

CHAPTER 3

ACCOUNTING

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I. GENERAL ACCOUNTING TERMS AND CONCEPTS

Introduction

The County Treasurer may or may not be an accountant when elected to office however, it is the Treasurer's responsibility to record all transactions performed by their office according to the State Auditor's BARS manual. BARS provides a guide for compliance to Generally Accepted Accounting Principals (GAAP). The Treasurer will use the accounting systems (manual or automated) available to account for and safeguard all money handled and in custody. If systems are inadequate, the Treasurer will need to begin developing appropriate ones. All receipts and disbursements must be recorded properly from receipt to expenditure in the proper fund and account. The establishment of a sound accounting system, relevant reporting system, and strong internal controls that are consistently applied is imperative to the fulfillment of the Treasurer's fiduciary obligation.

Every County is different, with varying systems and accounting processes. Some charter counties have structures with different offices doing traditional Treasurer's work. No matter the structure, County Treasurers, or the equivalent, must work closely with the county auditors, internal auditors and state auditors as treasury activity is recorded to the County's general ledger systems and other subsidiary systems. Each auditor will provide varying levels of oversight and each should be considered a good source for advice and assistance.

All records should be retained pursuant to [Title 40 RCW](#) Public Documents, Records, and Publications.

This chapter was prepared to provide newly elected or appointed County Treasurers with an introduction to many governmental accounting terms and concepts, BARS, guidance with banking relationships, cash handling and statutory reporting. Experienced Treasurers will find helpful references to RCWs.

Governmental Accounting Terms And Concepts

As stated above, counties must use the Budgeting, Accounting and Reporting System (BARS) to properly record accounting transactions. The BARS manual was developed by the State Auditors office as a comprehensive guide to recording like transactions consistently and in accordance with GAAP. BARS provides uniformity in the governmental financial statements across the state and allows users to know what kind of transactions an account designation contains. The Treasurer must have some understanding of fund accounting and the types of activities recorded in each fund category and type. To use BARS, County Treasurers must understand a few basic accounting terms.

Categories And Types Of Funds

The County prepares a comprehensive financial statement to reflect the County as a whole with various schedules containing and reporting sub-group information compiled by “**fund**”. “Funds” segregate and control the accounting for specific activities or objectives. They are self-balancing (for every debit(s) into a fund there must be an off-setting credit(s) in that same fund). Local governments also use fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Budgets are established in accordance with state law and are adopted on a “fund” level, except for the General Fund, which is usually adopted on a department level. Budgetary-to-Actual variance statements are included with the basic financial statements.

Funds fall into three general categories: governmental funds, proprietary funds, and fiduciary funds with each category containing several types of funds.

Governmental Funds

Governmental funds are used to account for most of the County’s tax supported activities, including all financial resources except those required to be accounted for in another fund.

- **General Fund**

The county general fund (current expense) accounts for all financial transaction of the county not properly accounted for in another fund. The general fund includes activities such as courthouse operations and maintenance, elected officials wages, county offices, and other activities not accounted for in specific funds. All expenditures must be authorized by budget and paid for by authorized means. Revenues include taxes, state and federal grants, matching funds, and interest.

- **Capital Projects**

Funds used to account for financial resources for the acquisition or construction of major capital facilities (other than those financed by proprietary, special assessment and trust money).

- **Debt Service**

Debt Service Funds are used to accumulate funds for the payment of principal and interest on long-term debt including; general obligation bonds, revenue bonds, and special assessment bonds. Payments from the fund must adhere to the bond resolution. Bond counsel will be able to provide guidance on the establishment and operation of debt service funds.

- **Special Revenue Funds**

Some funds are set up for a specific and singular purpose, which requires that resources and expenditures are separate and identifiable from other county activities. They must be legally established by state law and/or county resolution. Examples of this type of funds are; county road, equipment rental, and Treasurer’s O & M Fund.

Proprietary Funds

There are two types of propriety funds.

