Governmental Accounting In Montana

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GOVERNMENTAL ACCOUNTING
IN MONTANA

by

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A Thesis submitted to the Department of Business and Economics of CARROLL COLLEGE in partial fulfillment of the requirements for academic honors with a Bachelor of Arts degree in Accounting.

Helena, Montana
March 24, 1980
This thesis for honors recognition has been approved for the Department of Business and Economics.

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March 24, 1980
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I. OVERVIEW

As of 1968, the systems and procedures for budgeting, accounting and reporting financial information in Montana had evolved from over a century of administrative practices. Most were developed to solve isolated administrative problems. There were approximately 180 single-entry systems of accounting in use. Therefore, there was no comparability or uniformity of accounting information in state government. As a first step toward correcting this situation, the Seattle accounting firm of Touche, Ross, Baily and Smart (hereafter referred to as Touche, Ross) was engaged in 1968 to do a study of a possible integrated budgeting and accounting system for Montana. The report was submitted to the Governor and the Legislature for consideration in the legislative session of 1969.

The problem, simply stated, was that the people of Montana were demanding more and better public services without increasing taxes. One solution to such a problem was to improve the quality and quantity of financial information in order to achieve operating efficiency and also improve the reliability of decisions made regarding alternative uses of resources. The same problem existed in other states, and several tried to solve it with systems oriented toward fiscal control. Most of those states encountered difficulty with such a system, because they did not provide sound budgeting and accounting systems for measurement of functional operating costs and other information which is
essential for planning and efficient operation.¹

Touche, Ross recommended that Montana's initial efforts be directed toward design and implementation of an information-oriented budgeting, accounting and financial reporting system and that fiscal control aspects of accounting not be emphasized, although they did need improvement.

The primary objective of a budgeting, accounting and financial reporting system is to provide the financial information necessary for operating management to measure progress in accomplishing objectives within budgetary guidelines. It must also provide managers with the financial information necessary to exercise custodial control over public assets and to ensure that legislative intentions are followed. It should also provide economies of operation through central warrant processing, improved central payroll processing, and reorganization of the pre-audit function. Systems with these objectives and that provide mechanics for the determination of state goals and objectives, evaluation of alternative methods of achieving them, formulation of programs for their accomplishment, and measurement of progress made toward their attainment are commonly called planning, programming and budgeting systems (PPBS).

Several of the objectives above were considered by the 1969 Session of the Legislature. Among some of the

attempted solutions were:

1. An act amending and defining the duties of the State Auditor to include more complete record keeping and to install a cost accounting system for issuing and processing warrants;²

2. An act establishing a uniform State Central Payroll System to be used by all state agencies;³

3. An act consolidating offices and functions of the budget director and the state controller;⁴

4. An act requiring each state agency to prepare such financial statements and reconciliations as the State Controller may prescribe;⁵

5. An act to establish a legislative fiscal review committee to accumulate, compile, analyze and furnish such information about financial matters of the state that the Legislature determines relevant to issues of policy and questions of statewide importance. This act also authorized a legislative fiscal analyst and staff;⁶

²Laws and Resolutions of the State of Montana passed by the Forty-first Legislative Assembly in Regular and Extraordinary Sessions, Published by Authority, State Publishing Co., Helena, Montana, I, p. 216. (Hereafter the title is referred to as Session Laws.)

³Ibid., I, pp. 220-223.

⁴Ibid., I, pp. 281-282.

⁵Ibid., I, p. 444. The intent was that the reports accurately and comprehensively present the financial activities of the reporting agency so that the reports could be effectively utilized by the executive and legislative branches.

⁶Ibid., II, p. 1109.
6. An act to establish uniform reporting requirements for all state executive agencies;7 and

7. A resolution which says that it is the intent of the Legislature that the state adopt at the earliest feasible date a basis of accounting in accordance with generally accepted governmental accounting principles. The Governor was to estimate the cost of such a change, and the state controller was to inventory all statutes relating to the change and submit recommended changes to the next session of the legislature.8

The solutions above were recognized to be piecemeal and were intended to plug up some of the larger holes in the system until an entirely new system could be designed and implemented.

By the next session of the Legislature, in 1971, much of the work of designing the new system was completed, and the act which authorized implementation of a modified accrual basis of accounting for state expenditures was passed.9 Other laws were passed that established more precise fiscal control measures and accounting procedures.10 Also, the state executive branch was reorganized, and a single department (the Department of Administration) was

7Ibid., I., p. 188.
8Ibid., II, pp. 1156-1157.
10Ibid., p. 1079.
created to handle the accounting functions of state government.\textsuperscript{11} The State Controller, the Purchasing Department and several other separate offices were consolidated in this new department.

The new Statewide Budgeting and Accounting System (SBAS) commenced operations in July of 1972. Since then, it has proved successful as a PPBS system\textsuperscript{12} and has only been modified slightly. The modifications will be discussed in the subsequent sections on budgeting, accounting and reporting.

\textsuperscript{11}\textbf{Ibid.}, pp. 1105-1107

\textsuperscript{12}\textbf{Statement by Doyle Saxby, former head of the Department of Administration, in a personal interview, Helena, Montana, July 17, 1979.}
II. BUDGETING

Governmental accounting is the composite activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of government units and agencies.¹ This definition does not include budgeting, but Montana has an integrated system of budgeting and accounting, and a report on accounting in Montana must necessarily explain the budgeting process.

