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MUNICIPAL ACCOUNTING AND BUDGETARY PRACTICES IN CENTRAL MICHIGAN CITIES

Thesis for the Degree of M. A.

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By

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INTRODUCTION

The purpose of this study is to point out the need for standardization in municipal accounting and budgetary practices, to describe the various organizations that are working toward this goal, and to ascertain the extent to which this need has been recognized in the several central Michigan cities visited.

The logical development of the subject as stated calls for: (a) a review of the progress in the United States (with special emphasis on Michigan's experience) of the movement to standardize municipal accounting and budgetary procedures within each state by statutory measures; (b) an examination of the various organizations primarily engaged in promoting more uniform accounting and budgetary practices throughout the United States by appealing directly to the municipal governing bodies, officials, and voters; (c) a statement and explanation of the working principles recommended by the foremost advocates and promoters of standardized accounting and budgetary procedure for municipalities; (d) a review of accounting and budgetary practices in the central Michigan cities of Lansing, Jackson, Muskegon, Flint, Saginaw, and Bay City; and (e) a résumé of the writer's suggestions for securing more standardized accounting and budgetary practices in these cities.

In order to secure data on the general accounting practices and budgetary policies of these cities, each was visited during the period from June 17 to July 25, 1935; and by using a survey form and questionnaire prepared previous to this period (see Table No. II), an attempt was made to get as much information on the above subjects as possible in the short time available. The comptrollers or chief finance officers of Lansing, Jackson, Muskegon, and Flint

proved willing to be of any assistance possible, the Comptroller of Saginaw was entertaining visitors and could give but limited time, while the Auditor of Bay City had no time for an interview. The data thus collected, supplemented by data of a similar nature taken from the various publications of the cities visited (where such publications were available), are presented in table form; the trend toward standardization is discussed; and suggestions presented which, in the opinion of the writer, will, if adopted, lead to a closer cooperation between cities in respect to problems of financial control.

CHAPTER I

TREND TOWARD STANDARDIZATION OF MUNICIPAL ACCOUNTING AND BUDGETARY PRACTICES THROUGHOUT THE UNITED STATES

It has only been in relatively recent years that due attention has been given to municipal accounting theory and practice. The condition of some of our American cities bears mute evidence to the neglect and ignorance of this branch of the science of economics. But there has been an awakening to the need of budgetary and financial record keeping which will permit more accurate forecasts of the city's receipts and expenditures.

In former years municipal accounting was looked upon as a device to determine what had happened in the past, with little attempt to coordinate the historical with the present trend as a basis for forecasting future revenues and expenditures. Industry has not been so backward in grasping the significance of past performance in determining future performance. Perhaps it will be argued that industry has more incentive to formulate systems of accounting because of enhanced profit as a result of budgeting, cost accounting, and forecasting, but this is a weak argument. The taxpayer, as stockholder in the municipality, has as much right to savings in taxes, assessments, and fees as the stockholder in industry has to increased dividends through savings in costs. And in the last analysis it is the taxpayer who has to be awakened.

Much has been done in this direction through municipal research bureaus, professional institutes, universities and colleges, and governmental agencies[1].

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[1]The growing recognition of the importance of scientific training in municipal administration is emphasized by Walter B. Pitkin in an article entitled "Young Man Go Manage a City" (condensed from The Rotarian in Readers Digest of October 1935), in which he states:

"A promising career for young men is city management. Today city managers run the business of about 450 cities. This year, at least twelve more are campaigning for the plan;many others will shortly follow the city-manager band wagon, sick and tired of wasteful, obsolete, politics-ridden municipal government.

"Each of these cities will employ not only a trained city manager, but professionally qualified experts in all subordinate municipal jobs. To qualify for such jobs,young men must be college graduates,and engineering training is valuable. Courses designed for prospective city managers are offered at the Universities of California, Michigan, Stanford, Syracuse, and the Texas A. and M. College. The International City Managers' Association, Chicago, offers extension courses covering the entire field of municipal administration".

Most noteworthy in this connection are the accomplishments of the National Committee on Municipal Accounting, which will be discussed more fully in the following pages.

Uniformity seems to be the keynote of the campaign for improved municipal accounting. -- "Already some activities of government have well recognized standards of accounts. Municipal utilities use the classification of the National Association of Railway and Utility Commissioners. Schools have generally accepted the classifications developed by the National Educational Association, and the U. S. Office of Education. Colleges and universities are using the reports of the National Committee on Standard Reports for Institutions of Higher Education. The general activities of municipal government can be reported just as uniformly if standards are provided".[1]

It would seem rather paradoxical that although the higher governments promote or attempt to provide satisfactory accounting and reporting systems for semi-public enterprise by statute, and have been reasonably successful along this line in the case of banks, insurance companies, railroads, and public utilities, yet very few successful attempts have been made by these same higher governments to provide for the standardization in the financial administration of municipalities. A conspicuous example of such failure may be found in our own State. In 1931, the Legislature of the State of Michigan enacted Public Act 315, which made it the duty of the chief financial officer of each municipality to report annually, within thirty days after the close of the fiscal year of that municipality, an operating statement for the last fiscal year and a statement of the assets and liabilities as at the end of the fiscal year. Statement forms were to be prescribed or approved by the State Treasurer, who also was given power to require statements at any time during the current fiscal year.

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[1] "Toward More Uniform Reports for Municipalities", National Committee on Municipal Accounting, February, 1934.

Section 3 of the Act required a Municipal Budget Authority to prepare the budget upon forms and in such manner as set forth by the State Treasurer. The appropriation ordinance was also to be framed and passed in a similarly prescribed or approved manner, and a certified copy of the budget as passed filed with the State Treasurer within ten days after enactment.

Section 5 gave the State Treasurer the power to classify municipalities on a basis of population or type of municipality or both, with the provision that all forms for reports were to be uniform for any one group or class.

Section 6 provided for a temporary committee of seven advisory to the State Treasurer in recommending and devising the aforementioned form. This committee was to consist of the chief accountant of the State Administrative Board and six members, at least two of whom were to be municipal financial officers, as defined in the Act, appointed by the governor to serve without salary.

Section 7 imposed upon the State Treasurer the duty of devising "a system of uniform accounts for each separate type and class of municipality and to offer assistance and aid to any municipality requesting such in the installation and operation of such uniform system of accounts, the cost of which shall be defrayed by such municipality".

The very purpose for which the law was constructed; namely, that of providing uniformity in municipal accounting and reporting, brought about its eventual abandonment. Uniformity was secured, it is true, but at the expense of flexibility. The resulting accounting systems and reports were too rigid to meet specific conditions, so the entire law was repealed in 1933 by Public Act No. 41.

At present the Michigan municipality has practically a free reign in the field of accounting, subject, of course, to its charter provisions. The only accounting practices and reports prescribed are those for the operation of municipality-owned public utilities, which must report to the Michigan Public

Utilities Commission, and for the municipal debt structure as reported to the Public Debt Commission, Municipal Bond Division.

Upon looking farther into the matter of State supervision of municipalities, we find that throughout the remaining forty-seven states, twenty-two require no examination of municipal accounting, twenty-one make no provision for installation of accounting systems, eighteen require no financial reports, and twenty do not require the use of a budget. Of those states which do require one or more of the above, many qualifications are made in the requirements; e.g., one state reported that it examined municipal accounting records occasionally, three reported that they examined them partially, three by order of some state administrative agency, six yearly, three biennially, and the remaining merely reported "Yes". (See Table No. I)

It thus appears that State control by statute has not met with widespread success, but perhaps that is not the point at which to attack the problem. It seems that control by statute tends too much toward an unwanted rigidity of practice which is detrimental in some cases, as well as impractical in all cases. It appears that best results are being obtained through non-political institutions, with the National Committee on Municipal Accounting taking the lead. Because this paper is based primarily on the first constructive work of this Committee; namely, its "Tentative Outline of The Principles of Municipal Accounting", the organization and activity of the Committee and its constituency will be covered somewhat in detail.

The National Committee on Municipal Accounting is a joint committee representing associations of public officials, professional accountants, and citizens groups founded to formulate principles of accounting, classification, and terminology for the use of municipalities in maintaining their records and preparing financial and statistical reports and to secure the recognition and use of those principles. The Committee is composed of an outstanding representative of each of the following groups: Municipal Finance Officers' Association; American

Table No. I State Supervision of Municipal Accounting and Budgetary Practices.[1]

	Examination of Accounting Records 1.	Installation of Accounting System 2.	Financial Reports Required 3.	Use of Budget Required 4.	State Agency Prescribes Budget Forms 5.
Yes	25	26	29	27	17
No	23	22	19	21 reported no or left blank	—

Of those states answering in the affirmative, the following limitations or reservations were made:

1. Examination of Accounting Records was -- Annually, 6; Biennially, 3; Occasionally, 1; Partially - e.g., Bonds and debts only, 3; By petition or request of an interested agency - e.g., a city council, 6; By order of a state administrative agency, 3.

