



# BUDGETARY ACCOUNTING

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Department of Auditor-Controller

*Management Council – January 13, 2022*

# Budgetary Accounting Objectives

- Fund Accounting
- Accounting Cycle
- Encumbrances
- Expenditures
- Revenue
- Interdepartmental Services and Billings
- Budget Adjustments
- Net County Cost

# Budgetary Accounting

- Budget must balance by Fund
- Financing Sources = Estimated Revenue
- Financing Uses = Appropriation
- Spending Plan
  - Designed to account for the utilization of resources during the one-year budget cycle.
  - $\text{Fund Balance Available} + \text{Financing Sources} = \text{Total Financing Uses}$

# Budgetary Accounting - Continued

## INFORMATION TECHNOLOGY INFRASTRUCTURE FUND

<b>DETAIL BY REVENUE CLASS AND EXPENDITURE OBJECT</b>	<b>FY 2021-22 ADOPTED</b>
<b><u>FINANCING SOURCES</u></b>	
FUND BALANCE AVAILABLE	\$ 21,799,000
CANCEL OBLIGATED FD BAL	
INTEREST	350,000
TRANSFERS IN	10,000,000
<b>TOTAL FINANCING SOURCES</b>	<b>\$ 32,149,000</b>
<b><u>FINANCING USES</u></b>	
SERVICES & SUPPLIES	\$ 31,549,000
OTHER FINANCING USES	600,000
<b>GROSS TOTAL</b>	<b>32,149,000</b>
<b>TOTAL FINANCING USES</b>	<b>\$ 32,149,000</b>

# Overview of the Accounting Cycle

- Fiscal Year = July 1<sup>st</sup> to June 30<sup>th</sup>
- Record encumbrances throughout the year
- Receive goods or services throughout the year
- Payments against encumbrances
- Salaries and Employee Benefits
  - 15<sup>th</sup> – Salary costs for 16<sup>th</sup> – 30<sup>th</sup> pay period
  - 30<sup>th</sup> – Salary costs for 1<sup>st</sup> to 15<sup>th</sup> pay period

# Overview of the Accounting Cycle - Continued

- Workers' Compensation and Long-Term Disability Expenditures – posted monthly
- Revenues
  - Recognized when received and collected
- Year-end Closing at June 30th
  - Establish expenditure and revenue accruals
  - Books are closed by mid-August

# County Fiscal Manual (CFM)

- ❑ The County Fiscal Manual is one of the County's authoritative guidance manuals that focuses on areas such as cash, trust funds, payroll, expenditures, capital assets, procurement, revenue, and information technology controls.
- ❑ Located in the Auditor-Controller's website:  
<http://auditorweb.co.la.ca.us/Auditor-Controller/CountyFiscalManual>
- ❑ Updated by relevant subject matter experts and administered by the Auditor-Controller's Audit Division.

# Encumbrances / Commitments

## ❑ Encumbrances (CFM 4.1.6)

- Represent purchase orders, contracts, miscellaneous charges, departmental expenditures, and departmental service orders
- Reduces the available appropriation in the current year's budget
- Used as a budgetary control over the budget

## ❑ Commitments (CFM 4.1.7)

- Carryover encumbrance balance from previous budget years



# Encumbrances / Commitments - Continued

- Cancel current year encumbrance
  - Funds revert to current year's budget
- Cancel commitment or expenditure accrual
  - Funds revert to a prior year's budget
  - Funds are not available to the departments to re-spend in the current year.

# Expenditures Accruals

- Expenditures Accruals (CFM 4.2.4)
  - Measured at the end of the fiscal year
  - Report expenditures for goods or services received at or by June 30<sup>th</sup> but have not been paid for
  - Encumbrances are established
  - Expense is charged to the current fiscal year
  - **It is not acceptable to accrue the remaining balance on blanket purchase orders or other encumbering documents.**
  - Must be spent within one year.

