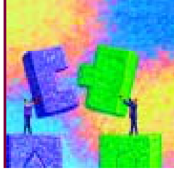

The Value of Regularly Reviewing the Chart of Accounts

By Melanie Purcell

An up-to-date chart of accounts helps the organization view itself and it resources accurately, making service and resource allocation decisions easier, as well as communication with citizens and officials.

Reviewing the chart of accounts is one of the most important exercises involved in a major ERP software implementation. The function is so valuable, it should be done every year — well, not exactly. But almost. Chart of accounts cleanup is onerous only when it has been let slide for several years. Like cleaning out the garage, it's much easier to do a thorough clearing fairly often — every few years — when you've been making a regular effort to keep it reasonably well organized. An up-to-date chart of accounts helps the organization view itself and its resources accurately, making service and resource allocation decisions easier, as well as communication with citizens and officials.

AN INVALUABLE TOOL

Keeping the chart of accounts up to date and in sync with the organization's operating structure remains an essential part of efficient and effective government operations. When evaluating how best to allocate scarce resources among unlimited demands, efficiency is nearly always at the heart of the conversation. Reviewing the chart of accounts focuses attention on how the financial management system, both technological and human resources, serves the organization.

The current chart of accounts reflects:

- Sources and uses of money.
- Accounting structure.
- Organizational structure.
- The evolution and history of the accounting and organizational structure.
- Activities and responsibilities of units within the structures.

There is a certain beauty in a clean chart of accounts that accurately reflects the organizational structure and includes definitive standards for its evolution. It provides guidance and structure for relating new activities to the existing organization (e.g., defining who is going to manage a particular project or grant or who has authority to sign for items in this area). When new programs and grants are initiated, using the chart of accounts and its defined methodologies to determine the accounts, and other parameters for its operations and accounting creates an opportunity for clear communication regarding expectations and authorities. The chart of accounts can and should be an invaluable tool for both financial and programmatic management.

THE UNFORTUNATE REALITY

Instead, the chart of accounts is often merely that must-have programming tool that the information technology department requires for implementing the accounting software. After all, the computer has to know how to sort the data. Otherwise, for daily use, the organizational chart in the budget document and the account reporting for the comprehensive annual financial report and the budget are all modified in a spreadsheet from said accounting software downloads. The chart of accounts remains an obscure back office relic instead of an invaluable tool for regular use.

A factor that complicates our understanding and use of the chart of accounts is that it has evolved over time and, from a software perspective, without control. Rarely can an account or program be deleted from the software, even though it is no longer needed or useful. Further, naming conventions and numbering methodologies, particularly related to grants and other more fluctuating revenue and expense streams, frequently change or reset over time.

Most likely, the situation has evolved (or deteriorated) over time, with piecemeal changes here and patchwork there as the jurisdiction takes on new responsibilities or drops old ones, or stops using some procedures altogether. As a result, the chart of accounts may neither resemble the organization's operating structure nor support its operating needs. This disconnect between the accounting structure as defined in the chart of accounts and the organizational structure leads to less efficiency in assigning and reporting financial transactions accurately or in sync with operations. It also contributes to organizational inefficiency, since there are greater opportunities for account assignments to be unmanaged or "lost in the vapor" if there aren't clearly identified and understood responsibilities for the success of a program. And when citizens aren't able to follow the money to a service, building trust is more difficult. An outdated or overly complex chart of accounts also makes performance measures that involve efficiency and resource comparisons more complicated.

A good data structure that supports and facilitates good programmatic and financial management should lead to better decisions.

If a good chart of accounts can facilitate good management, might the converse also be true? Does an outdated or convoluted chart of accounts hinder good financial management or make it more likely that officials will fail to recognize a deteriorating situation — perhaps even facilitating fraud and corruption? An analysis of the chart of accounts of some financially troubled agencies, particularly those with publicized cases of fraud and corruption, strongly suggests that this could be the case. In hindsight, it seems obvious that in many cases, the garbled chart of accounts made it easier to hide inappropriate uses of funds and exorbitant charges. If extensive research and pasting together of information is required to graph multi-year activity or craft a budget report that involves behaviors from previous years and/or summary levels that are not built into the accounting system, this creates a real opportunity not only for inadvertent error but also for intentionally misleading elected and appointed officials, employees, regulators, and the public. It is too far a stretch to say that a poorly crafted or maintained chart of accounts can cause financial stress, but it can certainly complicate the resolutions available and lend itself to unintentional or conscious shading of reality. There is no doubt that a poorly crafted chart of accounts can delay the detection of accumulating problems.

MANY USES

Does your chart of accounts support informed, efficient, and effective decision making? A good data structure that supports and facilitates good programmatic and financial management should lead to better decisions. Yes, a chart of accounts evaluation is intensive, but taking the opportunity to straighten out the chart of accounts, even without the impetus of a software implementation, creates economies of time and effort in the future and paves the way for simpler management.

Linking the jurisdiction's organizational chart to the chart of accounts forces participants to consciously decide that a structure should or should not continue — a fact-based alternative to the "because we've always done it this way" principle. Making sure that the organizational structure serves the best interests of both the community and the jurisdiction provides great benefits. Making sure that the structure is as efficient and most effective it can be, within consciously determined requirements, establishes a protocol for more disciplined evolution.

Visually mapping which accounts are used across multiple departments and which must be reported separately identifies the maximum number of unique accounts necessary at this point in time and helps the organizer determine an appropriate methodology or numbering and naming convention for future additions. This ensures that new accounts will not be labeled haphazardly, which contributes to "chart of accounts drift" over time, putting the chart of accounts increasingly out of synch with operating needs. Similarly, department and division names as well as activity or program attributes can be classified and planned along with the evolution of the organization, tracking changes as clearly, if not more clearly, in the accounting system as within the organizational charts.

Synching the accounting structure and processes with the organizational functions also strengthens the agency's capacity for accurate and efficient management of human and other resources, particularly when there is upheaval in operating structures, revenue streams, or legislative demands. Reporting becomes more automatic and accurate when it no longer requires extensive manual reconstruction or inside knowledge.

CONCLUSIONS

Government agencies are not required to have logical or even defined charts of accounts or accounting reporting. Many states have suggested charts of accounts or even require certain account ranges be used to report certain funding. The Government Finance Officers Association, the Association of Government Accountants, and other professional associations strongly urge close attention to the structures used for financial reporting. The responsibility for identifying and managing this important tool lies with the organization's management, just as the final responsibility for the financial audit's content also remains with management regardless of rules, regulations, guidelines, or suggestions.

Public trust requires the ability to examine the organization's financial condition as well as the details supporting the analysis that short- and long-term decisions are based on. Financial systems have not always kept pace with the need of citizens and employees to understand why things are as they, in order to make good decisions. The structure in which financial transactions are recorded and reported needs to be as transparent as the final product if a jurisdiction is to achieve greater public trust and understanding of financial conditions.

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