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SUGGESTED CHANGES IN STATE OF WASHINGTON LAWS REGULATING COUNTY ACCOUNTING

ARTHUR N. LORIG AND JAMES S. SCHINDLER

At the 1943 regular session of the legislature of the State of Washington, Senate Bill No. 47 was passed creating a County Codification Committee charged with the duty of preparing a compilation of all of the constitutional and statutory provisions with respect to counties and county officers. The Committee is also required to prepare recommendations for revisions, amendments and additions which it feels should be made to the existing statutory provisions, the recommendations to be embodied in a proposed county code to be submitted to the 1945 legislature.

It seems appropriate, therefore, to call attention at this time to some ways in which the laws governing the accounting for counties might be changed desirably, as disclosed in a recent study made of the laws. In determining these suggested changes, much use was made of the governmental research findings of such organizations as the National Committee on Municipal Accounting, The Municipal Finance Officers' Association, and the National Municipal League.

It is not intended that this array of proposed changes in the statutes cover the subject completely. Other but less important possibilities of improvement became apparent during the study, and other important possibilities could probably be disclosed by further study. It is felt, however, that the suggestions made are worth careful consideration in any prospective revision of the state laws regulating counties.

The Budget Calendar

The law requires that estimates of departmental revenues and expenditures for the forthcoming calendar year be completed and filed with the auditor on or before the second Monday in August.¹ While this early date insures plenty of time in which to complete the budget, it eliminates the possibility of using some valuable experience of the current year as a guide in preparing the estimates. It also forces the examination of next year's requirements to be made from a considerable distance, with consequent chances for greater inaccuracies. The longer the delay in requiring the estimates to be filed, consistent with giving ample time

¹ REM. REV. STAT. § 3997-1.

for completing the budget, the clearer the picture of next year's needs and the more current the experience relied upon in making the estimates.

The second Monday in August seems an unnecessarily early date, at least for the smaller counties. A date two months later would appear to be quite satisfactory, for that would still allow three months in which to complete the budget.² Such a change would, of course, necessitate postponing other dates in the budget calendar. Assuming they would be changed the same amount of time, the dates would be as follows:

Notice by county auditor to other county officials to file estimates (now the second Monday in July)—second Monday in September.³

Submission of budget by county auditor to county commissioners (now the first Tuesday in September)—first Tuesday in November.⁴

Copies of preliminary budget to be made available to the public (now two weeks preceding the first Monday in October)—two weeks preceding first Monday in December.⁵

Public hearing on the budget held by county commissioners (now the first Monday in October)—first Monday in December.⁶

Classification by Funds

The county budget is described in the law as setting forth "the complete financial program of the county for the ensuing fiscal year, showing the expenditure program and the sources by which it is to be financed."⁷ Thus it should cover all funds⁸ of the county. That is, each segregation of assets designated by statute, by conditions of grant, or in any other way for a particular purpose (often known as a "special fund") as well as the "general" or "current" fund should be covered.

The law then dictates that estimated receipts other than taxes are to be classified by sources and by collecting organization units and the estimated expenditures by five specified general classes.⁹ It does not

² The National Municipal League suggests a sixty-day period for budget preparation as a minimum. See *A Model Municipal Budget Law*, supplement to the NATIONAL MUNICIPAL BUDGET REVIEW, Vol. XVII, No. 7 (1928) p. 441.

The Municipal Finance Officers' Association cites two examples of budget calendars allowing for proper timing. One, applying to a large government unit, covers a period of six months; and the other, for a city of 30,000 population, takes only three months. See its MUNICIPAL BUDGET PROCEDURE AND BUDGETARY ACCOUNTING (Chicago, 1942) p. 7.

³ REM. REV. STAT. § 3997-1.

⁴ *Ibid.* § 3997-3.

⁵ *Ibid.*

⁶ *Ibid.* § 3997-3 and 4.

⁷ REM. REV. STAT. § 3997-2.

⁸ A fund is "a sum of money or other resources (gross or net) set aside for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations and constituting an independent fiscal and accounting entity." See National Committee on Municipal Accounting, MUNICIPAL ACCOUNTING STATEMENTS (Revised edition; Chicago, 1941) p. 168.