2. Installation of Accounting System was -- Recommended, 5; On petition or request, 5; At discretion of the state, 1; For certain municipal functions, 2; Dependent on type or population of municipality, 2.

3. Financial Reports Required -- Annually, 4; Biennially, 1; Every four years, 1; Occasionally, 1; On direction only, 1; For certain municipal functions and activities only, 8; For publication, 13; For partial publication, 3.

4. Use of Budget Required -- Partial, 2; Optional, 1; By statute or charter, 1; Dependent on type or population of the municipality, 6; For tax funds, 1; Only through accounting forms, 2.

5. State Agency Prescribes Budget Forms -- State Tax Commission, 5; State Board of Control, 1; State Board of Accounts, 1; State Budget Director, 1.

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[1]Compiled from charts prepared by Dr. Wylie Kilpatrick in a pamphlet entitled "State Supervision of Local Finance". The pamphlet was obtained through the Municipal Finance Officers' Association, Chicago, Illinois.

Municipal Association; National Municipal League; International City Managers' Association; National Association of State Auditors, Comptrollers, and Treasurers; American Institute of Accountants; American Society of Certified Public Accountants; National Association of Cost Accountants; American Accounting Association; with the Bureau of the Census acting in liaison capacity. Each of these representatives in turn is chairman of a sub-committee within his own organization.

Each organization represented on the National Committee on Municipal Accounting is an important contributor to the work of the Committee, and so merits some discussion of its activities.[1]

The Municipal Finance Officers' Association, sponsors of the National Committee on Municipal Accounting, with a membership of 350 state, county, and municipal financial officers and private accountants and auditors "serves as a clearing house for financial information and a service bureau for municipal finance authorities. It conducts research in administrative problems of municipal comptrollers and accountants; prepares accounting forms and accounting manuals; cooperates with the U.S. Bureau of the Census in compilation of financial statistics of local government; conducts special long-term studies on municipal revenues and functions, and municipal accounting and reporting; and issues frequent reports on current financial problems."

The constituency of the American Municipal Association is composed of "30 state municipal leagues and the Union of Canadian Municipalities, which includes all provincial unions. The membership of each league is the municipal corporation (as distinguished from the individual municipal official), and the combined membership of constituent leagues is more than 5,000 cities". Its activities revolve about the state leagues of cities, furnishing "informational and other services designed to assist leagues to perform their functions more effectively, conducting required research, and promoting organization of leagues

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[1] "A Directory of Organizations in the Field of Public Administration", Public Administration Clearing House, 1934.

in states where none exist". It supports committees on training in public service, state control of local finance, model ordinances, public utility rates, new sources of municipal revenue, and distribution of gasoline tax to cities.

Further reference to the American Municipal Association is desirable at this point, due to the activities in the field of Municipal Accounting of the Michigan Municipal League, a constituent of the American Municipal Association. The Michigan League has for the past four years been active in promoting more adequate accounting procedure for Michigan's smaller municipalities, with stress during the present period on adequacy rather than uniformity, but recommending the adoption of uniform procedure and classification of accounts. Mr. A. J. Kirch of the Michigan League, in his letter of February 14, 1936, to the writer,further points out that rigid uniformity is not desirable. "Due to the varying sizes of our municipalities, their plan of government and the many variations in the functions which they perform, an accounting system designed for one municipality may be either too cumbersome or far too inadequate for another. From our experience, it is necessary, we believe, that an accounting system should be fitted to meet the needs and idiosyncrasies of each city. Uniformity should go only so far as to provide a classification of accounts for receipts and disbursements to which expenditures for identical functions in different municipalities can be charged. Rigid uniformity, in other words, to our way of thinking, is not feasible". He also refers to our experience in Michigan with Public Act No. 315 of 1931, which has been discussed, as an indication of the results of rigid uniformity.

The National Municipal League, with a membership of 2,500 persons interested in the improvement of municipal governments, working through committees, prepares, recommends, and promotes improved principles of municipal government, furnishing speakers, consultants, and data on pertinent problems at the request of interested legislators and citizens. To this end it supports

committees on new municipal programs, model administrative code, citizen organization for municipal activity, citizen participation in government, county government, model special assessment laws, model state constitutions, selection of judiciary and citizens' councils for constructive economy.

The International City Managers' Association has a membership of 191 city managers of at least three years' standing (active members); 99 city managers of less than three years' standing (associate members); and 195 professional public administrators, students, and interested citizens. Its purposes are to "aid in the improvement of local government administration; to encourage city managers to administer the affairs of their cities in accordance with best methods developed through research, practical application, and actual experience; to offer limited consulting service; to maintain a permanent research staff; and to ascertain and record the more significant developments in public administrative and managerial practices." The committees are on research training and professional conduct.

The membership of the National Association of State Auditors, Comptrollers, and Treasurers consists of 78 auditors, comptrollers, and treasurers from 31 states, ex officio. Its purpose is to "promote the study of state financial problems, and to aid in dissemination of information and interchange of profitable ideas among its members".

The American Institute of Accountants' membership is composed of 2,243 practicing accountants who have passed an examination in accounting, and met educational and experience requirements. Its chief activities are establishing and enforcing a code of professional ethics, providing standard examinations for State Certified Public Accounting Boards, and maintaining a reference and circulating library, bureau of information, and placement service. It has committees on arbitration, education, federal legislation, state legislation, and special committees on technical problems.

The American Society of Certified Public Accountants with a membership of 2,400 certified public accountants "carries on a program designed to improve standards of the accounting profession to protect and foster the certificate of the certified public accountant, and to assist government authorities in regulating the public practice of accounting". Of its numerous committees, those on Federal legislation, State legislation, accounting practice, and governmental accounting are of chief interest here.

The National Association of Cost Accountants has a membership of 6,000, including cost accountants, public accountants, auditors, controllers, accounting executives, and municipal accounting officials. Its chief activities are "developing an understanding of the nature and value of accounting, especially cost accounting; studies to improve technical methods and to establish sound, general principles; and maintaining a research and service department for use of members".

The American Accounting Association, the National organization of college and university instructors in accounting, has a membership of 644 accounting instructors, providing "an agency through which members can exchange ideas and discuss common problems" and maintaining committees on governmental accounting, research, and exchange of teaching material.

All of these organizations have publications adequately covering their activities. In addition, three of the outstanding municipal associations; namely, the American Municipal Association, Municipal Finance Officers' Association, and the International City Managers' Association are affiliated with the Public Administration Clearing House, which "serves as an exchange for information, experiences, and ideas among organizations of public officials and others in the United States and Canada which are engaged in the active work of planning for improvements in the administrative technique of government". In so doing, there is prevented needless overlapping of program and duplication of effort.

"The Clearing House seeks particularly to bring together operating officials, research agencies, and technical experts to reduce the gap between theory and practice".[1]

As a result of the cooperation of these institutions, the views, ideas, recommendations, and experience of men close to the vital problems of municipal accountancy can be brought together, combined, improved, and disseminated so as to bring about a much needed and desired unification of practice in this field. The forces of theory, practice, and public sentiment combined are producing results that could not have arisen out of past confusion and indecision.

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[1] "National Governmental Organizations", March, 1935, p. 3

CHAPTER II

THE WORKING PRINCIPLES OF THE NATIONAL COMMITTEE ON UNIFORM ACCOUNTING STATED AND EXPLAINED

The following principles of municipal accounting[1], as recommended by the National Committee on Municipal Accounting, were used as a measure or yardstick in the study of the several Michigan cities included in this study:

1. "The accounts should be centralized under the direction of one officer who should be made responsible for keeping or supervising the keeping of all financial records, and preparing all financial reports". This is for the purpose of placing responsibility for the accounting of the municipality's finances squarely upon one capable person, thus avoiding needless duplication of reports and records, and coordinating and centralizing the financial activities of all municipal departments in relation to the municipality as a whole.

2. "The general accounting system should be on a double entry basis with a general ledger maintained in accordance with the following principles:

   (a) The accounts should be classified in balanced fund groups.

   (b) Asset accounts for permanent property not available to meet expenditures or obligations should be segregated from other fund assets and the equity represented by them not included in the current surplus of any fund."

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[1] "Tentative Outline of the Principles of Municipal Accounting", National Committee on Municipal Accounting, Bulletin No. 1, January, 1934.