Budget formulation and analysis in Montana before 1972 was based almost entirely on historical costs: that is, they were based on the appropriation for the preceding biennium and a certain percentage increase. The capital and operating budgets were administered by separate entities, and budgeting policies did not clearly define which items would be in the capital budget and which is the operating budget. It was possible for agencies to spend all their appropriation early in the biennium or underspend throughout the period and then spend the remaining funds at the end of the period to avoid any reversions back to the general fund. Agencies could transfer funds from one authorized program to another without approval, which distorted budget plans and allowed them to spend contrary to the intent of the Governor or the Legislature. The Budget Director's Office had very limited influence in controlling amounts requested by

agencies; agencies had direct recourse to the Legislature while the Budget Director was not allowed to present and defend the Governor's position in disputes. The Budgeting Office and the Controller were separate offices with almost no integration, which caused the development of financial systems which were almost completely unrelated, causing in turn problems in development and execution of budgets.²

The first attempt at rectifying these problems was introduced by the Commission on Executive Reorganization in 1972. It recommended the formation of a government operations unit within the Office of the Governor charged with the responsibility of monitoring the organizational structure of state government, facilitating communication and adjudicating disputes between state agencies, conducting program evaluations, reviewing state management and fiscal practices, and acting as the general research and planning arm of the chief executive. The Government Operations Unit existed for one year, with limited activities, and then its functions were combined with budget preparation and the new unit formed became the Office of Budget and Program Planning (OBPP).³ In 1975 a program planning and budgeting system was introduced as the first effort at comprehensive planning for state government operations.⁴

²Touche, Ross, pp. 7-8.
³Revised Codes of Montana, 1947, Sections 82-1315(1); 79-1012 to 79-1018.
The planning component of the PPBS included a process comprehensive in scope which required agencies to specify a series of future objectives and link the objectives to a detailed schedule of dollar and personnel needs for the current and two subsequent biennia (6-Year Plan). However, this produced expectations far in excess of meaningful results. Its format was flawed and the entire process became mired in paperwork. Also, six years was found to be unworkable because of unforeseeable changes in legislative action and funding patterns. It did, however, begin the concept of statewide planning.

For the above reasons, a new format was designed and put into effect in December of 1977. It has been successful. The new format, called Executive Planning Process, operates as follows: All agency budget requests are prepared in program form and submitted to OBPP on or before August 15th, with the exception of the Departments of Institutions, Highways and units of the state University System, which have a September 15th deadline. The Budget

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6 A budget is a financial plan that serves as both an estimate of and a control for future activity. Program budgeting is a system of planning by programs which are goal oriented. It is directed toward levels of output of goods and services rather than toward the means used in producing the output and is designed to provide a basis for comparing alternative ways of attaining goals. It is a systematic method of comparing expenditures with planned goals.
Director has the power to reduce or rescind current year appropriations if the budget requests are not received by the specified dates, a power never exercised to date. OBPP typically sends out guidelines to be followed in developing current level requests.

There are 13 forms an agency uses to prepare a budget request for a single program (and an agency can have over 20 programs). The agency submits a package of forms to the OBPP in the following manner:

The first two forms are: (1) a summary of program activity which shows total costs by program, total program costs by category (wages, operating expenses, etc.) and total program costs by fund (general, earmarked, trust, etc.); (2) a detail of accounting entity, which is a projected budget worksheet showing estimated fund balance, receipts and disbursements and estimated ending fund balance.

The next group of forms detail current level activity. They show a description of the program and actual and estimated output for the current and next two years, along with detailed budget justifications.

The last group of forms are budget modification requests. They summarize and justify a request for more money. In order for an agency to get approval of a budget modification, the requests for such modification must be submitted several months ahead of when the funds are needed. They are sent to

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7George L. Bousliman, Instructions for 1981 Biennium Budget Preparation, pp. 1-19.
OBPP where they are reviewed, screened and assembled in order of priority. Those requests surviving this process are sent to the Governor for his decision. His approval allows the requests to be considered in the legislative budget process. OBPP assembles the current budget and approved modifications, along with revenue estimates, in the Governor's formal budget which is submitted to the Legislature.8

The advantages to this new budget system are:

1. The planning format is simple and easy to use. It minimizes both staff time and paperwork.

2. The process used to review plans enables agency personnel to gather and disseminate information over a longer period of time, which allows the department head and budget office ample time to thoroughly understand the information.

3. Agency personnel now participate more fully in the budgeting process.

4. Decisions regarding program modifications can be made early in the budget process, and documentation that agencies had to supply previously has been reduced.

5. Decision making is done on a realistic basis. The process of screening program modifications is broadly guided by departmental priority, administration policy, and legislative intent.

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6. The system is integrated. Program managers must look ahead to identify the short- and long-term budget needs of their programs.

The disadvantages and shortcomings of the system are:

1. It does not include a systematic review of existing government activities and is of limited use for program evaluation.

2. The practical use of the process diminishes in proportion to the amount of funds a program receives from sources other than the state general fund. When revenue is assured by earmarked or federal revenue, there isn't the urgency to plan carefully and budget tightly.

3. The system was not intended for day-to-day program administration.

4. The system is specifically focused at individual programs and therefore it can be difficult to get a large, multi-agency overview of a particular set of programs.