⁹ REM. REV. STAT. § 3997-2.

state, however, that the distinction between funds must be maintained in the budget. In actual practice, such distinction is sometimes neglected, with consequent unsatisfactory budgetary control over the use of funds for particular purposes. It is suggested that the law be made to require the budget to state the funds to which the various classes of estimated receipts will belong and the funds from which the various estimated expenditures will be made.¹⁰

No Allowance for Uncollectible Taxes

The tax levy is restricted in amount to that required to balance the budget as finally proposed for adoption by the county commissioners. In the words of the statute,

"The county commissioners shall then fix the amount of the levies necessary to raise the amount of the estimated expenditures as finally determined, less the total of the estimated revenues from sources other than taxation including available surplus and such expenditures as are to be met from bond or warrant issues. All taxes shall be levied in specific sums and shall not exceed the amount specified in the preliminary budget."¹¹

Thus no allowance is made for those taxes which will prove to be uncollectible. Because of this, a deficit from budgetary operations becomes almost a certainty when the estimates of expenses and miscellaneous receipts are accurate.

To correct this condition, the law might be changed in either of two ways. Permitting sufficient taxes to be levied to provide enough *tax receipts* to balance the budget (as in the case of cities of the State of Washington) would be satisfactory. Or, in line with the more highly recommended accrual method of accounting, the tax levy may be made sufficient not only to cover the budget balance, but also to provide a reserve to cover the probable losses from uncollectible taxes as estimated from past experience.

The two methods do not produce the same results from year to year, of course. Some taxes which will not be paid during the year of their assessment will nevertheless be considered collectible and hence not covered by the provision for uncollectible taxes. The accrual method would recognize them as revenue in the current year, whereas the receipts method would exclude them until the year collection is made. On the other hand, the receipts method would take account of estimated collections this year from previous years' taxes, whereas the accrual method, having already taken them into consideration in the years of assessment, would not include them at this time. Over a period of years, however, the total estimates under both methods would be approximately the same.

¹⁰ This conforms to the requirements of the MODEL MUNICIPAL BUDGET LAW, *op. cit.* p. 441.

¹¹ REM. REV. STAT. § 3997-4.

Budgeting Emergency Warrants

The county auditor is required to include in the annual budget the total amount of emergency warrants issued during the preceding fiscal year, and the commissioners are required to "include in their tax levy a levy sufficient to raise an amount equal to the total of such warrants" or, if they deem it advisable, they may fund the amount or part of it into bonds.¹²

The warrants are, therefore, not covered by a tax levy until the second year after they are issued. Unless other money are on hand with which to redeem them, they are left outstanding and bear interest for a period of at last a year. Hence, the interest increases the tax burden and the redemption of the warrants is needlessly postponed.

There seems no reason why all emergency warrants issued in the current year up to the date of the public hearing on the budget for the next year (the first Monday in October, according to the present law) might not be covered by the tax levy for that forthcoming year. A change in the law to provide this would at least tend to reduce interest costs.

Conflict in Laws Regarding Date of Closing Accounts

The law setting up budgeting requirements for counties provides that:

"All appropriations shall lapse at the end of the fiscal year: Provided, that the appropriation accounts shall remain open for a period of thirty days thereafter for the payment of claims incurred against such appropriations prior to the close of the fiscal year."¹³

A conflicting requirement appears in a statute providing for an annual report, as follows:

"The state auditor, through said bureau, shall require from every taxing district . . . financial reports covering the full period of each fiscal year . . . which said reports shall be prepared, certified and filed with said bureau within thirty days after the close of each fiscal year by the auditing department of said taxing district . . ."¹⁴

In the one case the accounts must be kept open thirty days after the close of the year; in the other, complete statements reporting all the year's transactions must be filed within that same period. The counties appear to meet the situation in the only logical way—by submitting late reports. Inasmuch as the date limit for filing reports is actually ineffective, it would appear desirable to provide a later limitation date, one which could be enforced.

¹² *Ibid.*, § 3997-6.

¹³ *Ibid.*, § 3997-6.

¹⁴ *Ibid.*, § 9955.

Unsatisfactory Budget-Making Authority

In the counties of this state, the agency which authorizes or passes upon the budget is the same as that which initially prepares it and finally executes it. The Board of County Commissioners serves in all three capacities. In other words, it sets its own limitations and is not subject to an outside authority which would see either that the limitations are adhered to or that the penalties provided by the law for failure to conform are imposed upon the officials.