The double entry system of accounting is one that portrays all changes in assets, liabilities, and surplus by analyzing each financial transaction as to its debit and credit components, and by so doing maintain a mathematical balance of the aggregate accounts contained in its ledger. In the case of a municipality, it is desirable to classify the ledger accounts into balanced groups of related accounts known as funds. A fund has been defined as "a sum of money or other resources set aside for the purpose of carrying on certain activities or attaining certain objects in accordance with special regulations, restrictions, or limitations".[1] The number and kind of funds depend upon the size and activities of the municipality.

It is also necessary to segregate assets of a permanent nature, those that cannot be converted into cash within a short time, or be used to meet current expenses, from other fund assets, and to omit from current surplus the equity represented thereby, due to the resulting distortion of the current condition of the municipality; i.e., its ability to pay creditors and its ability to take on new obligations. For example, suppose a city having a $100,000 city hall containing equipment valued at $50,000 carried these assets in the accounts of the general fund and included the equity in the general fund surplus. Further, suppose the general fund had a cash balance of $10,000, accounts receivable of $5,000, and accounts payable of $12,000. At this point a balance sheet would show $165,000 assets, $12,000 liabilities, and $153,000 surplus. These figures would indicate that the fund was in good condition but a closer examination would show that there was only $3,000 excess of current

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[1] "Municipal Funds and Their Balance Sheets", National Committee on Municipal Accounting, Bulletin No. 5, June, 1935, p. 3 .

assets over current liabilities, which would indicate that the city would not be able to take on new obligations and it might even indicate that the present liabilities were impaired because the operating expenses yet to be paid might consume more than the $3,000 margin. Thus a false impression of the general fund's condition could have been averted by segregating the assets, building and equipment, from the general fund accounts and omitting the equity from the surplus of the general fund.

The only exception to this statement is in the case of fixed assets used in connection with the operation of a utility through a utility fund or with activities carried on through the working capital fund. In such cases, where cost of services rendered must be comparable with similar private costs, the permanent assets must be included in the fund and depreciation recognized as an operating cost; but here, too, the equity of the city in these properties must be separated from current fund surplus and be shown as a separate item on the fund balance sheet.

3. "The following classification of funds is recommended:

   (a) "General Fund" -- consisting of the proceeds from general tax and miscellaneous revenues not allotted by statute or charter which are used to finance the current operation of the municipality.

   (b) "Special Revenue Funds" -- usually provided for by statute or charter to finance particular activities through specific taxes or other special sources; e.g., parks and hospitals.

(c) "Utility Funds" -- used to finance the construction, operation, and maintenance of municipally owned utilities; e.g., water, gas, and light utilities.

(d) "Bond Funds" -- include the receipt and disbursement of proceeds from all bond issues, except special assessments and utility bonds.

(e) "Special Assessment Funds" -- used to finance improvements or services which are to be paid for wholly or in part by assessment on benefited property; e.g., sidewalks and pavements.

(f) "Trust and Agency Funds" -- consisting of money and property received and held by the municipality as trustee or custodian or in the capacity of an agent for individual or governmental units.

(g) "Sinking Funds" -- created to retire the principal of term bonds, and built up by periodical installments paid into the fund for that purpose.

In addition to the fund classification mentioned, the National Committee on Municipal Accounting suggests more recently funds designated as:

(h) "Working Capital or Revolving Funds"[1] -- used to finance activities of a service or manufacturing nature when these activities become too large to be efficiently operated through general funds; e.g., central purchase and stores departments and municipal garage.

It should be noted that in each of the above classifications, except the general fund, there may fall one

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[1] "Municipal Funds and Their Balance Sheets", National Committee on Municipal Accounting, Bulletin No. 5, June, 1935, p. 75.

or more related funds; i.e., the municipality may support a water works, street railway, and electric light plant, all of which fall under the utility classification, but each must have a separate group of balanced accounts to record accurately its activities.

4. "The general accounting system should include budgetary control accounts of revenues, expenditures, appropriations, and encumbrances". When the budget is passed upon, the estimated revenues from taxes and miscellaneous sources should be charged to appropriate account and unappropriated surplus credited (See Page 24, Entry No. (1)); then the budget appropriations should be set up out of the unappropriated surplus created by estimated revenues (See Page 24, Entry No. (2)). As orders and contracts are awarded, the appropriation should be encumbered by a charge to encumbrances and a credit to reserves for encumbrances (See Page 25, Entry No. (3)). These accounts, when read together with appropriation accounts, prevent any accidental impairing of the budget. As the liability in connection with the orders and contracts is definitely assumed and brought on the books through charges to appropriated expenditures and credits to cash, or accounts payable, the encumbrance record is cleared of the same amount by reversing the above encumbrance entry (See Page 25, Entries No. (9) and (10)). Thus budget control is maintained through careful scrutiny of the unencumbered balance of appropriations as it appears on the periodical statements.

5. "Revenue should be accounted for through budgetary control accounts. If revenue is accounted for on an accrual basis by taking into the

accounts each item when it becomes due or a bill is issued for it, the reports should be prepared on that basis. In this case suitable provision should be made for possible losses through inability to collect. If revenue is accounted for on a cash basis, meaning that an item is considered revenue only when it is collected in cash, the reports should be prepared on that basis. In either case, all items of non-revenue character should be excluded from reports of revenue. Revenues should be classified by fund and by source in accordance with standard classification."

6. "Expenditures should be accounted for through the budgetary control accounts and on such a basis as to take into the accounts all material used or services rendered during a given period. Suitable provisions out of the appropriations of the current period should be made for encumbrances for which material or services are not yet received or rendered. Expenditures should be classified by fund, by department, by activities, and by object, in accordance with standard classifications".

In regard to the last two principles the committee in its revised principles of municipal accounting[1] went a step farther and recommended the use of the accrual basis in accounting for revenues and expenditures so far as practical. The accrual method is that of taking on to the books all revenues as earned, regardless of the time of cash receipt, and recognizing all expenditures at the time the liability is incurred, regardless of the time of cash payment.

A non-revenue receipt is one which increases a liability or reserve, or represents the recovering of an expenditure; i.e., borrowings. Revenue and non-revenue receipts must not be confused.

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[1] "Municipal Funds and Their Balance Sheets", National Committee on Municipal Accounting, Bulletin No. 5, June, 1935.

Revenues should be classified by the funds to which they are applicable; i.e., collections for issuance of a building permit would be classified as General Fund, and by the source from which they arise; i.e., fees. In a like manner, expenditures should be classified as to fund, department, activity, character, and object; e.g., the salary of a master mechanic in the fire department might be classified as follows: Fund -- general fund; department -- fire department; character -- expense; activity -- fire fighting; object -- salary[1].

7. "There should be a system of unit cost accounting in which costs are allocated to the various activities in the respective departments. This system should be coordinated with the general accounting system". This principle stated in the tentative outline was omitted in the revised statement of the principles of municipal accounting. It is recognized that utilities operated by the city must have a system that will develop costs comparable to those of private concerns and it also seems that any department of the municipality performing services for any other department, or the public, should be able to allocate the cost to the same even though it may not be advisable to coordinate the cost system with the general accounting system; e.g., the city engineering department may rent equipment and operators to a taxpayer.

8. "There should be inventory records of both consumable and permanent property and the records of property should be subsidiary to and controlled by accounts in the general accounting system. The asset accounts of property should be maintained on the basis of original cost, or estimated cost (if the original cost is not available), or,

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[1] Example taken from the City of Lansing.

in the case of gifts, the appraised value at the time received. If current valuations are desired for insurance or statistical purposes, they should be computed independently from the books and not carried into the accounts. It is not necessary to account for depreciation on general municipal property except for unit cost purposes unless cash can legally be set aside for replacements". Where possible, it is the best procedure to centralize the city's stock of consumable supplies at as few points as practical in order to control their usage more efficiently. In any case, there should be kept individual stores records to which all incoming stores are charged and all requisitioned stores are credited. These records should be subsidiary to a control account or accounts in the general accounting system. The control account would be charged with all stores purchased, summarized from the vendors' invoices, and credited with all stores removed, the totals being taken from the requisition summary. Permanent property would be accounted for in much the same manner by having a separate record of each item of property to which would be charged the original cost, estimated cost, or appraised value, depending on the manner in which the city acquired it, and any additional amounts to be capitalized. These records would show charges only until such time as the property is disposed of when the record would be credited with the entire amount of the charge, corresponding charges made to asset accounts for the value received and the difference to capital surplus. It has been pointed out before that depreciation of permanent assets is necessary only for cost purposes, consequently general municipal property should not be written down, or up, on the books to current value.