- **Enterprise**

This type of fund is used to report business-type activities. Counties use enterprise funds to account for such services as sanitary sewer, landfill operations or closure, golf, fairs, and corrections center operations.

- **Internal Service**

This type of fund is used to account for goods and services provided by one department or agency to other departments and agencies in the same government unit on a cost allocation or reimbursement basis. Examples of services include equipment rental, information systems, print shop, risk management, facilities maintenance, and self-insurance activities.

Fiduciary

These funds are used to account for resources held for the benefit of parties outside the County government. These include (a) Expendable Trust, (b) Nonexpendable Trust, (c) Pension Trust, and (d) Agency funds. This category includes Investment Trust funds (the portion of the County's investments which belong to other jurisdictions), and Agency funds (clearing accounts for assets held by the county in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong).

II. FUNDS OF SPECIAL INTEREST TO COUNTY TREASURERS

Foreclosure Operation and Maintenance (O&M) Fund

[RCW 84.56.020](#) requires a Treasurer's O&M fund. Fees and costs applicable to the foreclosure, distraint, and sale of real and personal property for delinquent taxes are deposited into this fund. The resources can only be used to pay the certain costs of these activities. The fund is operated without regard to budget limitations and requirements but must conform to RCW guidelines. Allowable post-filing expenditures may include postage, filing fees, employee costs, legal notices and title searches. The prosecutor of each Treasurer will be able to assist in defining authorized uses of funds. Compliance will be audited by the State Auditors.

Investment O & M Fund

[RCW 36.29.024](#) allows the County Treasurer to charge fees to cover the actual expenditure of operating an investment "pool". This fund is managed by the Treasurer without regard to budget limitations and requirements. All expenditures must be related exclusively to the "pooling" activity and include investment and cash management system costs, salaries, and overhead costs, etc. Compliance will be audited by the State Auditors.

REET Technology Fund

Per ([RCW 82.45.180](#)) the Treasurer shall establish a fund to accumulate, through June 30, 2010, the revenues designated to be spent on developing an electronic filing and reporting system for Excise affidavit and deeds. This fund will be managed by the Treasurer however, unlike the O&M and Investment funds will probably be subject to the budget process.

Beginning July 1, 2010, through December 31, 2013, the county treasurer shall collect the additional five-dollar fee in ([RCW 82.45.180](#), subsection 4) on all REET transactions, regardless of whether the transaction requires the payment of tax. During this period, the county treasurer shall remit this fee to the state treasurer at the same time the county treasurer remits normal REET funds to the state. The state treasurer shall place money from this fee in the annual property revaluation grant account created in [RCW 84.41.170](#).

Per [RCW 82.45.180](#) (5)(b)(c) Beginning January 1, 2014, the county treasurer must continue to collect the additional five-dollar fee on all transactions required by this chapter, regardless of whether the transaction requires the payment of tax. The county treasurer shall deposit one-half of this fee in the special real estate and property tax administration assistance account in accordance with of this subsection and remit the balance to the state treasurer at the same time the county treasurer remits funds to the state under subsection (1) of this section. The state treasurer must place money from this fee in the real estate and property tax administration assistance account. By the twentieth day of the subsequent month, the state treasurer must distribute the funds to each county treasurer according to the following formula: One-half of the funds available must be equally distributed among the thirty-nine counties; and the balance must be ratably distributed among the counties in direct proportion to their population as it relates to the total state's population based on most recent statistics by the office of financial management.

When received by the county treasurer, the funds must be placed in a special real estate and property tax administration assistance account held by the county treasurer to be used for maintenance and operation of an annual revaluation system for property tax valuation; and maintenance and operation of an electronic processing and reporting system for real estate excise tax affidavits.

