AUDITOR OF STATE BULLETIN 97-001
JANUARY 20, 1997

TO: ALL TOWNSHIP CLERKS
ALL VILLAGE CLERK/TREASURERS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: ACCOUNTING ISSUES

This bulletin replaces MAS Bulletin No. 86-25, issued December 12, 1986.

On a regular basis, this office receives questions on the proper method of accounting and recording certain transactions. In response to these questions, this bulletin addresses seven accounting procedures which arise regularly.

Accounting Procedure #1: Establishing a New Fund

In accordance with Ohio Rev. Code § 5705.12, the Auditor of State must approve all new funds established by a local government which are in addition to funds established under Ohio Rev. Code § 5705.09 and 5705.13.

All fund numbers are assigned by the Auditor of State through the chart of accounts.

Procedures

A. Any entity requesting fund approval must complete a copy of the "Request for Fund Approval" form (Exhibit A) and forward the completed form along with a copy of the resolution requesting approval to the State Auditor's Office, Local Government Services Division.

B. The Auditor of State will review the request and determine if the fund assignment is appropriate.

C. If the request is not approved, it will be returned to the entity with notification of the specific reason for disapproval.

D. If approved, the Auditor of State will issue a "Notification of Approval". Upon receipt of this approval, the entity can then formally establish, by resolution, this fund.

E. The "Notification of Approval" should be maintained for auditing purposes.

EXHIBIT A

AUDITOR OF STATE
REQUEST FOR FUND APPROVAL

Entity: ____

Fiscal Officer: ____

Phone No.: ____

Request Date: ____

Fund Requested: ____

Purpose of Fund: ____

____

____

Sources of Revenue: ____

____

Anticipated Expenditures: ____
(Types)

____

NOTE: Please attach a copy of the resolution requesting approval to establish the fund.

Accounting Procedure #2: Corrections and Adjustments

Although effective internal control procedures reduce the probability that errors will occur, it does not eliminate the possibility. Therefore, corrections and adjustments may have to be made and they should be clearly identified and explained. The following examples represent correction of common errors that can be applied to most situations:

A. Voiding a check after posting has been made:

Example: A check issued to the Ace Lumber Company was posted in the cash journal and appropriation ledger in the amount of $10.95.

Step 1 Reverse entry from cash journal expenditures (cash and general fund). This is accomplished by posting a negative expenditure of $10.95 in the appropriate columns. This procedure will result in the cash balance and the general fund balance being increased by $10.95.

Step 2 Reverse payment from appropriation ledger, "amount of warrant" column; and increase the unencumbered balance.

Step 3 The check should be defaced by tearing of the signature and filed numerically.

Note: Cross reference should be made to the original entry.

B. To correct Expenditure Posting Error:

Example: A general fund expenditure to ABC Plumbing in the amount of $156.60 was recorded at $165.60 in the cash journal and appropriation and authorization ledger.

Step 1 Reverse incorrect entry on the cash journal to cash and general fund.

Step 2 Post cash journal (cash and general fund) correctly and adjust the cash and general fund balance.

Step 3 Reverse incorrect payment in the "amount of warrant" column in the appropriation and authorization ledger, and adjust the unencumbered balance.

Step 4 Post correct amount in the "amount of warrant" column.

Note: It may also be necessary to make an adjustment to the debit/credit columns on the appropriation ledger. Additionally, a cross reference should be made to the original entry.

C. <u>To Correct Receipt Posting Error</u>:

Example: A receipt from General Telephone in the amount of $27.50 was posted as $29.50 to cash and the general fund on the cash journal.

Step 1 Reverse incorrect receipt on cash journal to cash and the general fund.

Step 2 Post correct entry on cash journal (cash and general fund) and adjust the cash and general fund balances.

Step 3 Reverse incorrect receipt in the "amount received" and "memoranda-account receivable credit" columns on the receipts ledger.