In summary, the Executive Planning Process has helped streamline the budgeting process. By providing early identification of proposed budget requests it has been possible for the agencies, budget office, and Governor to sort through and select the high priority or most critical proposals for funding. Reducing the number of proposed budget modifications through the planning process rather than during the budget cycle saves a substantial amount of labor, paper and time.\(^9\)

Very few changes have been made in the organization of the Office of Budget and Program Planning. In 1977, an act was passed that said no new federal money could be spent by an agency without approval by a budget amendment, thus preventing agencies from digressing from the approved plan because they received new "outside" money. An amendment was proposed to the new Constitution to allow establishment of an interim legislative committee to approve or disapprove budget amendments to spend money not appropriated by the Legislature. The voters defeated the proposed amendment in 1978. In 1979 the Budget Director was given the responsibility to set operating and development guidelines and priorities for development and acquisition of electronic data processing systems, to approve acquisition of equipment and addition of staff, and to review and approve all contracts for private sector electronic data processing services.

The Budget Director and the Legislative Fiscal Analyst are the two officers who compile and analyze all the information about where the money came from and where it went, as

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11 Ibid., II, p. 1269.


well as what is available or expected to be available for future state operations. The Budget Director works under the direction of the Governor and the Fiscal Analyst under the direction of the Legislature. The Legislative Fiscal Analyst does much of the same work as the Budget Office.

The Legislature established a fiscal review committee in 1969. In 1974 they appropriated money to the Legislative Auditor to establish a legislative fiscal analyst's program in his office. Then, in 1975 they created the Legislative Fiscal Analyst's Office under a permanent Legislative Finance Committee.

At present, the fiscal analyst's duties are to:

(1) provide for fiscal analysis of state government and accumulate, compile, analyze, and furnish such information bearing upon the financial matters of the state that is relevant to issues of policy and questions of statewide importance, including but not limited to investigation and study of the possibilities of effecting economy and efficiency in state government;

(2) estimate revenue from existing and proposed taxes;

(3) analyze the executive budget and budget requests of selected state agencies and institutions, including proposals for the construction of capital improvements;

(4) make the reports and recommendations he deems desirable to the legislature and make reports and recommendations as requested by the legislative finance committee and the legislature; and

(5) assist committees of the legislature and individual legislators in compiling and analyzing financial information.

All budget amendments for state agencies must be submitted through the budget director to the committee. No state agency shall expend in excess of the appropriation except under authority of a budget amendment.

The legislative fiscal analyst shall review proposed budget amendments submitted to the committee from the budget director and make recommendations to the committee concerning proposed budget amendments.17

As can readily be seen, there is much duplication of effort and extra cost involved in having two offices to review the budget, etc. However, it is not too surprising that they both exist, since one reports to the Executive Branch and one to the Legislative Branch of government. The Governor and the Legislature are often at odds in interpreting data, selection of goals, etc., even when the Governor and the legislative majority are from the same political party. Each insists on financial information supplied from staff responsible only to themselves.

III. ACCOUNTING SYSTEMS AND PROCEDURES

Before the changes begun in 1972, most agencies had very limited accounting capability. Their systems provided only custodial information about public resources and did not provide financial management information needed for planning or for efficient operation. The Department of Administration maintained a system which provided limited fiscal control on a statewide basis. Because it was developed mainly to compensate for the deficiencies of agency systems, considerable duplication of effort in the custodial accounting function existed. Also, because the accounting systems developed more or less independently of each other, consistent application of generally accepted governmental accounting principles did not exist, which made the interpretation and comparison of financial information for planning, operating and controlling government activities difficult or impossible and made preparation of consolidated statements of financial position very difficult. The systems did not provide for the efficient protection of public resources because control was sought primarily through duplication of accounting functions. There were almost no financial reports of any use in making decisions about resource allocation alternatives or for use in monitoring any particular agency's operations.¹

The Statewide Budgeting and Accounting System was put

¹Touche, Ross, pp. 8-9.
into operation in 1972. It is a centrally maintained, computer driven, full spectrum double-entry bookkeeping and financial reporting system. Its objectives are:

1. to provide all levels of management with financial information;
2. to minimize the duplication of effort in recording and reporting information;
3. to maximize uniformity within accounting entities to permit meaningful comparisons;
4. to provide a budget control system that records budget authorizations and indicates status;
5. to provide a means to develop a management operating information structure;
6. to provide a double-entry accounting system which accurately records transactions and permits meaningful reporting of assets, liabilities, fund balance and receipts and disbursements;
7. to provide reports that transmit financial activities on a timely basis;
8. to provide an expenditure identification system that results in accurately classifying costs in the period in which resultant services were rendered and accurately record encumbrances and subsequent adjustments in a timely manner;
9. to provide cash accounting procedures that accurately monitor actual and projected cash flow permitting investment of idle cash and forecasting of cash needs;
10. to provide for maximum use of computers to process and maintain records; and

11. to provide a fixed asset accounting system which establishes accountability for and evaluation of fixed assets.²

The statutes provide that Montana will use a modified accrual basis of accounting. This means that revenues and/or income are recorded only when received in cash and that expenditures are recorded at the time liabilities are incurred.³

The accounting system operates on a fund basis with 15 separate and distinct statutory funds and three administrative funds. Because of the divergent nature of all state agencies, each fund has the capability of having numerous accounting entities. The accounting entity concept gives each agency control over its own set of self-balancing accounts.⁴ The types of funds used are:

A. State Operating Funds.

1. The General Fund consists of all monies deposited in the state treasury which are available to defray

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² Statewide Budgeting and Accounting System (SBAS), Training Class Manual, prepared by Department of Administration, Management Systems Division, pp. 2-1 and 2-2.