III. BARS

The BARS manual was developed by the State Auditor as a system of accounting based on GASB (Government Accounting Standards Board) and GAAP (Generally Accepted Accounting Principles). This is the standard to which your cash, investment and debt reports and schedules will be audited for compliance. BARS provides guidance on how to record transactions so financial information best reflects the true nature of the government entity's activity. The yellow section provides a uniform chart of accounts for Category 1 (counties with populations of 50,000 or more) and 2 entities (under 50,000). The listing of accounts will be used for all funds where appropriate.

The blue section of BARS provides guidance for the budgeting process. The white section provides fund accounting principles and procedures with a more comprehensive description of how to use each fund type. Chapter 6, Current Assets, provides a good overview of investing public funds. The red section provides guidance on Reporting Principles: how to prepare financial statements and supplemental schedules.

IV. BANKING

Overview

The County Treasurer is a regional bank for the county departments and the governmental districts served by the Treasurer. The departments and districts must deposit all cash in the custody of the Treasurer within 24 hours of receipt ([RCW 36.29.010](#)). Exceptions to the 24 hour rule can be found in [RCW 43.09.240](#). The Treasurer holds that cash, investing it, until the governing body of each district spends it. To facilitate the Treasurer in providing this service, the Treasurer must **select a commercial service bank who is a qualified public depository monitored by the Public Depository Commission** ([RCW 39.58.050](#)) (Washington State Constitution, Art. XI, Par. 15). The service bank will provide clearinghouse and other commercial bank services.

Service Bank Accounts

Bank accounts set up with the service bank will be used to hold the money in the Treasurer's custody or to process receipts and disbursements. All accounts used must be established in the name of the Treasurer. The typical accounts the Treasurer will need to establish are:

- **General Account** – Used for receiving and sending most ACHs and wires. Used to fund clearing accounts (warrants and Treasurer's refund checks, etc.).
- **Warrant Account(s)** – Used to pay the warrants issued by the county and various districts. Many counties have these accounts; often referred to as a Zero Balance (ZBA) account, set up to automatically clear the warrants at an established time each day. Often the Treasurer will use multiple warrant accounts (separate for each fund or district) for ease of accounting and then pay for the warrants through a warrant clearing fund.

- **Outside Depository Account(s)** – Used to allow districts to make deposits at convenient locations. For counties with large volume depositors, separate depository accounts help segregate activity for easier tracking. The Treasurer can decide if the convenience is worth the cost of maintaining additional accounts. The depository accounts will need to be “swept” and the money transferred into the general account periodically for investment. Any money held in the depository accounts should be subject to an earning credit to help defray the cost of account maintenance and other banking fees.
- **Other Miscellaneous Account(s)** – Used to allow IRS to pull payroll taxes for districts and other such transactions. It is generally unwise to allow anyone other than staff to transfer money out of any Treasurer’s accounts that hold money for multiple districts (such as the general account). Miscellaneous accounts (payroll depository, etc.) allow the segregation of money so other districts’ money is not at risk. A miscellaneous account may also be used to clear Treasurer’s refund checks for ease in reconciling that activity.

Check registers must be kept for each of the Treasurer’s accounts that hold money (excluding the clearing accounts used by the bank to provide reporting segregation such as individual warrant accounts).

Electronic Funds Transfers (EFTs) are the deposit to or disbursement from a bank account by means of wire or other electronic communication. [RCW 39.58.750](#) governs the circumstances under which electronic fund transfers may be used.

Reconciliation Of Bank Accounts

Bank accounts should be reconciled within a day or two of receipt of the bank statement. Many small counties receive their general bank account statements monthly. Most large counties receive them daily. The bank reconciliation should be performed by someone other than the person who makes the deposits or disburses money (anyone who has custody over the cash). If that is not possible due to size, it is important to set up a review process that is independent of anyone who handles Treasurer’s cash. This could be someone in your County Auditor’s office reviewing the reconciliation as they balance Treasurer Cash to their general ledger accounts. If duties cannot be adequately segregated, the Treasurer should review it. The Treasurer is ultimately responsible for the safeguarding of the cash. Bank reconciliations are an extremely important part of the internal controls of the Treasurer’s office and the Treasurer must somehow compensate for any inadequate segregation due to lack of staff.

