDED IN THIS GROUP. NO DOCUMENT SEQUENCE IS GIVEN FOR THE FILES DESCRIBED BELOW. IT IS RECOMMENDED THAT THESE FILES BE MAINTAINED IN CHRONOLOGICAL SEQUENCE IN THE ABSENCE OF A BETTER METHOD.

- A. CONTRACTS FILE - THIS FILE INCLUDES THE ENTITY'S COPY OF ANY CONTRACTS NEGOTIATED WITH LEGAL COUNSEL, ENGINEERS, CONSTRUCTION CONTRACTORS, TAX ASSESSOR-COLLECTORS, CONTRACT PLANT MAINTENANCE AND OPERATION PERSONNEL, AND OTHER CONTRACTS FOR SERVICES RECEIVED BY THE ENTITY.
- B. CONSTRUCTION CONTRACTS FILE - THIS FILE CONTAINS THE ENTITY'S COPY OF ALL CONSTRUCTION CONTRACTS ENTERED INTO BY THE ENTITY.
- C. INSURANCE FILE - THIS FILE CONTAINS A COPY OF ALL INSURANCE POLICIES PURCHASED.

- D. BOND FILE - THIS FILE CONTAINS A COPY OF THE BOND RESOLUTION FOR EACH BOND ISSUE. ANY OTHER BOND-RELATED DOCUMENTS NOT ASSOCIATED WITH A SPECIFIC BOND TRANSACTION SOURCE DOCUMENT SHOULD ALSO BE FILED IN THIS FILE.
  
- E. EMPLOYEE RECORDS FILE - THIS FILE CONTAINS ALL EMPLOYEE INFORMATION MAINTAINED BY THE ENTITY, INCLUDING THE ENTITY'S COPY OF THE EMPLOYEE'S APPLICATION AND ANY RELATED CORRESPONDENCE (RECOMMENDATIONS), A COPY OF THE EMPLOYEE'S FORM W-4, COPIES OF ANY ACCIDENT REPORTS, AND ANY OTHER DOCUMENTS RELATING TO THE EMPLOYEE.

### 3. NON-ACCOUNTING RELATED FILES

THE FOLLOWING DISCUSSION OUTLINES SOME TYPICAL DOCUMENT FILES WHICH CONTAIN INFORMATION HAVING LITTLE ACCOUNTING SIGNIFICANCE. THIS LIST SHOULD NOT BE CONSIDERED COMPLETE BUT SHOULD BE VIEWED AS INDICATIVE OF THE DOCUMENT FILES INCLUDED IN THIS GROUP. NO DOCUMENT SEQUENCE IS GIVEN FOR FILES DESCRIBED BELOW. IT IS RECOMMENDED THAT THESE FILES BE MAINTAINED IN CHRONOLOGICAL SEQUENCE IN THE ABSENCE OF A BETTER METHOD.

- A. BOARD MINUTES FILE - THIS FILE CONTAINS A COPY OF THE MINUTES FROM EACH MEETING OF THE ENTITY'S BOARD OF DIRECTORS OR COUNCIL.

- B. BOARD ORDERS FILE - THIS FILE CONTAINS A COPY OF EACH SPECIFIC ORDER ISSUED BY THE ENTITY'S BOARD OF DIRECTORS OR COUNCIL.
- C. INCOMING CORRESPONDENCE FILE - THIS FILE CONTAINS EACH INCOMING PIECE OF WRITTEN CORRESPONDENCE.
- D. OUTGOING CORRESPONDENCE FILE - THIS FILE CONTAINS A COPY OF EACH OUTGOING PIECE OF WRITTEN CORRESPONDENCE.

### INTERNAL CONTROL

INTERNAL CONTROL IS A FORM OF LATENT CONTROL, EXERCISED IN LARGE PART THROUGH THE ACCOUNTING SYSTEM. INTERNAL CONTROL COMPRISES THE PLAN OF ORGANIZATION AND ALL OF THE COORDINATE METHODS AND MEASURES ADOPTED WITHIN A BUSINESS OR ENTITY TO SAFEGUARD ITS ASSETS, CHECK THE ACCURACY AND RELIABILITY OF ITS ACCOUNTING DATA, PROMOTE OPERATIONAL EFFICIENCY, AND ENCOURAGE ADHERENCE TO PRESCRIBED MANAGERIAL POLICIES. ONE OF THE CARDINAL PRINCIPLES OF INTERNAL CONTROL IS THAT THE RESPONSIBILITIES RELATED TO HANDLING ANY BUSINESS TRANSACTION SHOULD ALWAYS BE DIVIDED AMONG TWO OR MORE PERSONS. DIVISION OF RESPONSIBILITY ALSO TENDS TO STRENGTHEN ACCURACY WHEN ONE PERSON'S WORK IS SUBJECT TO REVIEW BY ANOTHER.

## CHART OF ACCOUNTS

A CHART OF ACCOUNTS IS A LISTING OF THE NUMBERS AND NAMES OF LEDGER ACCOUNTS IN TABULAR FORM. IT IS THE MEDIUM BY WHICH THE CLASSIFICATION OF ACCOUNTS IS BROUGHT INTO ACTION BY CLASSIFYING ACCOUNT DATA. THE CHART ADOPTED WILL SERVE TO CONTROL THE LEDGER ARRANGEMENT, THE COLUMNAR HEADINGS OF THE BOOKS OF ORIGINAL ENTRY, AND THE CLASSIFICATION OF DATA TO BE COLLECTED IN THE AUXILIARY RECORDS AND PRINTED FORMS. THE ACCOUNTS SHOULD BE ARRANGED IN THE SEQUENCE WHICH WILL BE FOLLOWED IN THE PREPARATION OF FINANCIAL STATEMENTS. THE CHART OF ACCOUNTS SHOULD BE SUFFICIENTLY FLEXIBLE TO PERMIT THE ADDITION OF NEW ACCOUNTS IN SEQUENCE FOR REASONS AT FIRST NOT FORESEEABLE AS WELL AS THE DELETION OF ACCOUNTS THAT MAY BE DEEMED UNNECESSARY. THE PURPOSE AND NATURE OF EACH ACCOUNT SHOULD BE CLEARLY AND APPROPRIATELY PORTRAYED BY ITS CAPTION WITH SIMILARITY IN ACCOUNT TITLES AVOIDED.