³ Ibid., p. 2-5. A full accrual system records income when earned and liabilities when incurred.

the general cost of state government and which do not fall into one of the funds below.

2. The Earmarked Revenue Fund consists of money from state sources deposited in the state treasury which are to be specifically used for the purpose of defraying costs of a particular activity of state government.

3. The Sinking Fund consists of monies deposited in the state treasury for the payment of principal and interest and accumulation of reserve for bonded or other long-term indebtedness.

4. The Federal and Private Revenue Fund consists of all monies deposited in the state treasury from federal and/or private sources, including trust income, which are to be used for the operation of state government.

5. The Federal and Private Grant Clearance Fund consists of all monies deposited in the state treasury from federal and/or private sources, including trust income, which the state disburses to persons, associations, or units of local government.

6. The Bonds Proceeds and Insurance Clearance Fund consists of monies deposited in the state treasury obtained from the sale of bonds, certificates of indebtedness, or similar obligations, and also monies indemnifying the state for loss or damage of property.

7. The Revolving Fund consists of monies used to defray reimbursable expenditures and/or supply working
capital for enterprise-type operations.

8. The Trust and Legacy Fund consists of monies deposited in the state treasury which the state administers as a trustee pursuant to law or a trust agreement restricting the use of the money for a specified purpose and prohibiting the expenditure of the principal for a period of at least five years.

9. The Agency Fund consists of monies deposited in the state treasury which are held first by the state as a custodian or agent and includes, but is not limited to, monies held for the purpose of paying insurance or retirement benefits, monies arising from lost or unclaimed property, and other monies of a similar nature.

B. University Funds.

1. The Current Fund serves to classify the status and condition of those financial resources allocated to or received by the Montana University System which may be used to pay current operating costs relating to instruction, research, public service, and the allied support programs.\(^5\)

2. The Student Loan Fund consists of monies received by the University System from the federal government for the purpose of student loans.

3. The Endowment Fund consists of monies received

by the University System from public and private sources for endowments.

4. The Plant Fund consists of monies coming from student fees, bond proceeds, etc., that are for capital construction projects that are not state supported.

5. The Agency Fund consists of monies that come from third parties (non-state accounts) for which the university is a trustee and does the accounting. Student body activity fees are included in this fund. 6

6. The Annuity and Life Income Fund is not in use at the present time. It will record income from endowment funds when it is put in operation.

C. Administrative Funds.

1. The Treasurer's Cash Accountability Account records financial transactions relating to the Treasurer's central banking function.

2. The Long-Term Debt Fund is not in use yet. It will be used to account for payment of interest and principal on long-term debt.

3. The Fixed Asset Fund will be in use by the end of fiscal year 1980. It will provide central recording of all state-owned fixed assets. 7

FINANCIAL RECORDS

Financial records produced by SBAS consist of three


7Statement by Terry Cannon, head of the Accounting Division, Dept. of Administration, in a telephone interview, February 4, 1980.
groups: registers, control ledgers, and subsidiary control and detail ledgers. Registers are books of original entry and serve to permanently capture information contained on transaction documents and to inform users regarding transactions recorded in the system. Each register is divided into two parts: detail, which shows detailed transactions, and summary, which shows a summary of general ledger control account entries by accounting entities.  

The general ledger reports the beginning balance, monthly financial activities, and the ending balance of the general ledger control accounts within each accounting entity/agency subdivision. It provides grand totals to which all subsidiary records and related reports must agree. It is provided in two formats: non-consolidated and consolidated. A consolidated general ledger is provided whenever more than one agency conducts financial operations through the same accounting entity. It represents the aggregate of all financial activities within the accounting entity, disregarding subdivisions. Because of the encoding technique used in the system, the general ledger cannot get out of balance.

The appropriation control ledger reports to the agency administering the appropriation the details of all transactions against legislative or executive appropriations and the resulting balance. It serves to establish spending authorizations in SBAS and reports the status of that

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8 SBAS Training Manual, pp. 6-8 and 6-9.
authority.

The revenue estimate control ledger reports to the administering agency the details of all transactions input against a revenue estimate and the resultant balances. It serves to establish revenue collection responsibilities and reports the status of collections against that responsibility.

Subsidiary detail ledgers itemize the contents of a particular asset or liability control account to which it is subordinated. 9

**ASSETS**

**Cash.** There are seven cash funds. Cash change funds and imprest cash funds are established for agencies to provide change needed to conduct cashiering or similar operations or to make relatively small purchases where the money is not deposited in a local checking account. A revolving cash fund finances and accounts for services and commodities furnished by a designated department or agency to other departments and agencies. Amounts spent by the revolving fund are restored either from operating earnings or by transfers from other funds so that the original fund capital is kept intact. Cash in Treasury, Cash in U.S. Treasury, and Cash with Trustee Bank accounts are maintained. Cash on Hand at Fiscal Year End is an account used at year end to hold cash received in instances where the deadline for

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9SBAS Training Manual, pp. 6-18 to 6-27.
counting and classifying receipts cannot be met. An example is the Fish and Game license applications, which, because they are due about the same time as fiscal year end, the Department is unable to process by the accounting deadline. (See p. 41, Appendix, for sample entry.)