Direct Fees Verses Compensating Balances

Service bank fees can take a substantial portion of the County Treasurer’s budget. The **bank will charge** for; (1) account maintenance; (2) immediate access to deposit money when it can take days for a check to be funded by the issuing bank; (3) float on the time it takes the

Treasurer to fund warrants issued by the county and district after the service bank has funded them through the Federal Reserve system; and (4) various activity charges.

Conversely, the bank will pay the Treasurer earnings credit for any uninvested deposits on account (such as outside depository accounts). Earnings credit is used to offset many service fees. To **pay any remaining fees**, the Treasurer can: (1) pay per a direct billing, (2) leave a compensating (interest free) balance on account with the bank, or (3) use a combination of both. The compensating balances will have an agreed upon earnings rate. Generally, the Treasurer will establish the earnings rate for compensating balances with the service bank through the RFP process or when the Treasurer negotiates an agreement. Because of the banks reserve requirements and the uncompetitive earnings credit rate, it is often more advantageous to pay fees directly. The Treasurer will have to analyze which method works best for their county while weighing other issues such as budget.

Request For Proposal (RFP) For Banking Services Contract

Some small counties have only one bank in their county seat. Negotiating a contract makes sense in those situations. In larger communities and counties, a periodic RFP is recommended by [GFOA](#) and offers publications on how to prepare an RFP. The following is a brief summary of the process:

1. Review the Treasurer's present system/contract and a current bank analysis to determine what bank services are desired. Optional bids may be sought for related services (armored car, lock-box, e-payment, positive pay, safekeeping and custody, etc).
2. Prepare a formal RFP document containing the terms of the contract (including terms of renewal and cost increases), a schedule of the RFP process with specific deadlines, the scope of the banking services and bank reporting required, bidding instructions, bank credit evaluation, and bidding forms. State which services are mandatory, and which are optional for the bank to bid on and/or provide.
3. Determine which banks have adequate facilities to perform the necessary services. It is important to find out which department (of each bank) handles government services so the Treasurer's RFP reaches the appropriate person to bid on it.
4. Send out the RFP giving the bidders time to prepare responses which can be quite lengthy. Any clarifications (answers to questions by potential bidders) prior to the deadline on submission of bids should also be provided to all banks to which the RFP was sent. This can be handled by a bidders meeting where the requirements of the RFP are covered by the treasurer or staff and bidder questions are answered.
5. Review the proposals. Try to measure like-services. The Treasurer can estimate conversion costs as part of the measure (this encourages banks to help defray the cost of conversion such as warrant stock to the Treasurer's districts). Many banks have varying terminology for the same function. Don't be afraid to ask questions.
6. Select the service bank.

Important procedures, terms and conditions that should be included in the RFP are:

- Reserve the right to reject any and all bids, waive any irregularities or informalities and select the best bid in the opinion of the governmental entity.
- Require a separate listing of any exceptions to bid specifications. State in the RFP that exceptions not provided in a separate listing could invalidate the bid.
- Require a deposit availability schedule. (The exact days needed for a deposit check to clear zones within the US.)
- State that unauthorized modifications of bid specifications, forms or terms may render the bid invalid.
- State that the failure to enter into a subsequent contract within a certain time period will render the bid invalid.
- Provide for either party to terminate the contract on 90 days written notice.
- Include a uniform bid sheet for proposed costs and require bidding banks to use it.

The Treasurer should allow three to six months for the RFP process. Treasurers should keep in mind that changing banks can be a process that will take up to six months or more to complete including replacing all banking supplies. If the Treasurer should select a different service bank, warrant and check stock will have to be replaced to reflect the new clearing accounts. **The county departments and districts should be given at least six months notice** of the possibility that the service bank could be changing. This may help prevent the waste of large volumes of check and warrant stock. Try to **select the most opportune timeframe** (schools often purchase the bulk of their supplies in the summer). To save costs for your districts, the Treasurer could require the winning bank to provide a beginning inventory of printed stock reflecting the new warrant accounts. Some banks will offer a supply of stock as a way to off-set the cost of switching banks because some Treasurer add estimated conversion costs to bid totals.