While the difficulty is one inherent in the commission type of government,¹⁵ considerable improvement could be obtained in any one of several possible ways. The *Model Municipal Budget Law* suggests that a budget-making authority with executive power could be created by designating one of the commissioners to act in this capacity.¹⁶ A second possibility would involve a change in the duties of the county auditor by which he could be given executive powers and responsibilities. For still other variations, A. E. Buck informs us that "the trend seems to be in the direction of a county manager appointed by the legislative body or a county administrator elected by the voters. Either type would provide a satisfactory organization for the execution of the budget."¹⁷

Probably the best method would be to establish a centralized Department of Finance to be administered by an elected or appointed Director of Finance. He would be the budget-making authority responsible directly to the electorate and removable from office by it alone. The department would include divisions of the treasury, taxation and assessment, accounts, and possibly purchasing.¹⁸ At the present time the duties which would belong to these separate divisions are not coordinated under a single head, but are performed by the offices of the treasurer, the assessor and the auditor.

Any one of the alternative methods mentioned would considerably improve the budget administration in Washington counties. The changes necessary would go beyond mere alterations in the budget law, however. They would involve changing the very structure of county government to some extent.

¹⁵ A. E. Buck emphasizes this in his authoritative book, *PUBLIC BUDGETING* (Harper & Brothers, New York, 1929) in the following words: "The executive type of budget making authority . . . has not found favor with the county governments mainly because of the archaic and administratively irresponsible organization that exists in these governments." (pp. 284-285)

And again: "The form of organization in the county governments is in general quite unsatisfactory from the standpoint of budgetary control. The administration is decentralized; it does not usually have even a nominal head." (p. 435)

¹⁶ *Op. cit.*, p. 442.

¹⁷ *Op. cit.*, p. 435.

¹⁸ For a good discussion of the organization of such a department and an account of some in operation, see Buck, *op. cit.*, pp. 439-451.

Need for Work Program for the Budget Year

A budget as adopted represents the financial plan for one year, but there is no provision in the law requiring that the rate of spending during the year be regulated. Through lack of foresight or carelessness or possibly intended manipulation, appropriations are at times entirely expended quite some time before the year ends. Emergency warrants are thereupon considered necessary, or services or goods are purchased with the understanding that the seller may recover the price by court action without far of objection on the part of the county officials. In that way the budget restrictions may be circumvented.

A required work program would serve to regulate expenditures throughout the year. It calls for allotting the appropriations to the various months or quarters of the year, each official being responsible for allotting his particular appropriations. If there is a budget enforcing authority, his approval of the work program would be necessary, and he would see that it is adhered to during the year. Thus, any tendency to over-expend an appropriation could be noticed early and checked before it became serious.

Work programs are advocated by the authorities on budgeting.¹⁹ It is desirable that the law require their preparation and enforcement.

Encumbrances Not Shown in the Monthly Reports

The law requiring a monthly report by the county auditor is not clear in one respect. It states that the report shall show the expenditures and liabilities against each separate budget appropriation and the unexpended and unencumbered balance of each appropriation.²⁰ The confusion lies in the fact that the unencumbered balance of each appropriation is requested but the encumbrances²¹ are not required to be reported.

The county auditors appear to have interpreted the statute as requiring only the unexpended balances. Encumbrances are not reported. Hence the balances in the appropriations are not truly indicative of amounts which may still be spent; purchase orders may be outstanding which would reduce or wipe out the available balances.

With such inadequate records, proper control over expenditures is difficult. It is suggested that the law be changed to require reporting encumbrances also, in order that the balances in the appropriations will be the true unencumbered amounts.

¹⁹ See National Municipal League, *op. cit.*, p. 443; Buck, *op. cit.*, pp. 457-485; National Committee on Municipal Accounting, *MUNICIPAL ACCOUNTING STATEMENTS* (2nd ed.; Chicago, 1941) p. 7; Municipal Finance Officers' Assn., *op. cit.*, pp. 59-66.

²⁰ REM. REV. STAT. § 3997-7.

²¹ Encumbrances are "obligations in the form of purchase orders, contracts or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when the actual liability is set up." National Committee on Municipal Accounting, *op. cit.*, p. 165.

Deposit of Fees Collected

The constitution of the State of Washington provides that money collected by an officer for a county shall immediately be deposited with the treasurer or other legal depository to the credit of the county.²² Several laws, apparently attempting to interpret this article, have resulted in confusion over just when deposit shall be made.

