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Local Government Accounting and Auditing

American Institute of Accountants. Special Committee on Governmental Accounting

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AMERICAN INSTITUTE OF ACCOUNTANTS

LOCAL GOVERNMENT ACCOUNTING
AND AUDITING

Statement of the
Special Committee on Governmental Accounting
to members of the Institute

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13-15 East 41st Street, New York, New York

1939

The same considerations which make accounting of such paramount importance in private enterprise have equal force in their relation to public business. The business of government is surely the most important business in the world. For its proper dispatch it is absolutely essential that there shall be a microscopic scrutiny of all government accounts not only to prevent irregularities and dishonesty but as a guarantee that the will and intent of the Congress -- the sole appropriating power -- shall be carried out in all disbursements of public funds, --

From letter of President Franklin D. Roosevelt to the American Institute of Accountants on the occasion of its 50th Anniversary Celebration, 1937.

The Institute is conscious of the fact that opinions of accountants, based upon specialized training and practical experience, should be available in all matters of public concern having to do with accounting, budgeting, taxation, or other phases of finance. An accountant should look upon such service as a duty he owes his Government. No one is so well qualified to judge the effect of legislation involving these subjects as is the accountant. He should become more vocal on such matters.--

Clem W. Collins, President, American Institute of Accountants, in Annual Report to the Institute, September 1938.

TO THE MEMBERS OF THE
AMERICAN INSTITUTE OF ACCOUNTANTS:

The Committee on Governmental Accounting wishes to call attention of the members of the Institute to the significant progress taking place in the field of accounting and auditing for municipalities and other local governments. The Institute committee was originated in 1933 and had an active part in the organization of the National Committee on Municipal Accounting. That committee consists of representatives from the following organizations:

American Accounting Association.

American Institute of Accountants.

American Municipal Association.

International City Managers' Association.

Municipal Finance Officers' Association.

National Association of State Auditors, Comptrollers, and
Treasurers.

National Municipal League.

A member of the Central Statistical Board of the federal government also sits on the committee representing federal departments in a liaison capacity.

The office of the National Committee is at 1313 East 60th Street, Chicago. Mr. Carl H. Chatters is permanent secretary and is also the Executive Director of the Municipal Finance Officers Association of the United States and Canada which is one of the group of organizations affiliated with Public Administration Service having headquarters at the same address.

All organizations included in the membership of the National Committee have committees similar to the Institute Committee. Copies of all material prepared by the National Committee are submitted to the members of these various committees for review and criticism before being published.

The purpose of the National Committee is to formulate principles of municipal accounting, to develop classifications and terminology for municipal reports and promote the recognition and use of these standards. The results of its work have been set forth in various publications, the most important of which, from the standpoint of public accountants, are listed herein.

At its meeting of October 22, 1937 the Council of the Institute adopted the following resolution relating to governmental accounting and auditing:

Resolved, That with a view to relieving the burden on tax-payers and promoting honesty and efficiency in government administration, the council of the American Institute of Accountants recommends adoption by municipal and state governments of the accounting principles laid down by the National Committee on Municipal Accounting, and be it

Further Resolved, That the principle of independent audit should be applied as widely to the accounts of government units as is the practice in commercial organizations.

The Institute special Committee on Governmental Accounting feels that members of the Institute should take an increased ..

interest in this subject and should acquaint themselves with its peculiar problems and conditions. Public business in this country has assumed major proportions. Improvement in records and procedure is needed at many points. No profession is in better position to render aid in this respect than the accounting profession but to accomplish this end a knowledge of the conditions and requirements is essential. The work of the National Committee on Municipal Accounting is outstanding in bringing about a recognition of suitable standards and the publications of the National Committee are invaluable to accountants for this purpose.

Acquaintance of public accountants with the special problems of governmental accounting can be increased by discussions of the subject at local and regional meetings. Officers of state and local societies are urged to provide such opportunities. Members of the Institute committee and the National Committee stand ready to aid in such meetings as far as possible.

The Institute committee and the National Committee desire to receive copies of audit reports of municipalities and other governmental bodies made by Institute members whenever copies of such reports can be released or are published by the agencies under audit. The committees desire these reports so that they may be informed of the work of accountants in this field and of the way in which the problems presented are being dealt with and for the further purpose of observing the extent to which the

recommendations of the National Committee are being followed.

SPECIAL COMMITTEE ON GOVERNMENTAL
ACCOUNTING

January, 1939

T. Coleman Andrews, Virginia
George P. Auld, New York
George P. Ellis, Illinois
F. H. Elwell, Wisconsin
C. S. Goldston, Virginia
G. Charles Hurdman, New York
Eric L. Kohler, Tennessee
Henry P. Seidemann, District of Columbia
Edmund R. Stewart, District of Columbia
William E. Taylor, District of Columbia
William H. Welcker, Pennsylvania

Lloyd Morey, Chairman
257 Administration Building
University of Illinois
Urbana, Illinois

APPENDIX I

PRINCIPLES OF MUNICIPAL ACCOUNTING

Recommended by the National Committee on Municipal Accounting
(These principles are discussed fully in the volume "Municipal Accounting Statements")

1. The accounts should be centralized under the direction of one officer. He should be responsible for keeping or supervising all accounts and for preparing and issuing all financial reports.

2. The general accounting system should be on a double-entry basis, with a general ledger in which all financial transactions are recorded in detail or in summary. Additional subsidiary records should be kept where necessary.

3. The accounts should be classified in balanced fund groups. The group for each fund should include all accounts necessary to set forth its operation and condition. All financial statements should follow this classification.

4. A common terminology and classification should be used consistently through the budget, the accounts, and the financial reports.