Receivables. Since revenues are recorded when cash is received, receivables relative to anticipated revenue or income collections must be fully reserved. The anticipated revenue is in Deferred Accounts Receivable and when received is taken from that account and entered in Accounts Receivable—Receipts. There are accounts receivable for expenditure abatements (amounts erroneously expended which must be recovered), for dishonored checks, for Due Froms (amounts receivable from other state accounting entities), accounts for notes receivable, loans to students, non-deferred receivables (receivables applicable to anticipated revenue or income collections for an enterprise-type accounting entity are offset directly in the appropriate revenue or income nominal account. This is a departure from the general principle in order to permit financial records to accurately match revenues and expenditures on a period-by-period basis), for loans, mortgages and other receivables.

Investments. Short-term investments are recorded at cost; long-term investments are recorded at par. When recorded at par, premiums or discounts are amortized or accumulated over the remaining term of the investments. In either case, interest purchased is offset against the first
applicable interest collection.\textsuperscript{10}

\textbf{Fixed Assets.} Montana has not maintained a centralized fixed asset accounting system in the past. A centralized property accountability management system is presently being installed.\textsuperscript{11} At present, fixed assets purchased by an enterprise or trust entity are recorded in the records of the purchasing entity. Otherwise, all fixed assets are recorded in the General Fixed Asset Fund. Only specified expenditures are to be capitalized, depending on the asset's anticipated life, cost and productive qualities. If recorded in an enterprise-type entity's accounts, fixed assets are depreciated over the useful life of the asset. If recorded in the general fixed asset fund, the asset is not depreciated.

\textbf{Miscellaneous Assets.} The Encumbrance Account is included in this group. It is not an asset per se but represents an offset to the liability account, Reserve for Encumbrances. Entries are so recorded to acknowledge the extent to which an appropriation is obligated for expenditure and to ensure that amounts appropriated are not over-expended or over-obligated. If anticipated expenditures have been encumbered, they must be liquidated when the disbursement is actually made or appropriation balances will be understated. Other miscellaneous asset accounts identify the value assigned to property other than cash held by the state in a


trust, custodial or fiduciary capacity. Prepayments accounts are used to record disbursements anticipated to be converted to expenditure categories at a later date, and also are used to identify the amount of money advanced to an employee to cover anticipated travel expenses when a revolving cash fund is not used.

**LIABILITIES**

Current accounts payable identify the amount obligated to be paid for materials or services received. Ordinarily, only enterprise-type accounting entities need to accrue expenditures monthly because usually the encumbrance subsystem adequately provides for recording obligations against amounts appropriated for disbursements. If obligations are recorded as accounts payable they may not be recorded also as encumbrances. At year end, all valid obligations against an appropriation are accrued. Disbursements in subsequent years which are applicable to amounts so accrued are debited to the appropriate expenditure accrual account. This account never carries a debit balance (indicating an overdraft). At the expiration of an appropriation's availability, the balance in the expenditure accrual accounts is closed to a prior year expenditure or withdrawal adjustment account.

Other liability accounts are established to offset those asset accounts in which the state holds property or cash in a purely fiduciary capacity or to identify the amount of collections which are pending distribution, and
the correct disposition is not known at the time of collection or is to be made at a later date. (See Appendix, pp. 41 and 42, for sample entries.)

**Resources.** Several control accounts are allowed to be used within the Long Term Debt Fund, General Fixed Assets Fund, or the Treasurer's Accountability Fund to record applicable resources (land).

**Accountability.** These normal credit balance accounts are provided to offset resources recorded in the Treasurer's Accountability Fund. They serve the same function as do fund balance accounts in prime accounting entities. Rather than showing a fund balance; however, these accounts identify the amount of assets held in a custodianship capacity.

**Reserves and General Liabilities.** Resources of the General Fixed Asset Fund are offset through a series of reserve accounts which identify the fund from which the general fixed assets were purchased. The normal credit balance accounts in this group also offset the resources recorded in the Long-Term Debt Fund.

**BUDGETARY ACCOUNTING**

Budget accounts are provided to record established plans of financial activities for a particular period of time. Usually, both anticipated revenue or income and authorized expenditures or withdrawals will be recorded in the control accounts of an accounting entity. (See Appendix, p. 40, for sample entry.)
Budgeted Receipts. These accounts record anticipated revenue or income to be collected to support the cost of operating state government. Sources are tax levies, fees, licenses, federal or private grants, interest, investment earnings, sale of products or services to the public, bond proceeds, etc. There are two types of control accounts: budgetary control accounts, which record anticipated revenue or income to finance the disbursement portion of the annual financial plan, and control accounts, which record prior year revenue and income relative to continuing revenue estimates.

Each revenue estimate is recorded in a control ledger. This permits each anticipated collection to be identified in terms of a budget category and an uncollected balance to be produced. Management is provided with a financial report showing the amount of revenue or income budgeted, the amount collected or billed, and the uncollected balance. During the year, these accounts are unchanged except for authorized budget increases or decreases and at year end the nominal account balance is closed into its corresponding budgetary account. The post-closing balance in the budgetary account is closed to the accounting entity's fund balance. (See Appendix, pp. 40 and 42, for sample entries.)

