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denying them recovery, it is believed that the trend followed by the Washington Supreme Court is supported by sound public policy. A further step in the same direction (which the tone of the *McHenry* case indicates may soon be taken) will be the overruling of the "official capacity" cases, an offshoot which now exists as an insupportable anomaly. It is suggested that a more careful analysis of the problem of the personal liability of the nonacting spouse for the torts of the other is required.

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### SUGGESTED CHANGES IN STATE OF WASHINGTON LAWS REGULATING MUNICIPAL ACCOUNTING

ARTHUR N. LORIG\*

In connection with a recent interest in improving the accounting for municipalities of the state of Washington, chiefly sponsored by the Association of Washington Cities, there appears to be a growing conviction that some of the state laws regulating such accounting need revision. The interest is directed principally toward the laws dealing with municipal budgeting and it is felt by some that a complete revision of the budget laws is warranted.

On the supposition that, until a thorough revision is made possible, some improvements of a lesser scope might be made, this article suggests desirable changes in the laws. The suggestions arose principally out of a recent study made in connection with preparing a manual of accounting for small cities of Washington. They apply not only to the budget laws but also to other acts dealing with accounting for cities of less than 300,000 inhabitants.

#### UNIFORM SYSTEM OF ACCOUNTING

The state auditor is required by law to "formulate, prescribe and install a system of accounting and reporting that shall be uniform for every state office and every state educational, benevolent, penal and reformatory institution, public institution and every public office."<sup>1</sup> The law is interpreted as including the accounting of municipalities within its scope. And yet, in so far as it requires uniform accounting, it is not observed, for the accounting varies considerably between the

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<sup>1</sup> REM. REV. STAT. § 9952 [P.P.C. § 945-75].

types of institutions referred to and even between those of the same type.

Nor is it possible to prescribe a single uniform system which could be applied to the different offices and public bodies mentioned. Accounting must conform to the specific needs of the government units being accounted for, and such needs vary considerably. As between the different types of offices and institutions, uniformity in accounting is impossible; as between units of the same general type, it is often impractical.

The law should be changed to eliminate the requirement of uniformity and allow the state auditor's office to prescribe accounting procedures suited to the particular needs of each government unit.

#### DEPOSIT OF MONEYS COLLECTED

In the constitution of the state of Washington appears a provision requiring that collections made for a city, town or other public corporation by any of its officers "shall immediately be deposited with the treasurer, or other legal depository, to the credit of such city, town or other corporation."<sup>2</sup> An act, apparently attempting to interpret this article, sets forth two conflicting requirements regarding dates when collections must be deposited. It states:

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 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 account of such taxing district.<sup>3</sup>

It is apparent that the above act needs revision to clarify the requirements as to when collections should be deposited.

#### DATE OF FILING ANNUAL REPORTS

Insufficient time is allowed the cities for preparing and filing their annual reports. A 1909 act provides that the state auditor shall require of the cities financial reports covering the full period of each fiscal year

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<sup>2</sup> Art. XI, § 15.

<sup>3</sup> REM. REV. STAT. § 9956 [P.P.C. § 945-83].

to be prepared, certified and filed with the auditor within thirty days after the close of the year.<sup>4</sup> The 1923 budget law declares that:

All appropriations shall lapse at the end of the fiscal year *Provided*, that the appropriation accounts shall remain open for a period of twenty days thereafter for the payment of claims incurred against such appropriations prior to the close of the said fiscal year.<sup>5</sup>

Whereas the earlier act allowed a full thirty days in which to close the books and prepare and file the financial report, the later one cut that period down to ten days by necessitating keeping the books open for twenty days after the year ends. This ten days is insufficient time, and it would seem advisable to extend the period for filing reports to at least fifty days beyond the close of the year.

### THE BUDGET CALENDAR

On or before the second Monday in August of each year, municipal officers must file detailed estimates of expenditures and revenue of their respective departmental units for the coming calendar year.<sup>6</sup> This early date presumably is intended to make certain that adequate time is had in which to complete the budget, but it carries with it two distinct disadvantages. The experience of only about half of the current year can be used as a guide in making the estimates. And next year's requirements must be estimated considerably in advance with consequent chances for greater inaccuracies and attempts to change the estimates later.

This date of filing estimates appears to be unnecessarily early. The laws in a number of states provide for a minimum of only thirty-five days prior to the beginning of the year for consideration of the budget by the governing body.<sup>7</sup> A model municipal budget law proposed by the National Municipal League suggests that the estimates from departmental heads be required only sixty days prior to the beginning of the year.<sup>8</sup>

Assuming that a later date—say the second Monday in October—be set as the last one for filing estimates, other dates in the budget calendar will need to be changed also. These include:

The date on which the budget is to be submitted by the auditor to

<sup>4</sup> REM. REV. STAT. § 9955 [P.P.C. § 945-81].

<sup>5</sup> REM. REV. STAT. § 9000-6 [P.P.C. § 386-11].

<sup>6</sup> REM. REV. STAT. § 9000-1 [P.P.C. § 386-1].

<sup>7</sup> NATIONAL MUNICIPAL LEAGUE, MODEL ACCRUAL BUDGET LAW (N.Y., 1946) p. 3.