9. "The accounting for public utilities or other business enterprises operated by the city should follow the standard procedure employed by similar enterprises under private ownership. The accounting for public institutions, such as colleges, hospitals, and libraries should follow the standard procedure employed by each class of institution." This statement needs no comment other than that all municipally-operated utilities in Michigan are answerable to the Public Utilities Commission just as any privately-operated utility.

About one year after the publishing of the tentative outline of the principles of municipal accounting, the National Committee of Municipal Accounting published a revised statement of these principles in Bulletin No. 5, entitled "Municipal Funds and Their Balance Sheets", June, 1935, which contained, in addition to the above principles, with exceptions noted, the following:

10. "A common terminology and classification should be used consistently through the budget, the accounts, and the financial reports". The necessity of this principle is obvious in coordinating budgets, accounts, and reports.

11. "There should be general uniformity in the financial reports of all municipalities of similar size and type". Note that the phrase "general uniformity" is used. This practice would tend toward comparable reports from which all concerned would profit. Uniformity, not only in terminology, but in periods covered and dates available is desired. Also, in this connection, the availability of reports is important, for there can be no cooperation where there is a lack of cooperative spirit.

12. "Financial reports should be prepared monthly or oftener, to show the current conditions of the budgetary accounts and other essential information. At least once each year a general financial report should be published or otherwise made available for public examination".

The financial reports should embody information regarding the financial conditions of funds and appropriations, information regarding current operations of the budget, comparative statements of income, cash receipts and expenditures, detail of the public debt, information for cost accounting, expenditures, stores accounting, and depreciation, and miscellaneous information on the results of internal checks, and on other operative conditions that may not have been foreseen.[1] All of which should be available to whomsoever may require it, whether it be the operating or departmental executive, the council, the creditors, or the public.

13. Finally, "a periodic audit by independent accountants is desirable". In planning for such an audit, the council, citizens, or municipal officials calling for the audit should, in the first place, "outline the scope of the examination in writing so they thoroughly understand it themselves. Secondly, they should ask the interested accountants for a record of their experience and qualifications to make the proposed audit. Third, before making any appointment, they should examine the qualifications of all. Fourth, appoint the best qualified man, after weighing his previous experience. Fifth, those interested should insist upon an annual audit as an assurance that the information will be continuous and the results comparable".[2]

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[1] Arthur N. Lorig, "Present conditions of Municipal Accounting" - The Journal of Accounting, May 1, 1936.

[2] William H. Welcher, "Essentials of a Municipal Audit" - Municipal Finance, May, 1936.

The highly specialized nature of a municipal audit and the varying ranges from a general to a detailed audit make competitive bidding undesirable; but if the city is required by law to call for bids, there should be an absolute understanding as to the scope of the audit before the bids are placed.

CHAPTER III

JOURNAL ENTRIES, 'T' ACCOUNTS, AND BALANCE SHEETS DEPICTING FUND OPERATION

In order to set forth more clearly the technique used in operating the various funds, simple journal entries, 'T' accounts, and balance sheets have been employed illustrating a few of the transactions that might be found in the operation of the general and working capital fund. The general fund was used as an illustration because it makes use of budgetary accounts and is fairly representative (with few exceptions) of all the funds except the working capital fund and the utility fund. The working capital fund was also used as an illustration, because it makes use of cost accounts with an absence of budgetary accounts. The utility fund makes use of both budgetary and cost accounts.

GENERAL FUND

JOURNAL ENTRIES

(1)	Estimated Revenue	$500,000	
	Unappropriated Surplus		$500,000
	To set up estimated revenues from taxes, and miscellaneous sources per budget.		
(2)	Unappropriated Surplus	450,000	
	Appropriation Accounts		450,000
	To set up budget appropriations on passage of budget for fiscal year.		
(3)	Tax Rolls - Current	475,000	
	Tax Revenues		400,000
	Reserve for Uncollectible Taxes		75,000
	To set up taxes as levied for current year and set up reserve for estimated uncollectible taxes.		
(4)	Cash	300,000	
	Tax Rolls - Current		300,000
	To record cash payment of taxes.		
(5)	Cash	35,000	
	Accounts Receivable	10,000	
	Miscellaneous Revenues		42,000
	Reserve for Doubtful Accounts		3,000
	To record the receipt of cash and open account from sale of miscellaneous services.		

(6)	Advances to Working Capital Fund	$ 50,000	
	Cash		$ 50,000
	Unappropriated Surplus	50,000	
	Reserve for Advance to Working Capital Fund		50,000
	To record advance of cash to working capital fund and to set up reserves for same out of surplus.		
(7)	Due from Other Funds	5,000	
	Cash		5,000
	To record temporary loan of cash to other funds.		
(8)	Encumbrances	275,000	
	Reserve for Encumbrances		275,000
	To charge encumbrances with the value of orders placed and contracts awarded. (Encumbrance record for each appropriation account)		
(9)	Appropriation Expenditures	200,000	
	Cash		125,000
	Accounts Payable		50,000
	Contracts Payable		25,000
(10)	Reserve for Encumbrances	200,000	
	Encumbrances		200,000
	To record partial payment of orders and contracts by cash and open accounts and to liquidate encumbrances.		
(11)	Appropriation Expenditures	100,000	
	Cash		100,000
	To record payment of items not previously encumbered.		
(12)	Tax Revenues	400,000	
	Miscellaneous Revenues	42,000	
	Unappropriated Surplus	58,000	
	Estimated Revenues		500,000
	To close revenue accounts and transfer the excess of estimated over actual to unappropriated surplus.		
(13)	Appropriations	450,000	
	Appropriation Expenditures		300,000
	Encumbrances		75,000
	Unappropriated Surplus		75,000
	To close appropriation, appropriation expenditure, and encumbrance accounts and transfer the unencumbered balance of appropriations to unappropriated surplus.		

'T' ACCOUNTS

ASSET ACCOUNTS

Tax Rolls - Current

(3)	$475,000	(4)	$300,000

Reserve for Uncollectible Taxes

		(3)	$ 75,000

Cash

(4)	$300,000	(9)	$125,000
(5)	35,000	(11)	100,000
		(7)	5,000
		(6)	50,000

Accounts Receivable

(5)	$ 10,000		

Reserve for Doubtful Accounts

		(5)	$ 3,000

Due from Other Funds

(7)	$ 5,000		

Advances to Working Capital Fund

(6)	$ 50,000		

LIABILITY ACCOUNTS

Accounts Payable

		(9)	$ 50,000

Contracts Payable

		(9)	$ 25,000

EQUITY AND BUDGETARY ACCOUNTS

Estimated Revenues

(1)	$500,000	(12)	$500,000

Tax Revenues

(10)	$400,000	(3)	$400,000

Miscellaneous Revenues

(12)	$ 42,000	(5)	$ 42,000

Appropriations

(13)	$450,000	(2)	$450,000

Appropriation Expenditures

(9)	$200,000	(13)	$300,000
(11)	100,000		

Encumbrances

(8)	$275,000	(10)	$200,000
		(13)	75,000

Reserve for Encumbrances

(10)	$200,000	(8)	$275,000

Reserve for Advances to Working Capital Fund

		(6)	$ 50,000

Unappropriated Surplus

(2)	$450,000	(1)	$500,000
(12)	58,000	(13)	75,000
(6)	50,000		

BALANCE SHEET

GENERAL FUND

BALANCE SHEET

CLOSE OF FISCAL PERIOD

ASSETS

Cash		$ 55,000	
Accounts Receivable	$ 10,000		
Less Reserve for Doubtful Accounts	3,000	7,000	
Tax Rolls - Current	175,000		
Less Reserve for Uncollectible Taxes	75,000	100,000	
Due from Other Funds		5,000	
Advances to Working Capital Fund		50,000	
Total Assets			$217,000

LIABILITIES

Accounts Payable	$ 50,000	
Contracts Payable	25,000	
Total Liabilities		75,000

RESERVES AND SURPLUS

Reserves:			
Reserve for Encumbrances	$ 75,000		
Reserve for Advances to Working Capital Fund	50,000	$125,000	
Unappropriated Surplus		17,000	
Total Reserves and Surplus			$142,000

The foregoing simplified journal entries, 'T' accounts, and balance sheet show the relationship of the budgetary accounts to the general accounts in the general fund. At any time the unencumbered appropriation balance of any account can be ascertained by combining the balance of the appropriation, appropriation expenditures, and encumbrance accounts. At the close of the fiscal period, the unencumbered appropriation balances are transferred to unappropriated surplus, thus eliminating any carry-over into the next period, while the encumbered portion remains as a reserve indicating a liability contingent on the fulfillment of the contracts for which the encumbrance reserve was set up. Also, the difference between actual and estimated revenues is charged or credited, whichever the case may be, to unappropriated surplus. "Advances to working capital fund" is in the nature of a long-term loan and will not be available currently. For this reason, a reserve is set up out of unappropriated surplus, while "due from other funds" is merely a temporary transfer of cash which will be regained as soon as the cash condition of the borrowing fund will permit.