Budgeted Disbursements. Several accounts are provided to record in summary form disbursements anticipated to be made from an accounting entity during a fiscal year. Each disbursement budget account is detailed in the Appropriation
Control Ledger. This permits each to be recorded in terms of its underlying authorization and an available balance to be produced. Thus, management knows how well actual expenditures and encumbrances compare with authorized expenditures.

Each disbursement budget account has a correlary nominal account to record expenditures for current fiscal year operations and those chargeable to prior year continuing appropriations. During the year the budgetary accounts remain unchanged except for authorized budget increases, decreases or agency program allocations. At year end the nominal account balance is closed into its corresponding budget account. The post-closing balance is closed to the applicable accounting entity's fund balance. In all cases, the post-closing balance must be a credit balance because the over-expenditure or over-obligation of amounts appropriated is not permitted.

**FUND BALANCE**

This classification is divided into four accounts: General, Special Trusts, Working Capital Advanced, and Reserve for Continuing Appropriations. The General Fund is used in most applications; Special Trust is used when funds held in trust by the state are involved; Working Capital Advance is used to account for the receipt of funds to finance certain accounting entities within the revolving fund; and Reserve for Continuing Appropriations is used to indicate the specific portion of Fund Balance that is dedicated for spending authority which continues beyond fiscal year.
end (the unexpended portion of the appropriation is transferred to this account).

**NOMINAL ACCOUNTS**

**Receipts.** Revenue and income control accounts are used to summarize applicable collections. At year-end the balance in each nominal receipt account is closed to its corresponding budgetary account or into fund balance if it is not subject to budgetary control.

**Disbursements.** Nominal disbursement accounts summarize disbursements and are detailed in the appropriation control ledger if subject to budgetary controls. At year end, balances are closed into their corresponding budgetary control account or into fund balance.\(^\text{12}\)

**FINANCIAL REPORTS**

SBAS produces many financial reports. They are generally divided into three groups: receipts, disbursements and general.

**Receipts.** Reports in this group report revenue and income. There are many types of reports, but they can be divided into those that report estimated receipts and income on a budgeted level or a detailed accounting level. Also, the reports can be rendered on an agency basis or an accounting entity basis. For example, one can obtain a summary of estimated receipts by an accounting entity (such as the General Fund Account) or a summary of receipts by a

\(^{12}\)SBAS Training Manual, pp. 3-4 through 3-8.
specific agency (such as the Department of Administration). There are also appropriation allocation detail and summary and encumbrance detail reports, which show the appropriation balances and amounts charged against them. These reports are also available on either an accounting entity or agency basis.

Disbursements. This group reports expenditures and withdrawals on the same bases as the receipts and income reports above: i.e., on a budgeted or detail accounting level or by agency or accounting entity. Also available are program cost analyses, which are detailed reports of costs recorded in behalf of a program group and expenditure details regardless of budgetary controls involved.

General. The Daily Cash Position Report shows the balance of each accounting entity's cash account after each day's run. A Daily Appropriation Control Status report enables agencies to get daily information on the status of the appropriations they administer. The Statement of Financial Condition and Operations reports the assets, liabilities and fund balance of each accounting entity, which is its financial condition at a point in time, and on a monthly pre-closing basis; also reports its budgetary and nominal financial activities. The latter means that the report also shows the results of the agency's operations. After year-end closing entries are made, this form also serves as a balance sheet. In other words, the basic accounting equation, assets minus liabilities equals fund
balance, has been modified to include budgetary and nominal account activities: assets minus liabilities plus/minus net operations equals fund balance.\textsuperscript{13}

The Annual Financial Report of the State of Montana has been produced since 1972, and has been improved each year. It is an exhaustive financial report that includes the following statements:

\textbf{The All Funds Statement of Receipts by Classification} (taxes, licenses, etc.). This is a summary statement of the three classifications: General Fund, University Funds, and Other Funds. Each category is also subdivided and reported on separately in more detail.

\textbf{The All Funds Statement of Disbursements by Category and Object} (personnel, operating expenses, etc.). The same subset of reports exists for disbursements as for receipts, as mentioned above.

The University Funds classification is further broken down into six sections, one for each university unit, so that separate financial statements are presented for each unit.

Consolidated financial statements of the 15 statutory funds described on pages 17 through 20, including a balance sheet, a statement of operations, and a statement of changes in fund balance, are presented.

\textsuperscript{13} Statewide Budgeting and Accounting System Training Class: Financial Records and Reports, manual prepared and class conducted by Montana Department of Administration, pp. 40 through 112.

\textsuperscript{14} Montana Financial Report, passim.
The Treasurer's Cash Accountability Account Statement of Cash Position. The State Treasurer serves as the central bank for all state agencies and the accounting entities administered by them. The financial transactions relating to this central banking function are recorded in a separate accounting entity known as the Treasurer's Cash Accountability Account.

About 99% of the financial transactions recorded in this account are made automatically through utilization of computer programs. Whenever an agency submits a transaction which either increases or decreases cash in treasury for a particular accounting entity, a computer program is triggered which causes a parallel entry to be made in the Treasurer's records. The summation of these entries produces one general ledger which provides subsidiary ledgers and grand total amounts for cash in demand accounts, in treasury, outstanding warrants, investments of general treasury cash, and others.

To the maximum extent possible, money held by the Treasurer is invested. All interest earned on general treasury cash is credited to the General Fund.