# Accounting for Budgeted Expenditures

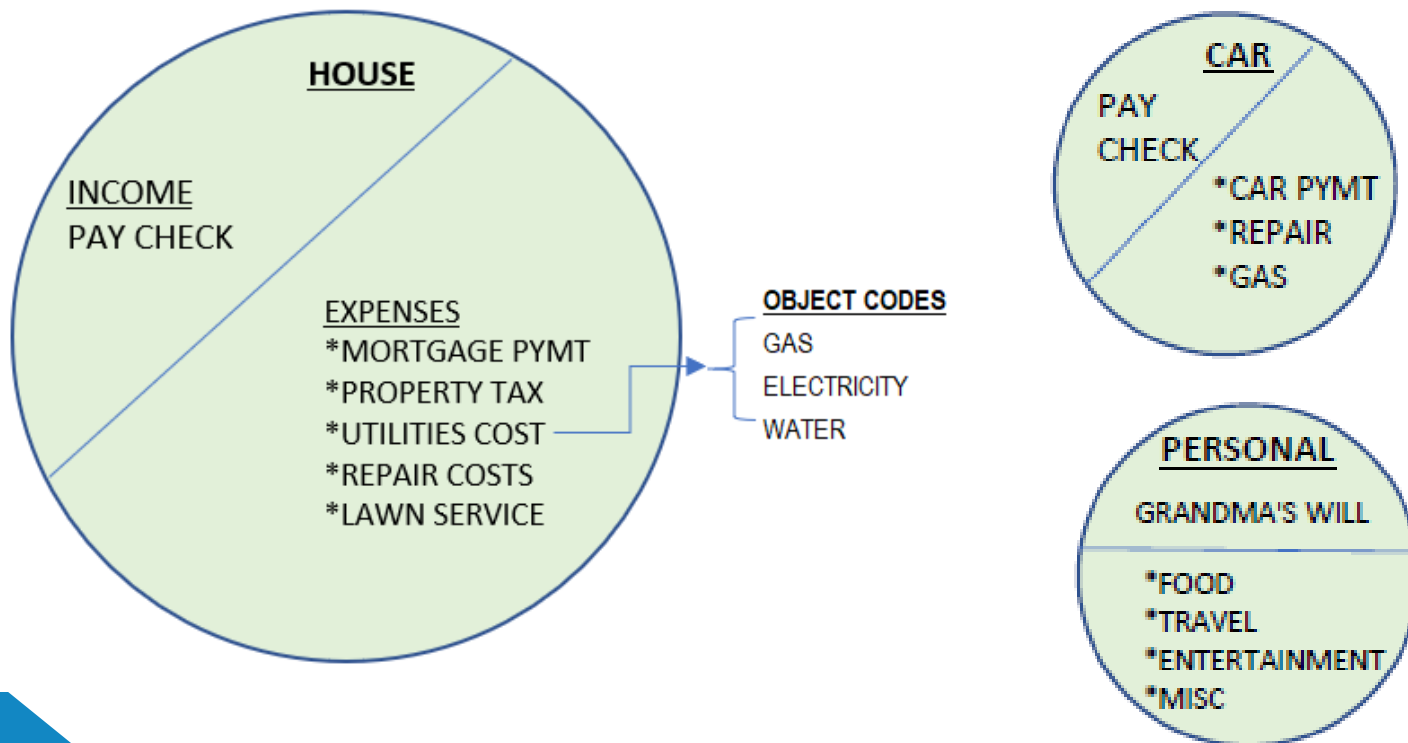
- Budget Unit
  - Organization or program that received spending authority
- Appropriation
  - Used to provide budget authority to incur expenditures
- Expenditures
  - Actual spending transactions that use financial resources
- Expenditure Objects
  - Major classification of expenditures and are used to indicate the nature of the spending action
- Object Codes
  - Detail accounts that describe the expenditures

# Accounting for Budgeted Expenditures - Continued

Fund	→	<b>SMITH FAMILY BUDGET</b>	
		<u>FINANCING SOURCES</u>	
Estimated Revenue	→	PAY CHECK	\$ 100,000
		GRANDMA'S WILL	20,000
		<b>TOTAL FINANCING SOURCES</b>	<b>\$ 120,000</b>
		<u>FINANCING USES</u>	
Appropriation /	→	<b>SERVICES &amp; SUPPLIES</b>	<b>\$</b>
Expenditure Objects (2000)	→	FOOD	10,000
		ENTERTAINMENT + TRAVEL	8,000
		MISCELLANEOUS	5,000
		UTILITIES COST	6,000
Expenditure Objects (5500)	→	OTHER CHARGES	
		CHARITY + PTA	5,000
		MORTGAGE + PROPERTY TAX	70,000
Expenditure Objects (6030)	→	CAPITAL ASSETS - EQUIPMENT	
		CAR PAYMENT	6,000
Obligated Fund Balance		RESERVE	
		SAVING ACCOUNT	10,000
		<b>TOTAL FINANCING USES</b>	<b>\$ 120,000</b>