Step 4 Post correct receipt on the "amount received" and “memoranda-accounts receivable credit" column on the receipts ledger. Adjust the receipts ledger balance.

Step 5 Annotate correction on the original receipt.

Note: The aforementioned procedures are to be used when the correction/ adjustment is recorded within the same fiscal year that the original entry was recorded. If the correction is made in the following fiscal year and the amount is small, record a miscellaneous expenditure and explain in the description that the entry represents a correction of a prior year posting error. Cross reference should be made to the original entry. If the amount is large, the entity should consider adjusting the beginning of the year balance.

Accounting Procedure #3: Repayment of Notes through the Debt Service Fund

Whenever a governmental unit has tax or other revenue anticipation notes outstanding issued under § 133.10, R.C., the notes are to be repaid from the debt service fund regardless of which fund received the proceeds from the sale of the notes. When the money is borrowed in anticipation of tax receipts, the county auditor should be notified so that a separate warrant can be issued, payable to the debt service fund from the proceeds of property taxes collected, in an amount sufficient to insure the prompt repayment of the debt.

Absent a specific requirement, debt may be paid from any unrestricted monies held, segregated from restricted monies, in a fund which was established for a purpose not inconsistent with the payment of such debt.

Sale and Repayment of Tax Anticipation Notes - General Fund

Example: The governmental entity borrowed $100,000 at 6%, for 60 days, to be used for general fund operations. The debt is to be retired from the first half real estate settlement; the entity has no other outstanding debt; the general fund is the only fund that receives real estate tax revenue.

Step 1 The fiscal officer would notify the county auditor of the debt incurred along with a copy of the resolution approving such debt. Terms of the agreement and a schedule of payment should be clearly identified.

Step 2 The proceeds from the sale of notes (the amount borrowed) should be recorded in the general fund.

Step 3 The county auditor will allocate the debt service requirements by issuing a warrant payable to the debt service fund for the principal and interest due. A second warrant, payable to the general fund, will be issued for the balance of the first half real estate settlement due the entity. Each warrant will be recorded in the appropriate receipt account within the respective funds.

Step 4 Repayment of the note would be made from the debt service fund for both the principal and interest.

Summary of Posting Procedures

	General Fund	Debt Service	Total
Real Estate Revenue	$3,000,000.	$101,000.	$3,101,000.
Sale of Notes	100,000.		100,000.
Sub-Total	$3,100,000.	$101,000.	$3,201,000.
Less Expenditures:			
Debt Service (Principal)		$100,000.	100,000.
Debt Service (Interest)		1,000.	1,000.
Total	$3,100,000.	$ -0-	$3,100,000.

Sale of Notes in Anticipation of Sale of Bonds for the Building Fund

Sale and repayment of $1,000,000, 6%, five year notes sold in anticipation of proceeds from the sale of bonds issued for new construction (construction to be accounted for in the building fund).

Step 1 Record proceeds of note sale in the building fund. Use proceeds from sale of notes receipt account.

Step 2 Repay first-year principal and interest on notes. Use the appropriate accounts within the debt service fund for principal and interest payments.

Step 3 Repay each succeeding-year principal and interest on notes from the debt service fund, using the same accounts as in step 2 above, until bonds are sold and the note is fully paid.

Step 4 Once the bonds are sold, record proceeds of the bond sale into the debt service fund. Use the proceeds from sale of bonds receipt account.

Step 5 Record tax receipts received for the repayment of the bonds in the debt service fund and make all principal and interest payments for bonds in the debt service fund.

The Debt Service Fund Purchases the Entity's Note as an Investment

Under the authority of §133.10, R.C., the general fund issues a short term note for $100,000 to be repaid in 60 days at 6% interest. The debt service fund purchases the note as an investment.

Step 1 Record the amount borrowed, $100,000, in the general fund. Use the proceeds from the sale of notes account.

Step 2 Record the amount received from the debt service fund, $100,000, as an investment on the investment record. Do not decrease the debt service fund's balance. When preparing the bank reconciliation, the $100,000 investment will need to be shown.