The two following financial statements are separately described below because they are used in the annual report to give the reader a complete picture of state finances until the authorized but not in-use funds, such as General

15 General Treasury Cash is a combination of the "float" created in the daily operations of the total treasury function and the General Fund surplus created by excess of receipts over disbursements in prior years.
Fixed Asset Fund and Long-Term Debt Fund, are put into operation.

**Statement of Investments.** Montana uses a central investing program. The annual report presents a comparative summary of these investments by fund and type. University administered investments are not included because they are held by a trustee bank for a unit of the University System pursuant to the terms of a bond indenture. They are considered outside the treasury system.

**Statement of Bonded Debt.** The State's liability for bonded debt is not recorded in the Statewide Budgeting and Accounting System. This eight-page financial statement presents schedules that were prepared from manual records maintained by the Treasury Division, Employment Security Division, and the University System.\(^{16}\)

As a concluding point on the annual report, no opinion was expressed therein as to whether or not the financial statements present fairly the financial position of the state because the financial statements were not audited. Under current statutes, the Legislative Auditor has the responsibility for conducting post-audits of the financial affairs of every state agency at least once every three years, and his reports on individual agencies are presented to the Executive and Legislative branches of government as they are completed and released.

\(^{16}\)Montana Financial Report, passim.
IV. RECENT IMPROVEMENTS

In 1976, Arthur Anderson & Co., a Phoenix, Arizona, accounting firm, was engaged to conduct a study of the information and systems requirements of the University System to determine if the Statewide Budgeting and Accounting System could be used to meet the needs of the University System. There was virtually no standardization among any of the units. There were six different financial accounting systems employing separate coding structures for account numbers, fund numbers and programs. Because of this, the reporting provided by the respective systems varied significantly between units. The quality of budgeting, accounting and financial reporting also varied from no budgeting and reporting to fairly sophisticated systems and procedures. The units that had good systems were naturally reluctant to change them.

The study concluded that SBAS was a good overall system for state agencies, departments, etc., but that the statutory fund structure was not responsive to the needs of the University System. The study was submitted to the 1977 Legislature, which nevertheless directed that SBAS be modified and used for all state agencies and institutions.¹

All six units of the University System were placed on SBAS. The necessary funds structures were added and each unit's accounting system restructured to fit with SBAS.

¹Montana Code Annotated, Vol. 4, p. 590.
At present, all expenditures are made through the State Treasury. Each university unit does have subsystems for accounts receivable and payable for more timely handling of these accounts.

For the university system, the change was very expensive—more than $1,000,000. It was also costly for the units in that the individual units previously earned and kept the interest on some funds, whereas now the funds are handled through SBAS and the interest goes directly into the General Fund. The changeover itself was very complicated and difficult because all the systems and records of each unit had to be redesigned, the old accounts closed out and new accounts established.

The benefits of this change were self-evident to state managers, who now have more pertinent, comparable and timely information regarding university financial management. They were not quite so obvious to the individual units that lost a portion of control over their own financial management and also lost money from investments they previously handled themselves.²

In 1978, SBAS was upgraded and a few changes were made. Although none of the changes affected the overall purpose or operation of SBAS, they did expedite the entering of certain transactions and reduce the paper generated.

One such change was "MiniCoding." Certain common transactions are now encoded with fewer digits. The mini-coded transactions are then automatically expanded to satisfy all SBAS encoding requirements. Previously, 10-digit codes had to be entered in the system for each account used, and now one code can be entered and the computer calculates accounting entity, appropriation and revenue estimate distributions, and automatically generates encumbrance and cash subsidiary entries. Some of the transactions that can now be minicoded are requisitions, purchase orders, payroll encumbrances and journal vouchers. One entry is made and the system makes all necessary entries to subsidiary and correlary accounts automatically, saving time and reducing the error rate.

Another change involved responsibility centers. These are separable units of financial activity that are assigned to a person to manage. They can be expenditure or revenue oriented or both. They have been substituted for sub-programs, and many of the reports generated previously were deleted and replaced with a Responsibility Center Financial Report. The information on this report is much the same as had been previously reported on approximately seven reports, and therefore provides a manager with much the same information in a more compact and useful form.  

\[3\] Statewide Budgeting and Accounting System Training Text, Upgraded, February 1978, prepared by Department of Administration, Management Systems Division, Chapter 2, passim.
V. CONCLUSIONS

Governmental accounting in Montana has come a long way in the last ten years, from a system that evolved from over a century of administrative practices resulting in numerous single-entry systems of accounting in operation, no uniformity or comparability of information, to a modern computer driven system that places timely and accurate financial information at the fingertips of those who need it.

In the budgeting area, several false starts were made. For example, the six-year plan was much too involved and ambitious to work well, considering the vagaries of public finance and legislative intentions. The budgets were not considered in the light of needs of the people—once an agency or program was commenced it seemed to have life whether or not changing circumstances required it to exist.

The modern budgeting process, wherein an agency must justify itself and its programs and compute the costs of operations anew each two years, means (at least in theory) that outmoded or useless programs, boards, etc., will not continue to be a drain on the public purse. Managers can no longer juggle funds to the extent the old system allowed. Funds are spent on authorized programs and any changes desired must go through channels and be approved by the Governor and reviewed by the Legislative Finance Committee. The problems of mistakes in judgment (such as the recent "rug" controversy in the Governor's Office) cannot be solved by a budgeting and accounting system, no matter how
efficient it is. However, at least to the extent that they need gubernatorial or legislative approval, excessive capital building projects are no longer initiated by agencies and departments.