# Accounting for Budgeted Expenditures – Continued

## Smith Family Budget Units



# Expenditure Objects

- Salaries and Employee Benefits (1000)
- Services and Supplies (2000)
- Other Charges (5500)
- Capital Assets (Equipment [6030], Land [6006], Buildings & Improvements [6014], Infrastructure [604A])
- Other Financing Uses (6100)
- Intrafund Transfers (6800)

# Expenditure Guidelines

## Payroll Expenditures

- Processed through e-HR Payroll System
- Encumbrances are not used

## Non-Payroll Expenditures

- Processed through eCAPS Financials System
- Encumbrances are established
- Payments are issued to vendors

# Budgetary Accounting Example

## □ Available Appropriation (Spending)

- $\text{Appropriation} - \text{Encumbrances} - \text{Expenditures} = \text{Available Appropriation}$

## □ Example:

- The appropriation for the A-C S&S is \$1 million.
- \$600,000 has been expended. Outstanding encumbrances are \$50,000.
- Available balance would be \$350,000.

- **$\$1 \text{ million} - \$600,000 - \$50,000 = \$350,000$**



# Expenditure Class Problem #1

You are reviewing your budget to determine how much money you have available to spend on Services and Supplies. The amount of Services and Supplies appropriation is \$2 million. You have expended \$1 million and you have \$300,000 of encumbrances that are outstanding. The amount of money available is:

- a) \$3,300,000
- b) \$1,000,000
- c) \$700,000
- d) \$300,000

# Expenditure Class Problem #2

The Auditor-Controller was budgeted \$5,000,000 for salaries and benefits and \$2,000,000 for services and supplies. During the year, actual costs for salaries and benefits were \$4,000,000 and actual costs for services and supplies were \$1,500,000.

- How much was the total appropriation?
- What is the budget unit in this example?
- How many expenditure objects were referred to?
- What were the total expenditures?
- What was the amount of budgetary savings?

# Expenditure Class Problem #3

In Year 1, a purchase order was obtained to acquire 20 vehicles for an estimated total cost of \$400,000. In year 2, all 20 vehicles were delivered at an actual cost of \$360,000.

You are asked to determine the amount of savings from the vehicle purchase that can be used to acquire other equipment items in Year 2. The answer is:

- a) \$360,000
- b) \$40,000
- c) \$20,000
- d) none

# Accounting for Budgetary Resources

- Estimated Revenues
  - Budget revenues that are expected to finance appropriations and other requirements
- Revenue
  - Actual revenue received

# Revenue Category

- Taxes
- Licenses, Permits, and Franchises
- Fines, Forfeitures, and Penalties
- Revenue from Use of Money and Property
- Intergovernmental Revenue
  - Federal, State, and Other
- Charges for Services
- Miscellaneous Revenues
- Other Financing Sources

# Revenue Guidelines

## Revenue

- Cash is collected throughout the fiscal year

## Guidelines

- Fees authorized by Board, County Code, or State Law
- Evaluate new fees, where appropriate
- Review fees annually and make adjustments, where appropriate
- Billing Rates
- Billings are collected to maximize cash flow

# Revenue Accruals

- Revenue Accruals
  - Estimated amount of revenue that the County has earned at or by June 30<sup>th</sup> but has yet to receive in cash
  - Measured and available within the next fiscal year
  - At year-end, report the accrued revenues to the Auditor-Controller
  - Revenue is charged to the current fiscal year
- eCAPS Revenue Accruals are immediately recorded as revenue pending collection during the fiscal year.
- Long-term Receivable – Cash is not received within the next fiscal year

# Revenue Class Problem #1

Your department provides services to various cities throughout the County on a contractual basis. The estimated revenues for providing the services were \$3,000,000. The services were provided and the billings were determined to be \$2,800,000, which was collected from all of the cities.

- What is the amount of actual revenues?



## Revenue Class Problem #2

You are managing a division that is responsible for a \$500,000 project that is entirely funded by a grant from the State. Midway through the fiscal year, your boss sends you an accounting report that indicates the year-to-date project expenditures are \$250,000 but none of the grant revenues have been collected. You are asked to verify that this project is not going to cost the County any money. What would you do?