Step 3 Assuming the county auditor has been properly notified of the debt service requirements, the auditor should allocate the tax settlement accordingly by issuing two warrants. One warrant, payable to the debt service fund, is issued for $101,000 ($100,000 principal plus $1,000 x 6% x 1/6 year interest) for the purpose of repaying the outstanding note. The other warrant payable to the general fund is issued for an amount equal to the normal general fund tax settlement less the $101,000 debt service fund. Record tax receipts using the receipt account for the appropriate type of taxes in the debt service fund and the general fund.

Step 4 Record the debt service payment. Use the appropriate accounts for the principal ($100,000) and the interest ($1,000) payments.

Step 5 Record maturity of debt service fund's investment ($100,000) on investment record and record the receipt of the interest ($1,000).

Note: The authority for the debt service fund to invest in the entity's debt is found in §133.79, R.C. This statute does not provide authority to issue debt. There must be separate, specific authority to issue the debt before the debt service fund may purchase it.

Accounting Procedure #4: Transfers

Transfers are intended to permanently reallocate money from one fund to another as authorized in Ohio Rev. Code § 5705.14 through 5705.16. Since this transaction will permanently change the total appropriations of funds, an amended certificate of estimated resources should be obtained from the county budget commission if the transfers were not originally anticipated and certified. Please be advised that certain restrictions affect the transfer of funds.

The following example illustrates basic procedures used in posting a transfer.

Example:	Transfer $1,000 from the general fund to capital projects fund.
Step 1	The governing body passes a resolution authorizing the transfer. If there are insufficient funds in the transfer out appropriation, the board will have to authorize an appropriation modification.
Step 2	Prepare a receipt in the amount of $1,000 for the capital projects fund transfers-in receipt account.
Note:	This transfer may be made by using a check written from the general fund appropriation if you desire. Otherwise, a book should may be made from the appropriation account to the capital projects fund (transfer-out in the general fund and transfer-in to the capital projects fund).

<u>Source Documentation</u>

The following source documents are required for the accomplishment of inter-fund transactions:

Minute Record	In some instances, when performing inter-fund transactions, it is necessary to modify existing appropriations. The source document for modifying appropriations is the minute record. It is recommended that the specific minutes be described within the "descriptor" or "particulars" area of the posting medium for appropriation accounts.
Certification	When transferring monies from fund to fund, it is necessary to certify that monies are available. The purchase order can be used as the vehicle for the certification.
Warrant (Check)	The Auditor of State does not require the issuance of a warrant when accomplishing inter-fund transactions. If accounting software allows and the entity wants to write a warrant, it is permissible, but not required.
Receipt	The receipt is used as the source document for incoming monies to any fund. When monies are received by way of an inter-fund transaction, a receipt certifying the income and its source should be used.

These documents are used to provide adequate reconciliation tools and audit trails.

Accounting Procedure #5: Refund of a Receipt

Refunds are appropriate for items such as overpayments, the return of deposits or the repayment of money when the service was not provided (i.e. prepayment for renting the village hall is returned when the individual decides not to use the facility).

Example:	John Smith paid a fee of $20.00 to the entity. At a later time it was determined that John Smith was entitled to a refund of this amount.
Step 1	Prepare a receipt indicating the amount to be refunded. This amount should be shown as a negative amount.
Step 2	Prepare a warrant in the amount to be returned. The warrant number should be recorded in the column on the proper receipts ledger and in the warrant numbers column on the cash journal.
Step 3	The amount of the refund must be posted to the receipt account where the original amount was received. Post the refunded amount to the amount received column and to the memoranda-accounts receivable credit column. The amounts are posted in parentheses which means negative amounts. Adjust the amount in the balance column.
Step 4	Post the reduction of the receipt on the cash journal under the receipt area for cash and the general fund. These amounts should be posted in parentheses also.
Note:	Reducing receipts is only permitted when both of the transactions occur during the same fiscal year. If the refund occurs in the subsequent year, post the payment as an expenditure.