WORKING CAPITAL FUND

Account Balances at Beginning of Period:

	DEBIT	CREDIT
Cash	$ 7,000	
Inventory - Raw Material	10,000	
Inventory - Work in Process	5,000	
Inventory - Finished goods	3,000	
Buildings and Equipment	30,000	
Land	4,000	
Reserve for Depreciation - Buildings and Equipment		$ 2,500
Accounts Payable		6,000
Capital Advances from General Fund		15,000
Surplus, Fixed		34,000
Surplus from Operation		1,500
Total	$59,000	$59,000

JOURNAL ENTRIES

(1)	Cash	$50,000	
	Capital Advances from General Fund		$50,000
	To record the receipt of advance from general fund.		
(2)	Purchases	10,000	
	Accounts Payable		2,000
	Cash		8,000
	To record purchase of materials.		
(3)	Direct Labor	3,500	
	Manufacturing Expense	1,500	
	General Expense	900	
	Cash		5,900
	To record payment of expenses.		
(4)	Accounts Receivable	7,000	
	Due from Other Funds	12,000	
	Cash	2,000	
	Sales		21,000
	To record sales to other departments and to the public.		
(5)	Depreciation - Buildings and Equipment	900	
	Reserve for Depreciation - Buildings and Equipment		900
	To record depreciation for the period.		
(6)	Bad Debts	210	
	Reserve for Doubtful Accounts		210
	To set up reserve for estimated uncollectible accounts.		
(7)	Inventory - Raw Materials (closing inventory)	6,000	
	Work in Process	19,900	
	Inventory - Raw Materials (opening inventory)		10,000
	Purchases		10,000
	Direct Labor		3,500
	Manufacturing Expense		1,500
	Depreciation - Buildings and Equipment		900
	To transfer the cost of operations to work in process.		
(8)	Inventory - Finished Goods (closing inventory)	5,000	
	Inventory - Work in Process (closing inventory)	4,000	
	Cost of Goods Sold	18,900	
	Work in Process		19,900
	Inventory - Finished Goods (opening inventory)		3,000
	Inventory - Work in Process (opening inventory)		5,000
	To determine cost of goods sold.		
(9)	Sales	21,000	
	Cost of Goods Sold		18,900
	General Expense		900
	Bad Debts		210
	Operating Profit		990
	To determine the results of operation.		
(10)	Operating Profit	990	
	Surplus from Operations		990
	To transfer profit to surplus.		

'T' ACCOUNTS

ASSET ACCOUNTS

Cash

Bal	$ 7,000	(2)	$ 8,000
(1)	50,000	(3)	5,900
(4)	2,000		

Accounts Receivable

(4)	$ 7,000		

Reserve for Doubtful Accounts

		(6)	$ 210

Due from Other Funds

(4)	$12,000		

Inventory - Finished Goods

Bal	$ 3,000	(8)	$ 3,000
(3)	$ 5,000		

Inventory - Work in Process

Bal	$ 5,000	(8)	$ 5,000
(8)	$ 4,000		

Inventory - Raw Material

Bal	$10,000	(7)	$10,000
(7)	$ 6,000		

Buildings and Equipment

Bal	$30,000		

Reserve for Depreciation - Buildings and Equipment

		Bal	$ 2,500
		(5)	900

Land

Bal	$ 4,000		

LIABILITY ACCOUNTS

Accounts Payable

		Bal	$ 6,000
		(2)	2,000

Capital Advances from General Fund

		Bal	$15,000
		(1)	50,000

EQUITY AND OPERATING ACCOUNTS

Sales

(3)	$21,000	(4)	$21,000

Direct Labor

(3)	$ 3,500	(7)	$ 3,500

Purchases

(2)	$10,000	(7)	$10,000

General Expense

(7)	$ 900	(9)	$ 900

Manufacturing Expense

(3)	$ 1,500	(7)	$ 1,500

Bad Debts

(6)	$ 210	(9)	$ 210

Depreciation - Buildings and Equipment

(5)	$ 900	(7)	$ 900

Work in Process

(7)	$19,900	(8)	$19,900

Cost of Goods Sold

(8)	$18,900	(9)	$18,900

Operating Profit

(10)	$ 990	(9)	$ 990

Surplus from Operations

		Bal	$ 1,500
		(10)	990

Surplus, Fixed

		Bal	$34,000

BALANCE SHEET

WORKING CAPITAL FUND

BALANCE SHEET

CLOSE OF FISCAL PERIOD

ASSETS

Cash		$45,100	
Accounts Receivable	$ 7,000		
Less Reserve for Doubtful Accounts	210	6,790	
Due from Other Funds		12,000	
Inventories:			
Raw Material	6,000		
Work in Process	4,000		
Finished Goods	5,000	15,000	
Buildings and Equipment	30,000		
Less Reserve for Depreciation - Buildings and Equipment	3,400	26,600	
Land		4,000	
Total Assets			$109,490

LIABILITIES

Accounts Payable	$ 8,000	
Capital Advances from General Fund	65,000	
Total Liabilities		$ 73,000

SURPLUS

Surplus, Fixed	$34,000	
Surplus from Operations	2,490	
Total Surplus		$ 36,490

The foregoing journal entries, 'T' accounts, and balance sheet illustrate the essential differences between the operation of the general fund and the working capital fund. The purpose of the working capital fund is to centralize the financing of certain activities which are beneficial to all departments of the municipality, and which by this centralization are performed more efficiently and at less expense. As a result, the working capital fund is usually established as a fixed capital sum, derived from a bond issue or advances from the general fund, and in the course of its operation there is an endeavor to recover the cost of services or materials furnished the various departments. To this end, cost accounting practices are observed; e.g., depreciation is taken on buildings and equipment. Because the working capital fund serves the municipality as a whole and operates on a non-profit basis, its accounts are not tied in directly with the budget appropriation accounts. To illustrate, the municipal garage is operated through a working capital fund; the health department has an appropriation of $1,000 for maintenance of motor equipment; the municipal garage services the equipment and renders a bill at cost to the health department for services; the health department pays the bill and charges it to appropriation expenditures; the municipal garage recovers the cost of the service, and the budget appropriation system is not upset in the least.

CHAPTER IV

ACCOUNTING AND BUDGETARY PRACTICES IN THE CITIES OF LANSING, JACKSON, MUSKEGON, FLINT, AND SAGINAW

In general, it was found that the work of the institutions fostering improved municipal accounting systems had touched those cities in which interviews were obtained. In fact, Flint showed itself to be interested to such an extent that it was using a system in its Public Works Department designed to improve the public works records, cost accounting, and administrative procedures in that department. This system was installed at the request of city officials under the auspices of the Michigan Municipal League by the Consulting and Research Division of the Public Administration Service, with the assistance of the Municipal Finance Officers Association. In addition, the Municipal Finance Officers Association published in 1934 a manual, entitled "A Municipal General Ledger and Principal Supporting Records", which presented the accounting forms and procedures of this same city in conjunction with another Michigan city, not "as a model system but rather as a usable and practical plan"[1]. The remaining cities, all of which are smaller than Flint, showed evidence of the influence of the movement toward improvement and standardization of municipal accounting practices.

In order to become acquainted with the general accounting practices and budgetary policies of the cities visited, a preliminary guide or questionnaire was prepared to be used for the interview with the Comptroller of the City of Lansing. Using the results and suggestions gained from this interview as a basis, the questionnaire was revised so as to be usable for the remaining interviews (see Table No. II). The revised questionnaire was directed at four main lines of inquiry; namely: (1) Type of Government, (2) Organization of Finance Department, (3) Budgetary Practices, and (4) Accounting Procedure.

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[1] Walter O. Harris, C.P.A., "A Municipal General Ledger and Principal Supporting Records", Municipal Finance Officers Association, 1934.