# Revenue Class Problem #3

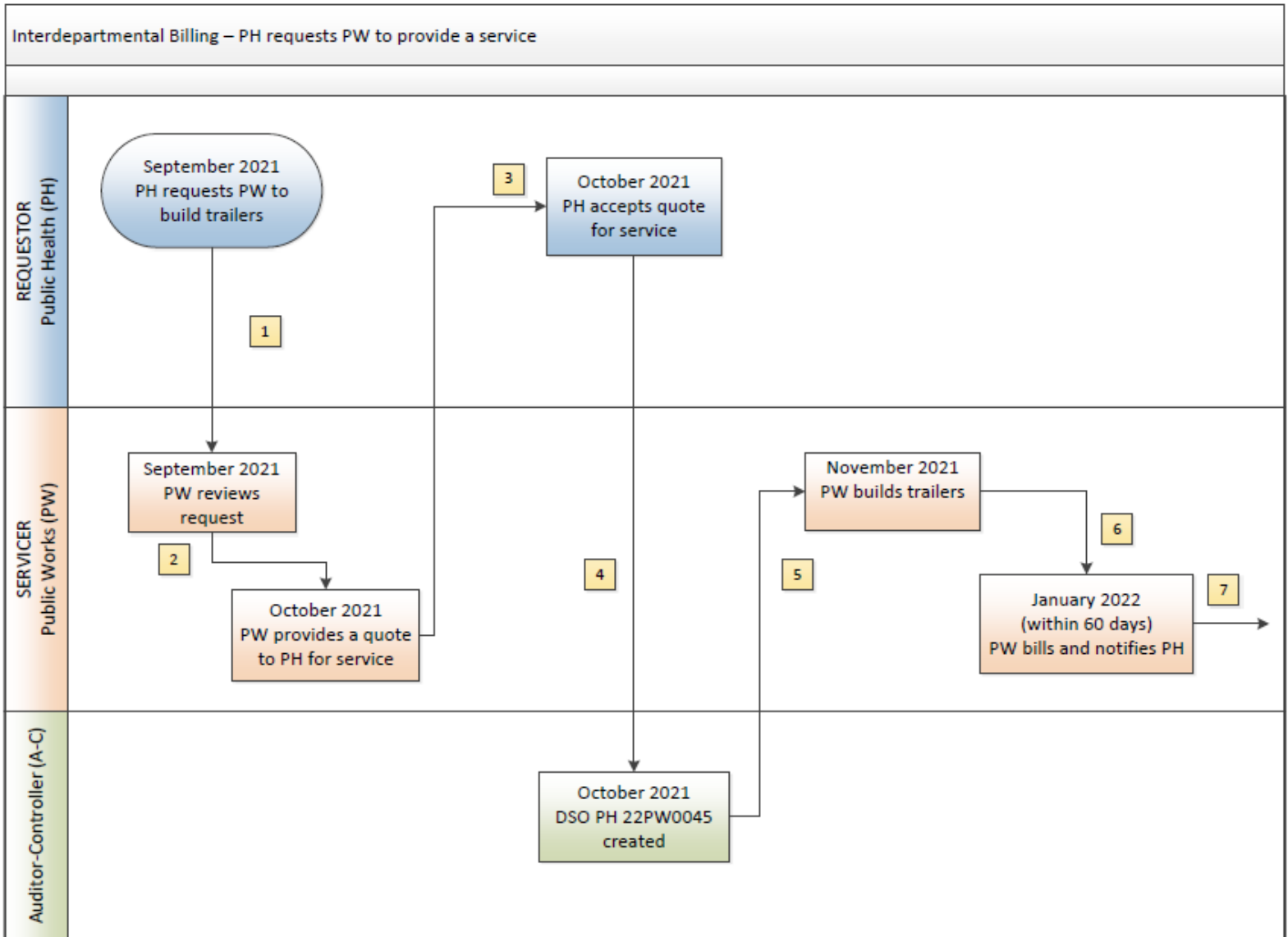
Your department provides services to a city, which agrees to reimburse the County based on the actual costs of providing services. The estimated revenues for the services were \$6,000,000. For the first 11 months of the fiscal year, the city has been billed actual costs of \$600,000 per month and your department has collected each billing for a total of \$6,600,000. In July, your department billed the city actual costs of \$600,000 for the last month of services provided. The County is trying to close the books and asks your department for the amount of accrued revenue related to this service contract. The answer is:

- a) none
- b) \$600,000
- c) \$1,200,000
- d) \$7,200,000

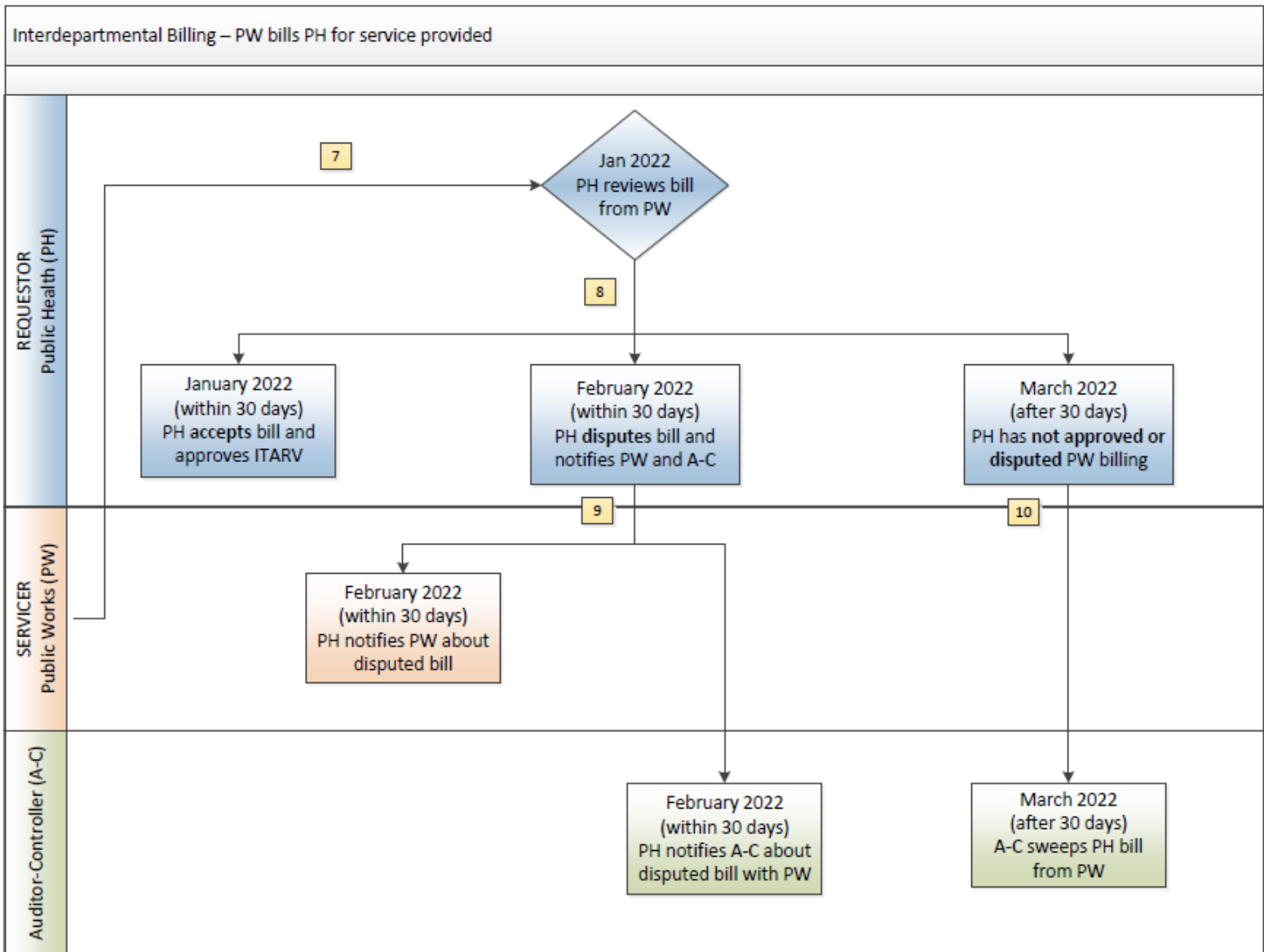
# Interdepartmental Services

- Services are provided by certain County department to other departments
- Encumbering Departmental Services
  - Encumbered against the current year budget
  - Establish a Departmental Service Order (DSO)
- Billing for Departmental Services
  - Servicer bills requestor within 60 days
  - Internal Transfer (IT) Billing Document

# Interdepartmental Services



# Interdepartmental Services



# Interdepartmental Services - Continued

- Accepting Charges for Billed Services
  - Servicer has 30 days to accept or dispute the IT
  - IT Charges are automatically processed after 30 days
- Year-end Billing Activity
  - Timeframes are shorted due to the YE Closing Process
- Billing Disputes and Arbitration

# Budget Adjustments

## Budget Adjustments (BA)

- Formal changes to a department's budget during the current fiscal year Budget Adjustments (BA)

## Types:

- Action
- 3-Votes
- 4-Votes

# Budget Adjustments - Continued

## □ Appropriations within same Budget Unit

- $\leq$  \$250,000 – Action BA
- $>$  \$250,000 – 3-Votes
- Government Code Sec. 29125 provides the Board may designate to a County official the authority to approve increases in appropriations that are financed by decreases in appropriations in the same budget unit.