If structured properly and reviewed by your prosecutor, the RFP could be used as the contract with the bank with a signed letter of agreement. It is probably best however, to have a separate contract containing the additional legalese prosecutors adore.

Banking Internal Controls

Banks will provide many internal controls over the wire and ACH processes, check signing and internal transfers. However, the Treasurer will still have to determine who in the office should do key functions. Additional controls will probably be need. As stated above, the person(s) with authority to move the money should not be the person who reconciles the bank activity. More detail will be provided in the next section on Cash Handling and Controls.

Cancellation Of Outstanding Warrants

When warrants are outstanding for more than one year, they must be cancelled ([RCW 36.22.100](#)). A list of warrants is sent the issuing bank and a copy is retained for the treasurer's files. The Board of County Commissioners or Legislative Body is required to approve all cancellations so as to leave the funds as if such warrants had never been drawn.

V. CASH HANDLING AND CONTROLS

Overview

The County Treasurer is the custodian for all money belonging to the county and governmental divisions within the county. Separate accounts for each entity and each fund type must be kept showing all receipts and disbursements in each fund and any resulting cash balances ([RCW 36.29.010](#)) (1) and (7) and [36.29.020](#)). The Treasurer handles millions (sometimes billions) of dollars of cash transactions every year. Every transaction must be safeguarded and recorded properly. All **moneys received must be receipted in** (recording it properly to the county's general ledger). All **disbursements must likewise be recorded**.

The accounting definition of **Treasurer's Cash** is the total of all recorded cash in the Treasurer's bank accounts, total of all investments held in the Treasurer's name for the benefit of the county and districts, and other monies pending the recording of the disbursement (such as the fiscal agent wire prior to recording the actual redemption). This definition may vary based on each county's recording process. The Treasurer's daily balancing should reflect the recording process.

Daily Cash Management Process

Every morning the County Treasurer must calculate the total cash received (or expected to be received that day) and all disbursements made (or expected to be made that day). The **cash-in/cash-out process** will determine what action the Treasurer must take each morning to meet cash needs or fully invest and zero the balance in the Treasurer's general account. Most Treasurers use LGIP as the final investment transaction each day. If the expected cash-in will be greater than expected cash-out, the Treasurer will invest in overnight money. If the expected cash-out is greater than expected cash-in, the Treasurer will have to withdraw (uninvest overnight money) to cover disbursements.

Cash-In:

Cash-in consists of the daily receipted activity. Most of the receipting for cash-in is **generated by the Treasurer's office** recording recurring activity such as:

- **Property tax collections** – Most Treasurers use the prior day's deposit of tax payments as cash-in for the current day.
- **Debt proceeds** – When the county or districts issue debt, the proceeds must be receipted in by the Treasurer and become a component of cash-in. This money generally arrives by wire.
- **Investment maturities and interest income** – Money remitted to the Treasurer for the maturing of principle and interest payments is cash-in. These are usually wired.

- **State Wire** - The state remits various school, criminal justice, and tax (sales) monies on the 20th day of the month. The amount of the wire is cash-in and the Treasurer must receipt the component amounts appropriately.
- **Joint school district tax collections** from adjoining counties are cash-in and must be receipted to the benefit of the appropriate school.

Miscellaneous wires and ACHs that arrive each morning must be receipted to the appropriate fund of the district for which it is intended. The Treasurer often produces the recording documents. Upon verification of the receipt of the money, the Treasurer will initiate the recording process for these transactions.

Districts often deposit miscellaneous money (grants received directly, lunch money, fee revenues, etc.) into a Treasurer's bank account. Using various methods, they give notice to the Treasurer that they've made a deposit that needs recording. Often, they mail or fax a bank receipt along with a cash receipt (CR) document to the Treasurer. The Treasurer records the cash-in to their cash registers or cash drawers and initiates the recording of the CR to the general ledger.

