Chart of Accounts: The Foundation of Modern Financial Systems

Monday, June 1, 2015
4:15 – 5:30
1.5 CPE

Moderator: Amy Weise, Allegheny County, PA

Speakers: Marita J. Kelly, Commonwealth of Pennsylvania, DCED
Shyam Jajodia, LSI Consulting
Corey Kampf, Anoka County, MN
Commonwealth of Pennsylvania
DCED CHART OF ACCOUNTS

State Model Chart of Accounts
Account Structure and its Meaning
Marita J. Kelley, Program Manager
Purpose of the DCED Chart of Accounts

- A fiscal management numbering system for classifying financial transactions since 1965.
- Permits flexibility within a standard system.
- All Pennsylvania DCED Financial Reports are structured to the numbering system as follows:
  - Municipal Annual Audit and Financial Report
  - Survey of Financial Condition
  - PENNDOT Actual Use Report
  - Municipal Governments use this format to prepare the Annual Line-Item Budget
Cooperation with Penndot

- Penndot and DCED cooperate to make sure the financial reporting process is consistent, clear, and easy to report.
- There is a joint mailing each year to make sure that they receive the reports, instructions, and tip sheets.
- These Municipal forms must be filed electronically which makes submission much more efficient and user friendly.
The recommended format for State Financial Classification Standard(s)

Used in the DCED Financial Reports

Used by Penndot for the Liquid Fuel Reports

Flexible enough for all municipal purposes the Commonwealth has 2,564 municipal subdivisions.
The Accounting Cycle

1. Collect and verify source documents
2. Analyze each transaction
3. Journalize each transaction
4. Post to the ledger
5. Prepare a trial balance
6. Prepare a worksheet
7. Prepare financial statements
8. Journalize and post closing entries
9. Prepare a post-closing trial balance
Accounting System Reporting

Balance Sheet Report

- Assets – Cash, Investments, Accounts Receivable,
- Liabilities – Including Payroll Liabilities,
- Equity or Fund Balance

Revenue and Expenditure Report

- Revenues – Income Sources, Taxes, Fees, Fines, and Grants
Structure of DCED Chart of Accounts

○ Chart of Accounts
  ◦ DCED Standard Chart of Accounts used in Fiscal Reports
  ◦ Balance Sheet Accounts (Numeric Series 100 and 200)
    • Assets
    • Liabilities
    • Fund Equity
  ◦ Revenue and Expense Accounts
    • Revenue Accounts (Numeric Series 300)
    • Expenditure Accounts (Numeric Series 400)
### Balance Sheet
December 31, 2014

#### Governmental Funds

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<tr>
<th>ASSETS AND OTHER DEBITS</th>
<th>General Fund</th>
<th>Capital Projects</th>
<th>Debt Service</th>
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<td>100-120 Cash and Investments</td>
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<td>145-149 Accounts Receivable (excluding taxes)</td>
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<td>130 Due From Other Funds</td>
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<td>131-139 Other Current Assets</td>
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<td>150-159</td>
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<td>180-189 Other Debts</td>
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<td>230 Due To Other Funds</td>
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<td>260-269 Long-Term Liabilities</td>
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<td>263-269 Current Portion of Long-Term Debt &amp; Other Credits</td>
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<td>281-284 Contributed Capital</td>
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<td>290 Investment In General Fixed Assets</td>
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<td>270-289 Fund Balance/Retained Earnings on 12/31</td>
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<td>291-299 Other Equity</td>
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Total Assets and Other Debts minus Total Liabilities and Other Credits must equal the Total Fund and Account Group Equity.
## Balance Sheet

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<td>250-259 Current Deferred Long Term Debt &amp; Other Credits</td>
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**TOTAL LIABILITIES AND FUND AND ACCOUNT GROUP EQUITY**: $0

Total assets and other debits minus total liabilities and other credits must equal the total fund and account group equity.
Revenues – Account Codes

- Taxes 300 to 319.999
- Licenses and Permits 320 to 329.999
- Fines and Forfeits 330 to 339.999
- Interest, Rents, & Royalties 340 to 349.999
- Grants, Federal, State, Local 350 to 359.999
- Charges for Services 360 to 369.999
- Unclassified Revenue 380 to 389.999
- Interfund Transfers In 390 to 399.999
Expenditures – Account Codes