# Budget Adjustments - Continued

## Approp from Other Budget Units

- When an increase in an appropriation is to be financed by a decrease in an approp in a different budget unit, the budget adjustment must be formally approved by the Board (Section 29125) by 3-Votes.

## Appropriations for Contingencies

- The County budget may include an Approp for Contingencies (Section 29125). To spend this approp, it must be transferred to another approp. Such budget adjustments require the approval of four of the five Board members.

# Budget Adjustments - Continued

## Unbudgeted or Unanticipated Revenues Received

- Revenues received which were not included in the budget, or that are in excess of amounts budgeted, may be included and utilized to finance additional approp with a budget adjustment approved by four of the five Board members (Section 29130).

# Budget Adjustments - Continued

## □ Fund Balance Classifications

- Board may provide in the budget for the establishment nonspendable, restricted, committed, or assigned fund balance classifications (Section 29085). To appropriate and spend these funds, they must be included in a subsequent year's budget as a financing source or, upon approval of a budget adjustment by four of the five Board members, may be appropriated during the current fiscal year (Section 29130).

# Trust Fund

- Budgets are not required.
- Used to account for assets held by the County:
  - Do not belong to the County, or
  - Not ready to be recognized as revenue to the County
- Examples:
  - County Own Source Trust Funds
  - Custodial Trust Funds
  - Private-Purpose Trust Funds

# Trust Fund / Trust Account

- Interest bearing or not?
- Use special balance sheet codes
- Earned revenue cannot be retained in Trust Funds and held over for deposit as revenue in a subsequent year.
- Can be used to account for restricted donations.
- Expenditures cannot be made directly from Trust Funds.

# Budget Class Problem #1

After the County budget was adopted you learn that the State approved a grant for a new program that you have been trying to implement. The total cost of the program is \$1 million. The grant is for \$900,000, but requires \$100,000 of County matching funds. The program costs have not been included in your budget, nor have the grant funds or County match been budgeted.

- Is a budget adjustment required? If so, is Board approval necessary? How many votes are required from the Board, 3 or 4?
- How would you address the issue of County matching funds that are required?

# Budget Class Problem #2

A member of the Board decides that each department in the County should reduce its spending by \$50,000 in order to pay for more accounting positions in the Auditor-Controller. The total amount of reallocated funds is approximately \$2,000,000.

- Is a budget adjustment required?
- Who can approve the budget adjustment? If Board approval is needed, how many votes are required?
- What additional information would be required to prepare a budget adjustment?

# Budget Class Problem #3

At the midway point of the fiscal year, you are projecting that your Salaries and Employee Benefits budget will have estimated savings of \$500,000. You would like to use at least a portion of the savings to buy some equipment. How would you proceed to redirect the projected savings for equipment purchases?



# Net County Cost (NCC) Report

- Displays each County Department's NCC
- NCC Variance shows whether a County Department Saved Money or Overspent when compared to their Budget
- NCC Report balances to the Trial Balance Statement
- NCC Report balances to the Closing Fund Balance Available
- NCC Report is reported to the Board of Supervisors

# NCC Report - Continued

- Budgeted NCC
  - CY Appropriation – CY Estimated Revenues
- Current Year NCC
  - CY Encumbrances + CY Expenditures – CY Actual Revenues
- Prior Year NCC
  - Cancelled Commitments/Accounts Payable
  - Prior Year Revenue Deficit/Surplus
- Total NCC = Current Year NCC + Prior Year NCC
- Net County Cost Variance = Budgeted NCC – Total NCC

# NCC Report - Continued

## 2020-21 NET COUNTY COST VARIANCE REPORT MUSIC CENTER

	Budgeted NCC (A)	Current NCC (B)	Prior Year NCC (C)	Total NCC (D)=(B+C)	NCC Variance (E)=(A-D)
Appropriation / Expenditures	30,951,000	28,864,212		28,864,212	
Estimated Revenue / Actual Revenue	667,000	149,699		149,699	
<b>Total</b>	<b>30,284,000</b>	<b>28,714,513</b>		<b>28,714,513</b>	<b>1,569,487</b>

# Budgetary Accounting

Questions or Comments