As stated in the overview, every public officer and employee, whose duty it is to collect and receive payments due or for the use of the public, should deposit such monies collected or received with the Treasurer of the local government once every twenty-four hours. **The Treasurer of the local government may at his/her discretion grant an exception where such daily transfers would not be administratively practical or feasible ([RCW 43.09.240](#))**. Some Treasurers require written documentation that the governing body of the requesting district is assuming full responsibility for the internal controls and the safeguarding of the money before agreeing. The exceptions granted by the treasurer shall state the frequency with which deposits are required as long as no exception exceeds a time period greater than one deposit per week.

Each Treasurer will have varying cut-offs for transactions to be included in the days activity. Tax and miscellaneous receipts are generally cut-off mid-afternoon, prior to the time the deposits are delivered to the bank or the armored car comes to pick up the deposit.

Cash-Out:

Most **disbursements** are performed by the Treasurer as is the initiation of the recording of the transaction. Electronic Funds Transfers (EFT) for investment purchases, debt payments, insurance payments, city and joint district tax remittances are initiated by the Treasurer usually through the Treasurer's general bank account. All disbursements are cash-out.

The following are typical items included in the cash-out calculation.

1. Warrants:

Warrants are government's version of checks ([RCW 36.29.010](#)). The governing body of each entity authorizes expenditures and provides a register of warrants to the Treasurer. The properly authorized and issued warrants route through the banking system like a check and are present to the County Treasurer by the Treasurer's service bank. If funds are available, it is the duty of the Treasurer to pay for the presented warrants. The following are common warrant terms and concepts:

- **Issued Warrants:** Warrants authorized and disseminated by each government entity or the County Auditor to expend funds according to law.
- **Redeemed/Paid Warrants:** Warrants delivered by, or picked up at the Treasurer's service bank to be paid by the Treasurer. Many banks now deliver an electronic image of the paper warrant with the originals being destroyed by the Federal Reserve. The method of payment should be included in the banking agreement. It is usually a transfer from the Treasurer's general bank account to the Treasurer's warrant clearing bank account. Most Treasurers also receive an electronic transmission of warrants being presented to assist with processing the information. **The daily warrant redeem amount is included in the cash-out calculation.**
- **Voided/Cancelled Warrants:** A deletion requested by the issuing agency or district to the issued warrants list(s). The Treasurer usually notifies the service bank so a stop can be put in their clearing system.

2. Interest Bearing Warrants ([RCW 36.29.040-.060](#)):

When one or more of the county's or districts' accounting fund(s) has insufficient cash on hand (a negative cash balance) and the governing body of the district has authorized and issued warrants, the County Treasurer is required to put the fund on an interest bearing status. These interest bearing warrants are issued in the same manner as non-interest bearing warrants. The Treasurer is required to stamp the interest rate on the face of each warrant at issue, if possible, or when it is presented for payment by the bank. The Treasurer may decide to hold the registered warrant as an investment earning the stated interest. If this is the case, the Treasurer must pay the bank the face value of the warrant making it a **cash-out item usually recorded by the Treasurer as an investment**. If the Treasurer chooses not to hold the warrant, the warrant would not be paid and it would be returned to the bank with the interest rate clearly marked on the front of the document. (Please note that there are political ramifications to both holding and not holding registered warrants. Each Treasurer will have to decide what action best fits their situation.) If the warrant is returned, the service bank can choose to hold the warrant as its own investment or return it to the payee. If the payee receives it back as unpaid, they must hold it until it is called by the Treasurer. When cash becomes available again, **the Treasurer will publish the "call" in the newspaper**

of record for the county. Registered warrants are called and redeemed on a “first-in, first-out” basis. The Treasurer must pay the payee, endorsee or holder of the registered warrant the face value plus appropriate interest.