Accounting Procedure #6: Reduction of an Expenditure

An entity may find it necessary to reduce an expenditure during the course of the fiscal year. There are also instances were it would appear that the expenditure should be reduced but which should be handled as receipts.

A reduction of an expenditure is appropriate when the entity has overpaid and the overpayment is returned, the return of a deposit or the return of a prepayment for services when the services are not provided.

A reduction of an expenditure is not appropriate when the entity receives a reimbursement from other entities for services provided, a reimbursement of general fund expenses from state or other governments, or a refund of a prior year's expenditures. Each of these is recorded as revenue. Payments for services provided by the general fund to other funds of the entity should be recorded as revenue in the general fund as an expenditure in the fund making the payment.

Example: The entity paid for an invoice twice. Later in the same fiscal year, the entity received a refund from the XYZ Company. The refund is recognized as an expenditure reduction.

Step 1 A receipt should be prepared for the amount of the refund. The appropriation account originally charged should be identified on the receipt with the amount shown as a negative expenditure.

Step 2 The amount of the refund must be posted to the appropriate account from which the original payment was made. Post the amount of the refund to the amount of warrant column and to the debit certification column. The amounts are posted in parentheses and the unencumbered balance is adjusted.

Step 3 Post the reduction of the expenditure on the cash journal under the expenditure column of cash and the general fund. This amount should be posted in parentheses also.

Note: The procedure of reducing expenditures is only permitted when bothtransactions occur in the same fiscal year.

Accounting Procedure #7: Amending Appropriations

During the year, it may become necessary to reallocate the permanent appropriations. This can be accomplished with an appropriation amendment from one account to another within the fund.

A resolution by the governing body is necessary when the appropriation amendment will result in a reallocation of the line item amounts approved in the entity's permanent appropriation resolution. In the following example, formal action would be required:

Example — The original appropriation resolution allocated $11,000 for utilities in a specific department or program. The entity later determines that $15,000 is a more reasonable estimate. Formal action by the governing body to increase the appropriation account is needed. In order for this appropriation account to be increased, it may be necessary to reduce one or more other appropriation accounts so as not to exceed the amount on the amended certificate of estimated resources. If so, the same formal action is required.

Modifying Budgetary Accounts

In many entities, accounts in the appropriation ledger are established in more detail than shown in the formal appropriation resolution. This practice results from the entity's desire to have more detailed financial information and/or more budgetary control. These detailed appropriation accounts are commonly referred to as budgetary accounts. An example of these budgetary accounts is shown as follows:

	Permanent Appropriation Resolution	Budgetary Accounts Shown on Appropriation Ledger		
Transportation		Transportation		
Salaries	$ 24,000.	Salaries		
			Regular	$20,000.
			Overtime	4,000.
Fringe Benefits	5,000.	Fringe Benefits		
			Retirement	3,000.
			Insurance	2,000.
Utilities	100,000.	Utilities		
			Fuel Oil	50,000.
			Electric	20,000.
			Gas	30,000.

In the above example, it is important to note that the detailed accounts (budgetary accounts) do not vary from the allocation prescribed by the governing body in their permanent appropriations. They just provide more detailed information.

If the entity later realizes that additional appropriations are needed in the salary accounts and less is needed in the utility accounts, the change will require the formal action of the governing body. However, if additional amounts are needed in the fuel oil budgetary account, and less inthe electricity budgetary account, this modification of budgetary accounts does not require any
formal action by the governing body. It could be done by the individual who was given the authority to originally establish the accounts and allocate the governing body's appropriations.

Regardless of whether an appropriation amendment or a modification of a budgetary account is occurring, the fiscal officer should post the necessary adjustment to the appropriation ledger.

Should you have any questions on the above or other accounting procedures, please call the Local Government Services staff at (800) 345-2519.