- General Government – 400 to 409.999
- Public Safety – 410 to 419.999
- Public Works – 430 to 439.999
- Parks and Recreation – 450 to 459.999
- Other Personnel Expenses 480 to 489.999
- Interfund Transfers Out 490 to 499.999
Expense Costs Object Codes

Numeric extension could be two or three digits:

- Personal services 05 to 19 or 050 to 199
- Wages, salaries, benefits, pension benefits
- Supplies and Minor Equipment 20 to 29 or 200 to 299
- Office Supplies 21 or 210
- Computer Supplies 22 or 220
- Postage 23 or 230
- Small Tools and Minor Equipment 26 or 260

- Other Services including Contractual services
  - Professional services – example: legal 30 or 300
  - Communication and Telephone 32 or 320
  - Transportation relating to fuel and mileage 33 or 330
  - Advertising and Printing 34 or 340
  - Rentals 38 or 380
The Chart of Accounts:

- Identifies Fund Type: Governmental Funds, Enterprise Funds, Fiduciary Funds
- Creates a direct connection between the annual budget and the accounting system
- Facilitates the audit process
- Creates consistent and readable fiscal reports
- Creates Annual Audit and Financial Report alignment with the Fiscal Monitoring Report to determine fiscal stability. This report is used in the State’s Early Warning System.
Early Warning System

- Early Warning System Detects Fiscal Distress

- The ability to Predict Financial Distress Early will help to determine realistic fiscal and operation solutions

- Statistical Examination of Financial Records

- Municipal Survey of Financial Condition organized by the Chart of Accounts identifies fiscal weaknesses

- Reality versus Crisis: How to avoid a financial management meltdown through sound fiscal and resource management.
Survey of Financial Condition

- Each Municipality must file each year to help the Department to determine financial distress and/or fiscal position factors.

- Affirmation of numerous financial distress factors indicates to the staff that a “boots on the ground” examination is required.

- Early Intervention Program is a finance study which will include a Five–year financial forecast, operational review, & an in–depth report of the results of the study.
Predicting Financial Challenges

- Determining where a Municipality stands in terms of financial management reporting.


- Early Warning System uses the data from the Survey of Financial Condition to determine fiscal position and economic challenges for municipalities within the Commonwealth.
Examination of Fiscal Records

- **Deficit Factors** – Structural Deficits with Expenditures exceeding Revenues consistently.

- **Indebtedness Factors** – Municipal debt exceeding 10% of General Fund Revenues; also very concerned about late payments or defaults.

- **Payroll and Pension Factors** would examine timeliness of payroll tax payments and pension contributions.
## Debt Statement

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Bond (IS)</th>
<th>Issue Date</th>
<th>Maturity</th>
<th>Original Amount of Issue</th>
<th>Outstanding Beginning of Year</th>
<th>Principal Incurred This Year (Additions)</th>
<th>Principal Paid This Year</th>
<th>Current Year Accretion of Compound Interest Bonds</th>
<th>Outstanding Year End</th>
<th>Plus (less) Unamortized Premium (Discount)</th>
<th>Total Balance</th>
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**Total bonds and notes outstanding**: $\text{s} \text{\ldots} 

**Capitalized lease obligations**: $\text{s} \text{\ldots} 

**Other debt**: $\text{s} \text{\ldots} 

**Total Outstanding Debt**: $\text{s} \text{\ldots}
Policy decision-makers will have to make tough choices to cut expenses (services) or to raise taxes to maintain service levels.

Financial and Economic stability will need to be the focus of the Municipal Elected Officials who are the Fiduciary Agents.

Early Intervention Program grant provides numerous recommendations on both sides of the fiscal policy equation and a forecast.
Financial Stability

- Balanced Budget and close monitoring of the budget process throughout the year.

- Capital Improvement Program Plan assists with management resources and debt.