Table No. II Specimen of Questionnaire Used in the Survey

Name_____

Population_____

Type of Government (1) City Manager-Council
(2) Mayor-Council
(3) Commission
(4)

Organization of Finance Department

(1) Bureaus or Divisions (a) Treasurer - Treasury
(b) Controller - Control & Accounts
(c) Assessor - Taxation
(d) Purchasing Agent - Purchasing
(e)

(2) Centralization of Accounts and Financial Reports_____

_____

(3) Directing Officer_____

(a) Term of Office_____

(b) Method of Selection_____

(c) Charter Qualifications and Experience_____

_____

Fiscal Year_____

Date of Publication of Fiscal Report_____

Budgetary Practices

(1) Budget Making Authority (a) Executive
(b) Board
(c) Legislative
(d)

(a) Date of presentation to Council_____

(b) Council's power of revision_____

_____

(c) Presentation at Public Hearing_____

(d) Publication, Date_____

Form_____

Table No. II (Cont'd)

Name_____

(2) Form of Budget - Period covered_____Previous years included_____

(a) Summary with schedules

(1) Income classification

(a) Source, i.e., Revenue (Taxes, Rights & Privileges, etc.), Borrowings, and Sale of Capital Assets_____

(b) Fund_____

(c)

(2) Expenditure Classification

(a) Character, i.e., Current exp., Fixed Chgs.,Cap. outlay & debt redemption_____

(b) Object, i.e., Personal Services, Cont. Services, etc._____

(c) Fund

(d) Functional

(e)

(b) Detailed estimates by Depts.____by Div.____by Bureaus_____Supported by cost data?_____

(c) Miscellaneous Statements required
(1) Bonded Indebtedness with debt redemption requirements_____
(2) Authorized and unissued debt_____
(3) Condition of sinking funds_____
(4) Borrowing capacity of city_____
(5)
(6)

(d) Budget Bills
(1) App'n Bill - Lump sum for Dept._____Detailed App'n_____

Other Methods_____

(2) General Property Tax Levy Bill included?_____

(3) Misc. Revenue and Borrowing Bills Included?_____

(3) Execution
(a) Inclusiveness
(1) Treatment of Municipally owned P.U._____

_____

(2) Capital Expenditures Included?_____

Table No. II (Cont'd)

Name_____

(a) Physical and Financial Long Time City Planning?_____

_____

(3) Are all city institutions and activities (as well as P.U.) included?_____

(b) Work Programs and Allotments

(1) Period covered_____

(2) Use of cost data_____

(c) Possibility of additional app'n_____

(d) Reports to budget authority

(1) Balance between periodic income and outgo

Income reports_____

Allotment reports_____

(4) Results of budget_____% variation from year to year.

Accounting Procedure

(1) General ledger with balanced fund accounts_____

(a) Analysis of fund accounts

(1) General Fund_____Working Capital or Revolving Fund_____

(2) Special Rev. Funds (i.e.,Special Tax Levy) Number_____

(3) Utility Fund_____

(4) Bond Fund_____

(5) Special Assessment Fund_____

(6) Trust and Pension Fund (Endowments)

(7) Agency Fund Combination of (6) & (7)

(8) Sinking Fund

(9)

(10)

(b) Recording of Fund Surplus - Separation of Capital or Fixed and Current or expendable fund surplus?_____

(c) Current Balance Sheets for each fund or Consolidated B.S.?_____

Table No. II (Cont'd)

Name_____

(2) Separate asset accounts for permanent property in G.L.?_____

(a) Valuation of permanent assets - Basis of original cost or estimated cost at time of acquisition_____

Current appraised value_____

Other methods of valuation_____

(b) Any recognition of depreciation as expense?_____

Recognition of depreciation for cost purposes?_____

(c) Are permanent assets included on Balance Sheet?_____

If so, is surplus or equity represented, segregated from expendable fund surplus?_____

(3) Accounts securing budgetary control.

(a) Revenue, Expense, appropriation, and encumbrance control accounts in G.L.

(b) Do accounting classifications of revenue and expenditures coincide with budgetary classifications?_____

(c) Inventory records of consumable goods controlled through G.L.?_____

(1) Central stores and receiving system?_____

(2) Central Purchasing Department?_____

(4) Cost accounting for government functions

(a) Extent_____

(b) Coordination with general accounting system_____

(5) Audit Provisions

The Type of Government and Organization of Finance Department sections were constructed so as to bring out general information regarding these phases of municipal structure, and the data gathered from these two groups were combined in Table No. III, entitled "General Information of Cities in the Survey". The Budgetary practices section was divided into sub-groups constructed so as to bring out information as to the authority, form, execution, and results of the budget. The data gathered from these sub-groups were displayed in Tables numbered IV, V, and VI, entitled, respectively, "Preparation of the Budget", Form of the Budget", and "Execution of the Budget". The final section, Accounting Procedure, was also divided into sub-groups; namely, general ledger funds, permanent property, budgetary control in the general ledger, cost accounting, and audit provisions, the data from which were prepared in Tables numbered VII, VIII, IX, and X, entitled, respectively, "General Ledger Fund Accounts", "Permanent Property", "Control of the Budget", and "Cost Accounting". In analyzing these tables, an attempt has been made to point out the trend toward standardization and to make suggestions which it is felt would be beneficial in furthering this aim and possibly improving the operation of the systems in use at present.

General Information of Cities in the Survey

A significant fact in Table No. III is the variation in the dates of the municipal fiscal year. The preference of Jackson, Flint, and Saginaw is the "July 1 to June 30" year; of Muskegon, the calendar year; and of Lansing, the "May 1 to April 30" year. It is the opinion of the writer that, regardless of the present fiscal year in use, no municipality's financial problems in relation to the fiscal year are of such a nature as to interfere with the establishment of a uniform fiscal year which would greatly assist in making the fiscal reports of municipalities more comparable. On further examination it will be noted that Lansing and Muskegon have no regularly published financial

report. Without published reports there are no means of comparisons. Consequently, there should be a financial report published as soon after the close of the fiscal year as possible. All of the municipalities cited had a centralization of accounts and reports in a department or division created solely for that purpose, and under the direction of an officer responsible to the source of his appointment - e.g., the city commission in Muskegon, Flint, and Saginaw; mayor in Lansing; and city clerk in Jackson. The terms of these officers varied, as did the experience of each. Although the writer found no specific qualifications set up in the various charters for these officers, it was found that in each case there was a background of experience that perhaps was sufficient to permit each to carry out his office satisfactorily, but it is the writer's opinion that in keeping with the development of private finance it would be well for municipalities to set up in their charters the qualifications which the chief financial officer must meet in order to hold his office. In addition, the municipality should recompense the officer in keeping with the qualifications set up. If there is to be a betterment in the financial management of the American municipality, the municipality must demand and encourage this.

Preparation, Form, and Execution of the Budget

Tables numbered IV, V, and VI indicate the trend toward uniformity of budgetary practices. Represented in the five municipalities cited in Table No. IV are the three commonly accepted authorities for preparing governmental budgets; namely, the legislative, as used in Lansing; executive, as used in Jackson, Muskegon, and Flint; and the budget board, as used in Saginaw. The budget-making authority in use is presumably the one best fitted for the municipality's needs and as long as it acts efficiently and satisfactorily in preparing the budget, it need not be altered. In all cases the city charter requires that the budget for the succeeding year be presented to the

legislative body for adoption before the close of the current year, but in the case of Flint the legislative body had not adopted it at the time of the interview, which was one month after the beginning of the fiscal year. This is a bad practice to fall into, inasmuch as the municipality is operating for a time without an authorized financial plan, which might disrupt the operation of the current budget when it is finally passed. In all cases the legislative body had power of revision within the estimated totals. Jackson, Muskegon, Flint, and Saginaw had either public hearings on the budget or open meetings of the budget authority, but little interest was shown by the public. Lansing files the budget in the comptroller's office for public inspection one week before its passage by the legislative body. Only in Lansing and Muskegon was the budget available to the public in printed form. It seems that the budget should be available to any interested taxpayer, because he is, in truth, a stockholder of the municipality and, as such, it should also be his duty to take an interest in the budget before it is authorized. In all cases, in Table No. V, the budget period conformed to the fiscal period; and, in all cases except Lansing, performances of previous years' budgets were used in compiling the budget for the next fiscal year. It would seem that past performance would be essential in compiling the budget in detail form, but if satisfactory results are obtained without its use, the municipality is justified in omitting it.

In all cases, income was classified (a) by fund and (b) by source. In the case of Muskegon, a third classification, (c) by department, was added. Expenditures were classified by fund, department, character, activity, and object by Lansing only. Of the remaining three, Jackson classified expenditures as to fund, department, character, and object; Muskegon as to fund, department, and object; and Flint as to fund, activity, and object. It would seem that the additional time necessary to make a complete classification of the budget in those cases not having such would be justified by the simplification and clarity effected.

Estimates for the budget items were prepared in detail in all cases, but appropriations were made in the same manner in only four of the five cases, the fifth, Flint, appropriating in a lump sum for each department. The latter method seems to the writer to be the better method, in that it gives a degree of flexibility which enables the department head to deal with emergencies with maximum dispatch.