The question does arise about the expense of the new system. Unfortunately, information on the cost/benefit ratio of SBAS was unavailable. The general cost of installing the system as opposed to the benefits to be gained were not considered in depth because the consensus was that a modern system was needed. The computers and the new system were installed, and now the emphasis is on changes that make their operation more efficient. The only segment of the state that had figures on the costs of just installing and changing over to SBAS was the University System, as previously mentioned. It would be very difficult, if not impossible, to quantify the benefits received from a financial information system.

Despite the uncertainty about the cost/benefit ratio, the new accounting and reporting system has many obvious advantages. It provides information for financial management of the state's resources and for planning and efficient operation in a timely and comprehensive form. It reduced the duplication of effort in record keeping and reporting. It provides a cash accounting procedure that accurately monitors actual and projected cash flow permitting the investment of idle cash and a fixed asset accounting system which establishes accountability for and evaluation of
fixed assets (although the one overall fund is not in operation yet, the Department of Administration does have access to the information through individual agency records). The information about revenues and expenses of any particular government agency or program can be retrieved easily and quickly, either to check on past operations or to plan for future operations. Financial reports are timely and comprehensive. Finally, the system is designed in such a manner that it can be easily modified to accommodate new budgeting and accounting procedures or legislative requirements.
VI. APPENDIX

SELECTED TYPICAL ENTRIES

I. Budget Authorizations

A. Establish Appropriations

Fund Balance--General
Fund Balance--Special Trusts
Appropriation--Expenditures
Appropriation--Withdrawals

Reserve for Continuing Appropriations
Appropriation--Expenditures
Appropriation--Withdrawals

To record legislative or executive appropriations, authorizing the disbursement of state monies from specified accounting entities within a specified period of time. The first entry is for non-continuing appropriations and expended portions of continuing appropriations. The second entry is for the unexpended portion of continuing appropriations. These entries are generated only by OBPP.

B. Establish Revenue Estimates

Estimated Revenue
Estimated Income
Fund Balance--General
Fund Balance--Special Trusts

To record estimates of monies to be collected for the purpose of financing the disbursement portion of the state's operational plan. These entries are generated only by OBPP.

II. Encumbrances

A. Established encumbrances--requisition or purchase order

Budgeted Encumbrances
Non-budgeted Encumbrances
Reserve for Encumbrances
Reserve for Non-budgeted Encumbrances

To record requisitions.
B. Establishing encumbrance estimate

Budgeted Encumbrances
    Reserve for Encumbrances

To record an estimated encumbrance for items such as rent, power, etc. When the actual bill is received, this entry is reversed.

III. Receivables

A. Establishing deferred accounts receivable--receipts

Deferred Accounts Receivable
    Reserve for Deferred Accounts Receivable

To record invoices billing amounts owed to the state where the asset's offset is properly accounted as revenue or income but the revenue or income must be accounted for on a cash basis. These accounts are used by non-enterprise type entities.

B. Establishing non-deferred accounts receivable--receipts

Accounts Receivable--Receipts
    Revenue (budgeted)
    Income (budgeted)
    Revenue (non-budgeted)
    Income (non-budgeted)

To record invoices billing amounts owed to the state where the asset's offset is properly accounted as revenue or income and the revenue or income is accounted for on an accrual basis. These accounts are used by enterprise type entities.

IV. Collections

A. Cash on hand at fiscal year end

Cash in Treasury
    Cash on Hand at Fiscal Year End

To record cash receipts not recorded in SBAS by June 30 but received on or before June 30 and deposited in the state treasury system as soon as possible after June 30 on a collection report prepared to be processed in the next fiscal year's business.
B. Expenditure abatements

Cash in Treasury
  Budgeted Expenditures
  Budgeted Withdrawals
  Non-budgeted Expenditures
  Non-budgeted Withdrawals

To record collections representing the recovery of amounts erroneously expended or expended solely as a convenience to others.

V. Accounts Payable

A. Basic entry

  Budgeted Expenditures
  Budgeted Withdrawals
  Non-budgeted Expenditures
  Non-budgeted Withdrawals
  Accounts Payable

To record amounts pending payment as a liability offset in an appropriate nominal disbursement control account when it is necessary to accurately match expenditures or withdrawals with the amount of revenue or income being produced.

VI. Accruals

A. Initial—expenditures/withdrawals

  Budgeted Expenditures
  Budgeted Withdrawals
  Accrued Budgeted Expenditures
  Accrued Budgeted Withdrawals

To record valid obligations against appropriated funds at year end. The accrual is reversed when payment is made.

VII. Warrant Disbursements

A. Establish revolving fund cash accounts

  Revolving Cash Fund
  Cash in Treasury

To record establishment of a cash revolving account to be maintained in a local bank in the name of the responsible state agency.
VIII. Corrections and Adjustments

A. Expenditure Accrual Accounts

Accrued Expenditures
Prior Year Expenditure Adjustments

To record adjustment of unliquidated accrued expenditures upon the expiration of an appropriation's availability.¹

¹SBAS II Training Text, Statewide Budgeting and Accounting System, prepared by Management Systems Division, Department of Administration, June 1978, pp. 5-41 through 5-79.
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