- Properly funding pensions and post employee retirement benefits protects the assets in those funding activities.
Managing short and long-term resources

Maintaining fiscal stability and position

The Early Intervention Program provides funding to hire professional financial management consultant to assure appropriate fiscal prudence and sound operational and resource management.
Policy Manager Information

- Marita J. Kelley
  Local Government Policy Manager
  DCED – Center for Local Government Services
  400 North Street, 4th Floor
  Harrisburg, PA 17120
  717–720–7301
  markkelley@pa.gov
GFOA Presentation
How to Structure a Chart of Accounts

Shyamal Jajodia
June 1, 2015
Agenda

- Introduction
- Reporting Requirements
- Dimensions – Common Financial Classification
- Dimensions – Financial Accounting
- Dimensions – Budgetary Accounting
- Dimensions – Project Accounting
- Dimensions – Grant Accounting
- Dimensions – Work Order Accounting
- Analytics
Overview of Reporting Requirements

- **Constituents**
  - Citizens
  - Elected Officials

- **Management**
  - Elected
  - Appointed

- **Sponsors**
  - Federal
  - State
  - Private

- **Markets**
  - Bond Holders
  - Banks

- **Performance Measures**
- **Financials**
- **Qualitative Measures**
- **Quantitative Measures**
Financial Reporting Requirements

- Fund Accounting (GASB)
- Full Accrual
- Cost/Project Accounting
- Modified Accrual, Encumbrance Accounting
- Grant Accounting
- Budgetary Control
## General Ledger Account/Object Code

- **Balance Sheet**
  - 1xxxxx  Assets
  - 2xxxxx  Liabilities
  - 3xxxxx  Net Position
- **Revenue and Expenditure**
  - 4xxxxx  Revenue
  - 5xxxxx  Expenses
  - 6xxxxx  Other Financing Sources
  - 7xxxxx  Other Financing Uses
  - 8xxxxx  Cost Allocations

Needed across Financial Accounting, Budgeting, Grant and Project Accounting
Dimensions – Financial Accounting

**Reporting Entity**
E.g. County Government

**Component Unit**
E.g. Public Schools

**Funds**
E.g. Governmental, Proprietary, etc.

**Functions**
E.g. Public Safety, Public Works
Best Practices – Financial Accounting

- Overall – try to capture all closing entries in financial system
- Include component units in chart of accounts and map dimensions for easier consolidation
- Address requirements for state reporting
- Use separate fund for cash and bank accounts – simplifies reconciliation and investment income distribution
- Create separate capital projects funds for each bond issue – simplifies monitoring proceeds and expenditures
- Use Internal Service Fund for payroll liabilities
- Consider government-wide fund for government-wide (worksheet) entries
Dimensions – Budgetary Accounting

- **Department Cost Center**
  - Police

- **Division Cost Center**
  - Patrolling
  - Investigation

- **Section Cost Center**
  - Precinct A
  - Precinct B
  - Violent Crime

- **Programs**
  - Program 1
  - Program 2
  - Program 3

- **Budgeted Funds**
  - Fund 1
  - Fund 2
  - Fund 3

- **Functions**
  - Function 1
  - Function 2
  - Function 3
Best Practices – Budgetary Accounting

- All funds budgeting
- Functions can be separate dimensions or groups of cost centers
- Address budget publication and state reporting requirements
- Track budgets, encumbrances and actuals at the most detailed level – flexible groups at higher levels for reporting
- Control Budget at a high level – budget only codes
- Control security at a high level to reduce maintenance
- Address recording of performance statistics and output measures – can be recorded at various levels
A project is hierarchically structured with a single Project header and a corresponding set of subordinate activities and tasks which are used to collect and manage costs for specific activities within the overall project.
Best Practices – Project Accounting

- Project structures must be part of chart of accounts
- Projects duration must span fiscal years
- Projects may be funded from multiple sources
- Project structures must allow for project budgeting
- Projects must be categorized by project type
- Should be set up for automatic transfer of costs to assets under construction
Dimensions – Grant Accounting

A Sponsor may grant numerous awards in the form of grants, contracts or agreements. Grants are multi-year codes.

An award may be broken down into numerous sections for budget management, billing or sponsor reporting.