5. The following classification of funds is recommended:
(1) General, (2) Special Revenue, (3) Working Capital, (4) Bond, (5) Special Assessment, (6) Sinking, (7) Trust and Agency, (8) Utility. Other funds may be established where specific activities require separate accounting. Cash, whose ultimate use has not been determined, may be included temporarily in the

Trust and Agency funds or carried separately in suspense accounts.

6. A clear segregation should be made between the accounts relating to current assets, liabilities, and operations, and those relating to fixed assets and liabilities. 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. Revenues should be classified by fund and source; and expenditures by fund, department, activity, character, and object, in accordance with standard classifications.

7. The general accounting system should include budgetary control accounts for both revenues and expenditures.

8. As soon as purchase orders or contracts are signed, the resulting obligations should be entered at once as encumbrances of the funds and appropriations affected.

9. The use of the accrual basis in accounting for revenues and expenditures is recommended so far as practical. Revenues, partially offset by allowances for estimated losses, should be taken into consideration when earned, even though not received in cash. Expenditures should be recorded as soon as liabilities are incurred.

10. Although depreciation on general municipal property may be omitted in the general accounts and reports, it should be considered in determining unit costs if a cost-accounting system is used.

11. The accounting for municipal business enterprises should follow the standard classifications employed by similar private enterprises. Each college, hospital, library, and other public institution should follow the standard classification applicable to its accounts.

12. Inventories of both consumable and permanent property should be kept in subsidiary records controlled by accounts in the general accounting system. The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the case of gifts, the appraised value at the time received. The computation of depreciation on general municipal property is not recommended, except for unit cost purposes, unless cash for replacements can legally be set aside.

13. There should be general uniformity in the financial reports of all municipalities of similar size and type.

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

15. A periodic audit by independent accountants is desirable.

APPENDIX II

PUBLICATIONS ON MUNICIPAL ACCOUNTING OF SPECIAL INTEREST TO PUBLIC ACCOUNTANTS

NATIONAL COMMITTEE ON MUNICIPAL ACCOUNTING

Municipal Accounting Statements - 1936. This volume contains suggested model forms of financial statements for the annual reports of municipalities. It also contains a statement of fundamental principles of municipal accounting recommended by the committee and a municipal accounting terminology consisting of definitions of terms commonly used in the accounts and reports of municipalities and other governmental bodies. Price \$2.00.

Municipal Audit Procedure - 1939. A preliminary bulletin on audit procedure was issued by the committee in 1934. The new volume, which has just been completed, supersedes the previous volume and deals with the principles as well as the procedure of municipal auditing in a comprehensive manner. (In press) Price _____.

Bibliography of Municipal and State Accounting - 1937. A selected list of books, pamphlets and articles dealing with accounting and budgeting for governmental bodies. Price \$0.35.

MUNICIPAL FINANCE OFFICERS ASSOCIATION

Standard Practice in Municipal Accounting and Financial Procedure. - 1937. A check list of practices that constitute

good procedure based to a large degree on the recommendations of the National Committee. Price \$0.50.

Manual of Water Works Accounting - 1938. Prepared jointly by the Municipal Finance Officers' Association and the American Water Works Association. Price \$4.00.

Accounting Manual for Texas Cities and Towns - 1938. A practical manual of accounting procedure based on the recommendations of the National Committee and prepared jointly by the Municipal Finance Officers Association and the League of Texas Municipalities. Price \$1.25.

These publications are available through the office of the National Committee on Municipal Accounting, 1313 East 60th Street, Chicago, which is also the address of the Municipal Finance Officers Association.

Our association has made more progress in the field of municipal accounting than in any of its other activities. You are all familiar with the accomplishments of the National Committee on Municipal Accounting and its advisory committees. This work is still being carried on. It is the splendid work of this committee that has made it possible to refer to the "Principles of Municipal Accounting" with any assurance that the reference had a definite meaning with practical, workable standards. Our association will continue to support and guide the work of this important committee as we have in the past.--

From Presidential address of Arthur C. Meyers,
(Budget Director, St. Louis, Missouri), to the
Municipal Finance Officers Association of United
States and Canada, August 1938.

The public today, as never before, needs the advice, and the counsel of men trained in governmental finance. Men of warm hearts but cool heads. Theories are more easily acquired than knowledge - but they are a poor substitute for the practical training that you ladies and gentlemen have had in the practical business of handling the public funds. In so far as their governmental affairs are concerned, the public needs fiscal leadership and you, the municipal finance officers, must supply it, even though you have to go after adequate legislation and regulations in order to be legally empowered to give it. --

Harold J. Boyd (Controller of the City and County
of San Francisco, California), to the Municipal
Finance Officers Association, August 1938.

AMERICAN INSTITUTE OF ACCOUNTANTS
Special Committee on Governmental Accounting
Urbana, Illinois

December
Twenty-second
1938

Mr. John L. Carey, Secretary
American Institute of Accountants
13-15 East 41st Street
New York, New York

Dear Mr. Carey:

It is the feeling of the members of the Committee on Governmental Accounting that attention of the members of the Institute should be called to the work going on in municipal accounting. To that end the committee has drafted the attached manuscript entitled "Local Government Accounting and Auditing". The original draft was circulated among the members of the committee and minor changes were suggested which have been incorporated in the present draft.

The committee requests and recommends that this material be published by the Institute as a bulletin and sent to all members, and that a limited number of additional copies be provided for further circulation that may be found desirable.

It is suggested that the size and style of the bulletin be similar to "Audits of Governmental Bodies" and "Accounts of Governmental Bodies" published for the committee in previous years.

I trust this recommendation will meet the approval of the executive committee.

Cordially yours,

LLOYD MOREY (Signed)
Chairman, Committee on
Governmental Accounting.

LM:GP
CC - Members of Governmental
Accounting Committee.