According to two statutes, fees collected by salaried officers are required to be paid into the county treasury on the first Monday in each month.²³ Certain officials (such as some justices of the peace) abide by this and may turn in more than a thousand dollars in one monthly deposit. The state constitution, however, forbids them using the money for their own use while in their possession.²⁴

Another law, having a confusion within its own text as to the dates when collections must be deposited, reads as follows:

"Every public officer and employee whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him with the treasurer of the taxing district once every twenty-four consecutive hours. In case a public officer or employee collects or receives funds for the account of a taxing district of which he is an officer or an employee, he shall, during the Saturday of each week, pay to the proper officer of the taxing district for account of which the collection was made or payment received, the full amount collected or received during the current week for the amount of such taxing district."²⁵

These several conflicting rules give no clear-cut instructions and it appears that in practice convenience is allowed to determine the time of deposit. When the collecting officer is located near the treasurer, he is said to deposit his collections every day or two. Otherwise, he may delay a week or a month. Clarification of the statutory requirement regarding the deposit of funds would seem to be desirable.

Lack of Internal Check in Tax Collections

Under the present tax accounting procedure, the county treasurer renders the tax statements, receives the payments, and enters the credits to the taxpayers' record. This procedure does not provide a satisfactory internal check—that is, the receipt of cash by one employee may not automatically be verified by the work of another.

A proper internal check as applied to collections from charge accounts is described briefly by G. E. Bennett in the following words:

"Cash received from charge customers should be in custody of a cashier who never is allowed to handle the customers' ledgers and statements and has nothing to do with making sales. This separation of duties will do much to make theft of

²² Art. 11, § 15,

²³ REM. REV. STAT. § 4211 and § 4217.

²⁴ Art. 11, § 14.

²⁵ REM. REV. STAT. § 9956.

money received from debtors exceedingly difficult—practically impossible unless there is collusion.”²⁶

Applied to county tax accounting, it would require that sending out tax bills and keeping the tax rolls should not be left in the treasurer's hands. Instead, those functions should be performed by the auditor's office. When this is done, the treasurer's collections and the auditor's tax records serve to verify each other; manipulation or fraud would be difficult.

Weight is added to this recommended change by the present inadequate auditing of the tax records. The county auditor is an ex-officio state examiner for the Division of Municipal Corporations.²⁷ One of his duties in this capacity is to audit the tax rolls of the county treasurer.²⁸ It is reported, however, that in many cases these audits are not made, due to insufficient help and inadequate funds. Since it is assumed by the state examiners that the tax roll has been properly verified by the county auditor, they do not cover it in their own auditing procedure. The tax records, probably the most important financial records of the counties, may, therefore, go unaudited.

The state auditor recently recommended that legislation be enacted to provide that county auditors keep the tax rolls and prepare the tax statements.²⁹ No legislative action has been taken thus far, however.

State Examiners Paid by the County Treasurer

The counties pay for their audits performed by the examiners of the Division of Municipal Corporations (under the State Auditor). The statute which provides for this reads as follows:

“The expense of auditing public accounts shall be borne by each taxing district for the auditing of all accounts under its jurisdiction and the state auditor is hereby authorized and empowered to certify the expense of such audit to the auditor of the county in which said taxing district is situated, who shall promptly issue his warrant on the county treasurer, payable out of the current expense fund of the county, said fund, except as to auditing the financial affairs and making inspection and examination of the county, to be reimbursed by the county auditor out of the money due said taxing district at the next monthly settlement of the collection of taxes and to be transferred monthly by the county treasurer to the current expense fund . . .”³⁰

The state auditor must certify to the expense and the county auditor must draw the warrant to cover it, but the law does not state to whom

²⁶ George E. Bennett, *FRAUD: ITS CONTROL THROUGH ACCOUNTS* (New York: The Century Co., 1930) p. 94.

²⁷ *REM. REV. STAT.* § 9962.

²⁸ *Ibid.*, § 11259.

²⁹ *BIENNIAL REPORT OF THE STATE AUDITOR TO THE STATE LEGISLATURE, TWENTY-SIXTH* (Olympia: State Printing Plant, 1940) p. 5.

³⁰ *REM. REV. STAT.* § 9961.

the warrant shall be made payable. From a business standpoint, to emphasize the responsibility of the examiners to the state auditor, it would seem very desirable that the state receive the county payments and then pay the examiners their salaries and expense. But the actual practice is quite different; the auditors receive their compensation direct from the counties. They are the ones to whom the warrants are drawn.

The procedure followed is not advisable. It is almost certain to cause the examiner to feel responsible to the county rather than to the state auditor for his performance. He is apt to submit to county pressure to keep down the cost of the audit by curtailing his examination. The law should be changed or clarified to correct this situation.