In Jackson, Muskegon, and Saginaw (see Table No. VI) the budget was all inclusive; e.g., public utilities, city institutions, and capital outlays were included, in addition to the general operation of the municipality. Flint and Lansing omitted public utilities from the general city budget. This practice may be practical and justified where the public utility, though city owned, is operated under a separate set-up, e.g., a board, having a separate budget, but the estimated revenue or loss from operations should be shown in the general municipal budget.

Only two of the larger municipalities, Lansing and Flint, had monthly work programs and allotment systems. The adoption of such a system is dependent largely upon the size of the municipality, although it would be desirable regardless of the size of the municipality to have allotments worked out for those departments in which the work is of a seasonal nature. In all cases monthly reports were made to the budget authority on the operation of the budget, and results were surprisingly efficient in all cases. Only Lansing had a long-time physical and financial plan in operation at the time of the study. A municipality which is considering an extensive capital outlay for physical improvements, extending over a long period, should prepare a financial, as well as a physical, plan for these improvements.

General Ledger Fund Accounts

Table No. VII indicates that the five municipalities represented therein have, consciously or unconsciously, taken a step in the right direction, in that

classifications of funds are comparable. Since the nature of each of the various funds has been discussed in a previous chapter, no additional space will be taken here on that subject. The number of funds, as evidenced by this Table, may vary, depending on the activities of the city, but care must be exercised in creating a sufficient classification of funds to account properly for the various activities. For example, the general fund may become the "catch all" for activities, the operation of which should be reflected in a separate fund, as in the case of (1) a water department being operated through the general fund when this activity should be segregated and classified under utility funds, and (2) taxes collected by the municipality for the county being accounted for through the general fund when this activity should be segregated and classified under trust and agency funds.

Fund surplus, in all cases, was accounted for separately and balance sheets were struck off for each fund in all cases except Jackson, in which a consolidated balance sheet was compiled. It may be said here that a consolidated balance sheet is of little comparative value, in that it combines a group of several divergent accounts into one picture, which gives the observer a false impression of the municipality's financial condition. For example, in a consolidated balance sheet, the surplus shown may not have any significance as far as the current condition of the municipality is concerned. Perhaps a large portion of that surplus is represented by permanent assets or assets which will not mature until some future date, thus limiting the ability to meet current liabilities.

Permanent Property Records

In handling permanent property records, all the municipalities involved were comparable, as indicated by Table No. VIII. Each reported the maintenance of separate accounts in the general ledger in which the properties were set

up at cost at acquisition and were not depreciated in order to show a current value, a practice which is prohibited in most instances by law. The justification for such a law being that the reserve or surplus built up for replacement of permanent property by one administration might be a source of graft for another later administration. Only in the cases of Lansing and Muskegon were permanent assets depreciated, depreciation being taken on equipment only in order to arrive at costs comparable to those for the same type of civil undertaking. In all cases, the surplus or equity arising from the ownership of permanent assets was shown as a separate item of surplus on the balance sheet in order to designate it as a fixed surplus not available for current operations.

Budget Control Through the General Ledger

Budget control seems to be firmly rooted in the municipalities under question, all reporting a coordination of accounting and budgetary classification, with encumbrance records in the general ledger. All reported maintenance of inventory records of consumable goods, and central purchasing departments, while only Muskegon and Flint reported central stores systems. A central stores system would be advisable only in those cases where the volume of stores handled and the proximity of the various departments having a large stores turnover would permit.

Cost Accounting

Cost accounting is not practiced extensively in any of the four municipalities under question. Three of these, Lansing, Muskegon, and Flint, limit it to the public works department, and the fourth, Jackson, to the water department, while not any of the cost accounting systems in use are coordinated with the general accounting system. The chief purpose of the cost accounting system is to build up costs that will be comparable to

costs encountered in a non-governmental venture of the same type, in order that a fair sales price may be placed upon the service or commodity. If cost systems now in use are accomplishing this, there is no need to expand them or coordinate them with the general accounting system.

Audit Provisions

In all cases, provisions were made for a yearly audit by an outside firm; and in the case of Flint, additional quarterly inspections were provided for. In the cases of Muskegon and Lansing,the audit was let on a competitive bid basis. In the remaining three cases of Flint, Jackson, and Saginaw,no information as to the manner in which the auditing firm was selected was procured.

Table No. III General Information of Cities in the Survey

City	Population (Thousands)	Type of Government	Fiscal Year	Publication of Fiscal Reports	Centralization of Accounts and Reports	Directing Officer	Term of Office	Method of Selection	Experience
ansing	75-100	Mayor Council	May 1 - April 30	No regular financial report	Comptroller's Office	Comptroller	1 year	Appointed by Mayor	Bank Teller 4 years Deputy Comptroller 1½ years, City Comptroller 9 years.
ackson	50-75	Commission Manager	July 1 - June 30	Annual report of budget operation, Consolidated Balance Sheet, Bonded Debt	Auditing Division of City Clerk's Office	Auditor	Indefinite	Appointed by City Clerk	18 years in City Clerk's Office.
uskegon	25-50	Commission Manager	Calendar year	None	Department of Finance and Auditing	Auditor	2 years	Appointed by Commission	Works Manager and President of a foundry, Treasurer of a blast furnace, 7 years as City Auditor.
lint	Over 100	Commission Manager	July 1 - June 30	Latter part of August complete report	Division of Finance	Director of Finance	Indefinite	Appointed by Commission	Connected with financial department of a hospital for several years. 3 years, Division of Finance.
aginaw*	75-100	Commission	July 1 - June 30	X	Controller's Office	Controller	Indefinite	Appointed by Commission	Deputy Controller

Saginaw - Limited Interview

Table No. IV Preparation of the Budget

Table No. IV Preparation of the Budget

City	Authority	Date of Presentation to Legislative Body	Legislative Power of Revision	Public Hearing	Publication
Lansing	Legislative - Ways and Means Committee and Comptroller	At least 10 days before last of April.	Full power of revision within the total	No - On file at Comptroller's Office for one week before passage.	June - In detail form
Jackson	Executive - City Manager	Not less than 45 days before end of fiscal year.	Full power of revision within total estimate	Yes - Commission fixes time and place and gives notice to public of such.	None
Muskegon	Executive - City Manager	On or before September 1st. Must be passed on before September 25th.	Full power of revision	Yes - September 1st (Not much interest shown)	December - In detail form
Flint	Executive - City Manager	April*	Full power of revision	Commission meeting on budget is open to public (Not much interest shown)	None
Saginaw**	Board - Board of Estimates	Last Monday in June. Must be passed on before beginning of fiscal year.	X	Meeting of Estimates open to public.	None to public. To department heads only.

*Charter not strictly followed - 1935 not adopted as yet on July 29, 1935

**Saginaw - Limited Interview

Table No. V Form of the Budget

City	Budget Period	Comparison With Previous Years	Income Classification	Expenditure Classification	Estimates	Miscellaneous Statements Required	Appropriation Bill	Tax Levy Bill
Lansing	Fiscal year	None	Fund, Source	Fund, Department, Character, Activity, Object	Detail by Division and Department	Bonded Indebtedness with debt redemption requirements. Authorized and unissued debt.	Detail	Introduced at same time.
Jackson	Fiscal year	One year	Fund, Source	Fund, Department, Character, Object	Detail by Division and Department	Bonded Indebtedness with debt redemption requirements. Authorized and unissued debt. Condition of sinking funds.	Detail	Included
Muskegon	Fiscal year	Five years	Fund, Department, Source	Fund, Department, Object	Detail by Department	Bonded Indebtedness with debt redemption requirements. Authorized and unissued debt. Condition of sinking funds - to Commission each month.	Detail	Included
Flint	Fiscal year	One year preceding and current budget performance	Fund, Source	Fund, Activity, Object	Detail by Department	Maintenance of separate budget for debt service	Lump sum for Department	Tax set by Tax Allocation Board
Saginaw*	Fiscal year	X	X	X	Detail by Department	X	Detail	Included - but Board of Estimates may pass barrowing bills to meet deficiencies at any time

*Saginaw - Limited Interview

Table No. VI Execution of the Budget

City	Provision For Public Utilities	Inclusion of Other City Institutions and Activities	Inclusion of Capital Expenditures	Work Program and Allotment System	Possibility of Additional Appropriations	Reports to Budget Authority	Results	Physical and Financial Long Term Plans
Lansing	Separate budget for water, light, and steam heat operated through a board set up for that purpose. This board is responsible to City Council.	Yes - i.e, parks, library, public market	Yes - detail estimates by department	Yes - 1935 was first year. Allotment on monthly basis.	Only if Council has income to cover the additional appropriation	Comptroller meets with Ways & Means Committee at least once a month on operation of budget	Approximately 3% - not to exceed 3%	Sewer plan at present
Jackson	Budget for water fund included in general budget	Yes - i.e, hospital, library	Yes	None	No strict control over appropriation of each department. Deficiencies met out of contingent fund.	Monthly to Commission and Manager	Good results within total	None
Muskegon	Budget for water utility included in general budget	Yes	Yes	None	None exempt by popular vote	Monthly to Commission	3-5%	None
Flint	Not included	Yes	Yes - Reserve set up in rotary fund for motor equipment	Yes - by department on estimated monthly basis. Cumulative	Possible to transfer between departments if transfer is approved	Monthly to Commission	Never over 3%	None
Saginaw*	Budget for water utility included in general budget	Yes - i.e., Parks, hospitals	Yes	None	X	None to Council. Comptroller reports to department heads on unencumbered balances	Approximately 5-8% 1934 - 8% unencumbered appropriations	None at present