3. **Remittances:**

The County Treasurer is required to routinely remit money to certain entities on the same day every month. The type of forms, information or advice that accompanies the treasurer’s check, wire, or ACH varying depending upon the method of transfer and the type of transaction being disbursed. The following are remittances common to most County Treasurer’s offices:

- **State Treasurer’s Remittance:** By the 20th of each month, on forms provided by the State, the county treasurer will wire money collected for the state in the previous month. This distribution includes the state’s portion of property taxes and other fee revenues.

State Excise Tax: By the last working day of each month, the county treasurer must remit to the state treasurer the state excise funds collected on the last two business days of the prior month and those collected in the current month up to the close of business of the day that is two working days before the last working day of the month.

- **Department of Natural Resources (DNR):** Fire patrol charges usually collected with property taxes are reported to the DNR on a form provided by them. This distribution is mailed directly to DNR and not included with the state remittance described above.
- **Joint School Districts:** Joint districts are schools whose borders cross county lines. The money collected is remitted by treasurer’s check or other legal payment method to the Treasurer acting as Ex-Officio for that district ([RCW 28A.323.100](#)). The County Treasurer designated as Ex-Officio is determined by the Board of Education ([RCW 28A.323.040](#)). A remittance advice/letter should accompany the payment.
- **City Property Tax Receipts:** Current statutes require property taxes be distributed to the cities on or before tenth of the month following the month of collection ([RCW 84.56.230](#)). The Seattle vs. King County decision by the Washington State Court of Appeals requires the counties to pay the cities interest on the money from the date of collection until the date of distribution. The Treasurer may opt to remit to the cities as collected or pay an appropriate rate of interest when distributing on the tenth of the next month. The Treasurer may also negotiate distribution specifics with each city.

4. **Bond Redemptions:**

The County Treasurer has the responsibility to provide debt service for its districts. The **wire on the first of the month to the Fiscal agent for the current month’s**

maturities is a cash-out transaction. Each Treasurer will have a system (manual or automated) to identify when bonds mature or when they must be called (assessment bonds). The bond resolution will provide the timing and authority to call. A “redeemed” report will be provided by the fiscal agent accounting for each month’s redemption of called bonds.

Treasurers and fiscal agents are required to adhere to the requirements set up in the “bond transcript”. If unsure how to interpret the bond documents or how to properly service the debt, Treasurers should consult with their prosecutor or **ask the advice of the bond counsel** for the original issue. Most Treasurers use the State’s fiscal agent to keep a record of the current bondholders, to provide notice of bond calls, and to pay bond and coupon holders.

Cash Transfers

Cash transfers are neither cash-in nor cash-out in the morning calculation. They are a means of moving cash from one accounting fund to another. There are a variety of reasons for transfers:

- **Interfund loans:** One fund lending funds for another.
- **Reimbursements:** Claims, salary, or other funds being supported by current expense.
- **Suspense fund:** Deposits temporarily held until proper disposition can be ascertained.
- **Distribution of tax collections:** On the first day of the next month (RCW 84.56.230) tax collections are transferred from the Treasurer’s tax clearing account to each district’s cash account.

Unless correcting a Treasurer’s error in posting, all transfers should be authorized in writing by the governing body of the district (or authorized person). Transfers should then be posted in a ledger or have some hard copy backup with reason stated for the transfers. Monthly reports should reflect all transfers in and out of the funds.

Cash Ledger

Cash ledger is a subsidiary record of the daily cash flow and balances. It represents the total of all funds held by the County Treasurer. All receipts and disbursements are classified into the appropriate funds and accounts as defined by the Washington State Auditor’s Budgeting Accounting and Reporting System (BARS) ([RCW 36.29.010](#)). At a minimum, all other accounting ledgers and reports should be reconciled to the cash ledger each month prior to producing school reports. Daily reconciliation is recommended for most counties.