Each sponsored program may be restricted to certain types of allowable revenue or expense.
Best Practices – Grant Accounting

- Grants structure must match notice of award
- Grant structures must allow for grant budgeting
- Grant accounting must be integrated with payroll
- Must include sub section for matching funds, cost sharing and expenditures
- Grants must map government fiscal year and sponsor’s fiscal year (can be done at the month level)
- Grants must be categorized by award type
Dimensions – Work Order Accounting

Location
- Building 22
- Floor 1
- Floor 2

Sub-location
- Toilet
- Cooling Fan
- Radiator

Equipment
- Work Order 1
- Work Order 2
- Work Order 4
- Work Order 5

Cost Center Performing Work (e.g. Plumbing)

Cost Center Receiving Work

Project Receiving Work

Customer Receiving Work
Best Practices – Work Order Accounting

- Work order accounting should provide the most detailed view of work performed and costs
- Analysis of planned and unplanned work should help in capacity and equipment planning
- Should support understanding of what really drives costs
- Should capture all work performed for customers, other departments, projects or self
- Should track statistics on work performed (e.g. output measures, time and effort, etc.)
Analytics

- Planning, forecasting and budget preparation
- Formatted reporting, analytics, dashboards and report distribution
- Understood by users
- Common definitions
- Ready for reporting
- Data extraction, integration and cleansing
- Overnight or more frequent update
- Detailed transaction records
- Data creation
Best Practices

- No direct data entry in warehouse; all data comes from system of record
- Regular reconciliation of data with system of record
- Chart of accounts and reporting groupings maintained in system of record
- Integration of data across modules and systems
- Integration of financial and statistical information
- Data may be mapped and interpreted for integration (apples to apples)
- Planning and forecasting using integrated data
Thank you
Chart Of Accounts – The Foundation of Your ERP System

Focus on Smaller Enterprise Systems
Focus Areas

• Foundational Decisions
• Structural Development
• Ongoing Maintenance
• 4th Largest County in MN (335K population)
• 440 square miles
• One of the Seven Twin Cities Metro Area Counties
• 1800 Employees (Finance has 59FTE)
• 2015 Budget = $253 Million
• ERP Implemented in 2014
• Sixth Largest City in MN
• Population – 77,400 residents
• Located along the Mississippi River, Northwest of Minneapolis.
• Area - 27 sq. miles
• $42 Million General Fund Budget ($100 Million Total Budget).
• 431 FTE (Finance Division has 9.48FTE)
• ERP Implemented in 2009
Foundational Decisions

“I want you to find a bold and innovative way to do everything exactly the same way it’s been done for 25 years.”
Foundational Decisions

- Business Process Improvements (BPI)
- Adapting to State Requirements
- Relationship to reporting
Relationship to BPI

• Define data needs (what are we tracking)
• Explore ease of use for users
• Understand organization flexibility needs
Anoka County - BPI

Merging Three systems to one

Budget  
HS Accounting  
Financial Accounting

- Reduced System reconciliation processes
- Combined chart of accounts at all levels
- Reviewed with Departments at a High Level
- Ease of Transition was Goal.
Brooklyn Park - BPI

Budget Process Changes (Council Driven)

Leadership Changes

Reviewed Structure w/ Departments

Organization Structure Changed 3 months after Go Live!
Adapting to State Requirements

Anoka County
• COFARS – Maintain & Cleanup
• Develop a Project based reporting for Grants (Greatly Expanded)

Brooklyn Park
• Built-in categories to meet OSA Requirements
• Used Project Module to track Grants
Relationship to Reporting

- CAFR Reporting (Meet State / GASB Guidelines)
- Budget Reporting
- Interim Reporting
- Department Reporting Needs
Anoka County

• Collaboration with other Metro County
  o Used same system (Older version)
  o Original Plan – use reports that they had created
  o Enhance collaboration
  o Result = Very little gain

• CAFR Reporting
  o Object Code Organization Shift
  o Result = Easier access to info for Statements, Schedules, and Notes

• Department Reporting Needs
  o Grant Reporting
  o External Agency needs
  o Specific Department Needs.
Brooklyn Park

- Department driven reporting structure
  - Met with Departments / accommodated in Structure where possible
- Re-defined Object Codes to meet Budget Process needs.
- Aligned Departments with Functions for CAFR/Grant Reporting needs.
Structural Development

• Generally Two Components
  o Organization – Who is spending
  o Account (Object code) – What they are spending on