FIGURE

SAMPLE CHART OF ACCOUNTS - CONSTRUCTION FUND

ACCOUNT  
NUMBER

ACCOUNT TITLE

ASSETS

CASH - CONSTRUCTION PROJECTS  
CASH - ESCROWED

TIME DEPOSITS FOR CONSTRUCTION PROJECTS  
CERTIFICATES OF DEPOSIT FOR CONSTRUCTION PROJECTS  
SECURITIES FOR CONSTRUCTION PROJECTS

ACCRUED INVESTMENT INTEREST RECEIVABLE

DUE FROM GENERAL OPERATING FUND

CONSTRUCTION PROJECTS

LIABILITIES

CONSTRUCTION CONTRACTS PAYABLE

CONSTRUCTION CONTRACTS PAYABLE - RETAINED PERCENTAGE

DUE TO GENERAL OPERATING FUND

ADVANCE FROM GENERAL OPERATING FUND  
ADVANCE FROM TAX FUND

FUND BALANCES

UNALLOCATED FUND BALANCE  
ALLOCATED - FROM NET SYSTEM REVENUES  
ALLOCATED - FROM NEW GRANTS, EPA  
ALLOCATED - FROM SALE OF BONDS FOR AUTHORIZED CONSTRUCTION

TRANSFERS TO OTHER FUNDS

TRANSFERRED TO DEBT SERVICE FUND - NET INVESTMENT EARNINGS  
TRANSFERRED TO GENERAL FIXED ASSETS FUND - FROM SALE OF BONDS  
TRANSFERRED TO GENERAL FIXED ASSETS FUND - FROM CAPITALIZED  
INVESTMENT REVENUES

TRANSFERS FROM OTHER FUNDS

TRANSFERRED FROM GENERAL OPERATING FUND - FROM NET SYSTEM REVENUES

BASIS FOR ACCOUNTING

THE ACCRUAL BASIS OF ACCOUNTING IS RECOMMENDED FOR ALL FUNDS USED BY THE GOVERNMENTAL ENTITY. HOWEVER, CERTAIN REVENUE AND EXPENSE ITEMS ARE EXEMPT FROM THIS RULE AND THESE ITEMS SHOULD BE RECORDED ON THE CASH BASIS.

FOR A GIVEN REVENUE ITEM TO BE SUBJECT TO THE ACCRUAL BASIS OF ACCOUNTING, IT MUST BE BOTH MEASURABLE AND AVAILABLE. SOME EXPENSE ITEMS DO NOT QUALIFY FOR ACCRUAL BASIS ACCOUNTING TREATMENT.

ADDITIONAL INFORMATION

MORE DETAILED EXHIBITS OF ACCOUNTING SYSTEMS METHODOLOGY ARE AVAILABLE FROM A NUMBER OF REFERENCE BOOKS, SUCH AS GOVERNMENTAL ACCOUNTING, AUDITING, AND FINANCIAL REPORTING, PUBLISHED BY THE MUNICIPAL FINANCE OFFICERS ASSOCIATION. ORDER FOR THIS PUBLICATION MAY BE PLACED WITH:

MUNICIPAL FINANCE OFFICERS ASSOCIATION  
180 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601



**VI**  
**THE SINGLE AUDIT ACT**

## THE SINGLE AUDIT ACT

ON APRIL 12, 1985, THE OFFICE OF MANAGEMENT AND BUDGET (OMB) ISSUED OMB CIRCULAR A-128 WHICH IMPLEMENTS THE SINGLE AUDIT ACT OF 1984 (PUB. L. 98-502). THE SINGLE AUDIT ACT ESTABLISHES AUDIT REQUIREMENTS FOR STATE AND LOCAL GOVERNMENT RECIPIENTS OF FEDERAL ASSISTANCE. EPA'S GENERAL REGULATION FOR ASSISTANCE PROGRAMS (40 CFR 30, APPENDIX E) CURRENTLY REQUIRES STATE AND LOCAL GOVERNMENT RECIPIENTS TO COMPLY WITH THE AUDIT REQUIREMENTS OF OMB CIRCULAR A-128.

THE ACT REQUIRES STATE OR LOCAL GOVERNMENTS THAT RECEIVE \$100,000 OR MORE A YEAR IN FEDERAL FUNDS TO HAVE AN AUDIT MADE FOR THAT YEAR IN ACCORDANCE WITH THE ACT. IT SPECIFIES THAT THE OMB DIRECTOR SHALL DESIGNATE "COGNIZANT" FEDERAL AGENCIES, DETERMINE CRITERIA FOR MAKING APPROPRIATE CHARGES TO FEDERAL PROGRAMS FOR THE COST OF AUDITS, AND PROVIDE PROCEDURES TO ASSURE THAT SMALL FIRMS OR FIRMS OWNED AND CONTROLLED BY DISADVANTAGED INDIVIDUALS HAVE THE OPPORTUNITY TO PARTICIPATE IN CONTRACTS FOR SINGLE AUDITS.