*Saginaw - Limited Interview

Table No. VII General Ledger Fund Accounts*

Table No. VII General Ledger Fund Accounts*

City	General Fund	Special Revenue Fund	Utility Fund	Bond Fund	Special Assessment Fund	Trust And Agency Fund	Sinking Fund	Working Capital or Revolving Fund	Separation Of Fund Surplus	Balance Sheets
Lansing	#		Special and Trust	Capital	Capital	Special and Trust			Yes	Balance Sheet for each fund.
Jackson	#		#	Capital	#	Trust	#	# ($100,000)	Yes	Consolidated Balance Sheet.
Muskegon	#		#	#	#	Collector fund and contemplating a pension fund	#		Yes	Fund Balance Sheets monthly for Commission.
Flint	#			#	#	Trust	#	#	Yes	Fund Balance Sheets and Consolidated Balance Sheet.
Saginaw**	#		#			Trust and Collector	#		Yes	Fund Balance Sheets and Consolidated Balance Sheet.

* # indicates that the fund is in use - if the fund is under another name, that name is designated.

** Saginaw - Limited interview.

Table No. VIII Permanent Property

City	Separate Account In General Ledger	Method Of Valuation	Depreciation As Expense	Equity Shown In Balance Sheet
Lansing	Yes	Cost at acquisition	Depreciation as expense on motor equipment only	Shown in capital fund
Jackson	Yes	Cost at acquisition	None	Shown on Balance Sheet as Capital Surplus
Muskegon	Yes	Cost at acquisition	On equipment only	Separate
Flint	Yes	Cost at acquisition	None	Separate Balance Sheet

Table No. IX Control of the Budget

City	In General Ledger Through Encumbrance Records	Do Budget and Accounting Classification Coincide?	Inventory Record of Consumable Goods	Central Purchasing Department	Central Stores
Lansing	Yes	Yes	Yes	Yes, for departments not under supervision of Boards	No
Jackson	Yes	Yes	Yes	Yes	No
Muskegon	Yes	Yes	Yes	Yes	Yes
Flint	Yes	Yes	Yes	Yes	Yes

Table No. X Cost Accounting

City	Extent	Coordination With General Accounting System
Lansing	Public Works	None
Jackson	Water Department	None
Muskegon	Public Works	None
Flint	Public Works	None

CHAPTER V

RÉSUMÉ OF SUGGESTIONS FOR SECURING STANDARDIZED ACCOUNTING AND BUDGETARY PRACTICES IN THE CITIES OF THE SURVEY

In conclusion, it may be stated that while this paper does not represent an exhaustive study of the accounting and budgetary practices of the municipalities visited, it does indicate a number of those which the writer feels are most important. The following suggestions are presented as a contribution toward the development of a degree of standardization which will permit more satisfactory financial comparisons between municipalities and at the same time allow flexibility in dealing with special local circumstances:

1. A uniform fiscal year. This would give an opportunity for the officials of a municipality to compare the results of operations during a given fiscal year with those of a group of similar municipalities for the same period. This comparison could be made as soon as the reports became available, thus permitting these officials to benefit during the fiscal year in progress by any changes in policy suggested through a study of their neighbors' performances in the past fiscal year.

2. Comparable financial reports published as soon as possible after the close of the fiscal year. The previous suggestion hinges on the availability and comparability of fiscal reports. These reports should be published and made available to any interested persons. It might be advisable to include all municipalities of the same class on a mailing list whereby the reports might be exchanged. A standard municipal accounting terminology should be used throughout the reports.

3. Charter qualifications for the chief financial officers, also a salary in keeping with the training and performance of these officers. There is a need for financial officers who have a systematic knowledge of the functions

and technique of their office before they enter it. The financial operation of a municipality has emerged into the field of big business, the administration of which is tending to become divorced from mere political considerations. Consequently, if a municipality is striving for efficiency and economy of operation, it must insist upon men trained in the field of municipal finance to hold its key financial offices, and it must become reconciled to the fact that if trained men are to be obtained, a satisfactory recompense must be provided.

4. Adoption of the budget before the opening of the fiscal year. This is important as a suggestion not merely for standardization of budgetary practices, but also for the benefit of the individual municipality. When a municipality begins a fiscal year with the budget unapproved, the department heads, legally, have no funds. Of course, business is carried on as usual, but the department head has only his own judgment and the last year's performance to guide him in the outlay of funds until the budget is passed. This practice easily may have impaired the budget when it is finally passed.

5. Stimulation of public interest in the budget. This is a suggestion that should provoke the ingenuity and initiative of every municipality, since few have been successful in arousing interest in public budget hearings. The public pays in the form of taxes, fees, assessments, etc. practically all the funds that are expended for the various municipal activities. If it could be aroused to a point where it would show enough interest in the spending of its money to participate in a public discussion of the budget before it is passed, a great deal of the criticism of municipal spending might be averted. The ways and means of accomplishing this end is a task for those versed in group psychology.

6. A complete classification of expenditures in the budget. This provides a means of minutely comparing the budgets of various municipalities, thus giving an insight into the manner in which the anticipated expenditures for a certain activity of one municipality compares with the anticipated expenditures for a similar activity of another municipality. It also serves as a check on the inclusiveness of the budget. If a complete classification is followed, there is less possibility of overlooking potential expenditures or allowing undue latitude.

7. Budget appropriations made on a "lump sum to department" basis. While there should be a complete classification of expenditures in the budget, it is the writer's opinion that the appropriation should be made in a lump sum to the department rather than in detail. The complete classification of expenditures gives the department head a working guide; the lump sum appropriation gives him authority to act quickly in emergencies without appealing to the legislative body for a revision of an appropriation (as in the case of a detailed appropriation).

8. Adoption of work program and allotment systems where practical. A work program and allotment system is beneficial in aiding department heads to keep within their budgets. If the expenditures of the department are comparatively regular throughout the year and there is little trouble in keeping within the budget, a work program and allotment system may not be practical. In departments where expenditures are of a seasonal nature; e.g., a park department in which the heaviest expenditures are usually in the summer months, there may be a tendency toward a deficiency in the heaviest expenditure months. A work program and allotment system in a case of this kind is an invaluable aid in keeping within the budget.

9. Long-term physical and financial planning for capital improvements. In planning for a new sewer program it is not enough to lay out the plan on blue prints and decide a yearly completion schedule. A plan must be laid as to the method of financing the construction and of paying off the obligation after it has been incurred.

10. Exercise care in classifying funds, keep each fund surplus separate, and prepare fund balance sheets as well as consolidated balance sheet. This is necessary if comparisons are to be made with other municipalities or periods. In addition, an examination of the separate funds will bring out those weaknesses in administration which can be strengthened. A balance sheet for each fund, showing separately the available and permanent portions of its surplus, is essential in order to determine the financial condition of that fund at a given time. A consolidated balance sheet merely shows the financial condition of the municipality as a whole without reference to any particular fund. A consolidated balance sheet might reflect a favorable financial condition, but upon examination of each of the component fund balance sheets, it might be found that one fund or group of funds, due to inefficient management, was in very poor condition. Because the remaining funds were in excellent condition, the consolidation of all funds so completely submerged the mismanaged fund that its condition was not detectable until each fund balance sheet had been analyzed.

11. A central stores system where practical. A central stores system is practical only when the volume of stores to be handled is large enough to justify the organization required for such a system. Of course, if the reduction in losses due to waste, theft, breakage, and other causes is great enough to overcome the additional expense of a central stores system, the system is practical in any case.

12. Check the cost system in use to ascertain whether it is fulfilling the purpose for which it was installed. The cost system as used in the municipality, as has been discussed earlier, is primarily set up for the purpose of building up costs that are comparable to similar costs developed by private enterprise.

13. A yearly audit of the municipality's financial operations by a disinterested, reliable, and efficient firm. The audit should be continued year after year by the same firm, provided the audit is satisfactory, in order to get continuing, comparable results.

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