<sup>8</sup> NATIONAL MUNICIPAL LEAGUE, MODEL MUNICIPAL BUDGET LAW (N.Y., 1928) p. 441.

the council (in commission forms of government) or to the mayor (in other forms), now set as the first Tuesday in September.<sup>9</sup>

The date when copies of the preliminary budget are to be made available to citizens, now set at two weeks prior to the first Monday in October.<sup>10</sup>

The date of public hearing on the budget, now the first Monday in October.<sup>11</sup>

#### WORK PROGRAM FOR THE BUDGET YEAR

A municipal budget prepared in accordance with the present law limits the expenditures for a year but it does not regulate the rate of spending during the year. It is easily possible for a department to carry on its expenditures at such a pace that its appropriation is exhausted quite a while before the end of the year, and it becomes necessary to grant it a supplementary appropriation in order that the people are not deprived of the departmental function.

One section of the budget law apparently makes an attempt to check the rate of spending. It provides that on or before the twenty-fifth day of each month a report is to be submitted to the council or mayor showing the expenditures and liabilities against each separate budget appropriation incurred during the preceding calendar month, and like information for the whole of the current fiscal year to the first day of said month, together with the unexpended and unencumbered balance of each appropriation.<sup>12</sup>

But this attempt is inadequate. It does not compare the expenditures and encumbrances with what should have been the maximum for the month and for the year to date. Expenditures for many activities are not expected to be made equally over the various months of the year. Those for parks, for example, are heaviest in the summer months and those for street lighting in the winter time. Furthermore, even if it becomes apparent that expenditures are being made at too rapid a rate, there is no control provided whereby the rate could be reduced. When an appropriation gives out before a year ends, a supplemental one is granted almost inevitably and in that way the budget restrictions are circumvented.

As a means of providing better control, a work program should be required to be prepared at the start of the year by each department

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<sup>9</sup> REM. REV. STAT. § 9000-3 [P.P.C. § 386-5].

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> REM. REV. STAT. § 9000-7 [P.P.C. § 386-13].

head in which he allots his appropriated amounts by months, subject to the approval of the budget enforcement authority. Then, in the monthly reports, comparison should be made between the actual expenditures, plus encumbrances, and the allotted amounts. This should be done for both the month and the year to date. Such a report clearly calls attention to overexpending and provides a basis for exercise of control and possible disciplinary action before it continues very long.

Another difficulty in this section of the law is a confusion between the terms "liability" and "encumbrance." When it requires that "expenditures and liabilities against each separate budget appropriation" be shown, it apparently means expenditures and encumbrances. Expenditures already include purchases against which liabilities exist, whereas encumbrances are purchase orders, contracts or other commitments which "encumber" an appropriation but have not yet given rise to an expenditure or liability<sup>13</sup>

#### CLASSIFICATION OF APPROPRIATIONS AND EXPENDITURES

The classification of appropriations and expenditures in the present budget law is faulty<sup>14</sup>. It provides for five classes as follows:

- (1) salaries and wages
- (2) maintenance and operation
- (3) capital outlay
- (4) interest and debt redemption
- (5) expenditures proposed to be made from bond or warrant issues not yet authorized

The classification is impossible to follow, for salaries and wages (class 1) form a large part of maintenance and operation costs (class 2) and may be found in capital outlay expenditures (class 3) and in those to be made from bond or warrant issues (class 5). In other words, there is a confusion between object and character methods of classifying in the classification as it now stands.

The same information could be obtained by requiring that its classification be as follows:

- (1) Maintenance and operation
  - a. Salaries and wages
  - b. Other costs

<sup>13</sup> NATIONAL COMMITTEE ON MUNICIPAL ACCOUNTING, *MUNICIPAL ACCOUNTING STATEMENTS* (Chicago, 1941) p. 165.

<sup>14</sup> REM. REV. STAT. § 9000-2 and 9000-4 [P.P.C. § 386-3 and 386-7].

- (2) Capital outlay
  - a. Salaries and wages
  - b. Other costs
- (3) Interest and debt redemption
- (4) Expenditures proposed to be made from bond or warrant issues not yet authorized
  - a. Salaries and wages
  - b. Other costs

### BUDGETING EMERGENCY WARRANTS

In preparing the figures for the budget, the auditor is required to include the total amount of the emergency warrants issued during the preceding fiscal year. The council is instructed to include in the tax levies a levy sufficient to reimburse the fund or funds out of which the emergency warrants were paid or, if they think it advisable, they may fund any or all of the warrants into bonds.<sup>15</sup>

The warrants are, therefore, not covered by a tax levy until the second year after they are issued. Unless other moneys are on hand with which they might be redeemed, they may be left outstanding and bear interest for a period of more than a year. Or if money is borrowed to redeem them, interest cost nevertheless results. Hence, under the present procedure, interest is likely to increase the tax burden.

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 expense.

### BUDGETING FOR FOURTH-CLASS CITIES

Fourth-class cities are not now required to operate by means of budgets, although certain essentials of budget procedure must be followed.<sup>16</sup> Since budgets are so important an aspect of financial control, the legislature might consider placing those governmental bodies under the budget law

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<sup>15</sup> REM. REV. STAT. § 9000-6 [P.P.C. § 386-11].

<sup>16</sup> REM. REV. STAT. § 11229-11233 [P.P.C. § 387].