• Understand your ERP System

• Define Optimal structure set up
Anoka County – G/L Detail

- G/L Key = 10 digits

- Background Parts:
  - Division
  - Department (Cost Center)
  - Program (Budgeting segregation)
  - FDID (Segregate BS items within a Reporting Fund)
  - Function (CAFR / State Reporting)
  - More Available

Allows for easy entry – very flexible and has background parts connected.
Anoka County – G/L Detail (Example)

- **G/L Key**: 0124063200

- **Background Parts**:
  - Division = 20 - Finance & Central Services (20)
  - Department (Cost Center) = 0632 - F&CS Accounting
  - Program = 240 (Budgeting segregation)
  - FDID = 0101 (Main GF Balance sheet)
  - Function = 00 – General Government (CAFR)
Anoka County – Job Ledger

Project/Grant Tracking

1 to 10 Digit Free Form

- Independent Reporting from G/L
- Cross period reporting
- Detail Transactions
- Allows to meet grant reporting requirements
- Project Management
- Background parts available – used for:
  - CFDA #
  - Dept / Program
  - Grant / Project year
  - Project #
  - Many very specific opportunities.
Anoka County – Job Ledger Example

**WIC Grant Example**

**J/L Code = 15540**

- 15 = Grant year
- 540 = Service Code used by Community Health

**Background Parts:**
- CFDA# = 10557 (for CAFR/Single Audit)
- Department = 640 (Community Health)
- US Department = 10 (Dept of Agriculture)
- Paying Agency = H12 (MN Dept of Health)
Anoka County – Job Ledger Example

Parks project (grant funded) example

J/L Code = 20016017

- 2001 = department/fund
- 6 = funding source (Metropolitan Council)
- 017 = sequence

Background Parts:
- Project = 2001001 (RCCL Campground improvements)
- Grant = 2001602 (Parks and Trails Legacy Fund Grant)
- Department = 530 (Parks and Rec)
- Year = 2013 (Date initiated)
- Paying Agency = L01 (Metropolitan Council)
Brooklyn Park – G/L Detail

Organization Elements

- Functions (background elements)

Organization Keys (Org Keys)
- Combination of Org Elements for uniqueness
- Accounts/Objects added to each - need based
Brooklyn Park – G/L Detail

Accounts / Objects

- Object codes are added to Org Keys and were set up based on below:

<table>
<thead>
<tr>
<th>Object Code</th>
<th>Object Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000’s = Assets</td>
<td>2000’s = Liabilities</td>
</tr>
<tr>
<td>3000’s = Equity</td>
<td>4-5000’s = Revenue</td>
</tr>
<tr>
<td>6-7000’s = Expenditures</td>
<td>9000’s = Capital Expenditures</td>
</tr>
</tbody>
</table>
Brooklyn Park – G/L Detail (Example)

Zanewood Recreation Center - Administration

- Functions (background elements)

Organization Key = 10162636320720
Object Code of Operating Supplies = 6210

Entry = 10162636320720.6210
Brooklyn Park – Project Module

- Project codes are Alpha-numeric
- Acts as a Separate Ledger
- Projects can be coded with G/L Entries or separate
- Specific project reporting available
- Used for Grants and Projects
- A project can use one – two – or all three of the elements defined above.
Brooklyn Park – Project Examples

NSP Grant Projects were used heavily:

• G RFNSP09-HABHM-0040
  o GRFNSP09 = 2009 NSP Federal Grant
  o HABHM = Habitat for Humanity (developer of property)
  o 0040 = last 4 digits of the properties PID

Capital Improvement Plan Projects:

• CIP400115
  o CIP = Capital Improvement Plan
  o 4001 = Project # (Street Resurfacing Program)
  o 15 = year (2015)
Ongoing Maintenance

- Rules are well defined and followed
- Create a Guide for managing COA
- As you adjust, keep in mind why it was set up that way in the first place
- Flow of COA - Try to keep the intended structure uniform

Flexible and Functional
Take-Away’s

• Each Government is Unique
• Manage to your Organizations Needs
• Anticipate Changes (Functional & Flexible)
• Engage other Departments
• Opportunity to Clean-up

Thank You