Negative Cash Balances

Negative cash balances in an accounting fund are a serious issue for County Treasurers. For the Treasurer to cover the negative balances with other districts’ money could be considered an unauthorized loan. If the negative cash balance is due to over-investment in the fund, the Treasurer should uninvest an appropriate amount as soon as possible. If there are no

investments in the fund to liquidate, the Treasurer (1) is required to register any new warrant issued or presented ([RCW 36.29.040](#)), and (2) should work with the district to correct the negative status of the fund. The Treasurer may purchase the registered warrant as an investment or other possible temporary solutions include interfund-loans or a promissory note signed by the governing body of the district and purchased by the County Treasurer also as an investment.

Internal Controls

Internal control is the process the Treasurer uses to ensure that (1) resources are guarded against waste, loss and misuse; (2) the resources used, and the actions taken are consistent with laws regulation and policies; and (3) relevant and reliable data is obtained and disclosed in financial statements and other reports. Good control systems separate incompatible duties, provide feedback of intentional or unintentional errors, record transactions properly and provide relevant reliable reporting. Though small counties have great difficulty maintaining separation of incompatible duties, the Treasurer can often compensate for the lack of staff and resources.

“Trust” is not an internal control. The Treasurer should strive to keep personalities out of internal control decisions.

The taxpayers, districts and county departments are an important element of the Treasurer’s controls and conversely, the Treasurer is an integral part of the controls of those entities. **The smaller the county, the more important the customers become to the Treasurer’s control system.** After delinquent billings, calls from taxpayers alert the Treasurer when money has not been receipted or posted properly. Outside districts and county departments will let you know when a deposit is not posted properly. It is important that the person taking those calls is not the person handling the cash. In a small county, it is important that the Treasurer take these calls.

General Internal Control Principles

1. **Physical Control** – Assets (cash, receivables, equipment, etc.) should be physically secured (locking metal boxes, password protections safeguarding against unauthorized changes of the receivable, etc.). Periodic reconciliation of the physical asset to the recorded amount (cash counts, etc.) should be performed.
2. **Segregation of Duties** – Duties are divided among staff to reduce the risk of error or inappropriate actions. Anyone who can reduce or edit the receivable should not handle the cash. This includes name/address changes since the delinquent billing is a control on the proper posting and recording of payments.
3. **Performance Indicators** – Certain operating results can be predicted (collection percentages, count on delinquent billings, etc). By investigating unexpected results or unusual trends, circumstances that jeopardize assets or achievements can be identified.

4. **Pre-numbered Receipts and documents** – Receipts should be pre-printed with a number system for accounting for each receipt (used or voided). When the County Treasurer provides these to the districts, the Treasurer should account for the numbers by keeping a list of the district or department to which each series was given. All receipts should indicate the check/cash composition of the receipt to be used to verify against the daily deposit. This lets you and your customers know if a deposit is missing and helps prevent manipulation of deposits.
5. **Refund Review** - Oversight of refunds is an important control. The Treasurer should look for such things as refund checks issued repeatedly to the same payee and/or address. The Treasurer could have one person produce the checks and another check against the authorized list and mail them

Small County Controls and Compensating Suggestions

Ultimately, the Treasurer must decide how much risk is acceptable. When staff is so small the Treasurer cannot reasonably separate incompatible duties, key reconciliations should be performed by the Treasurer. These can include a review of bank deposits, a review of refunds given, a review of reductions in receivable, balancing the bank account, balancing the change in receivables to the cash taken, and the reconciliation of the number of delinquent billings to the number of delinquent parcels.

A Few Suggested Internal Controls.

The following internal controls are recommendations by the State Auditor's Office to help local governments **properly account for and safeguard cash receipts.**

- a. Cashiers should not share tills or receipt books if receipting is a manual system. Deposits should be made intact for each cashier and the composition of checks and cash must match the mode of payment listed on the deposit slip and related receipt forms. Cashiers should not have the authority to void receipts.
- b. Checks should be restrictively endorsed "For Deposit Only" immediately upon receipt.
- c. Two employees should be assigned to open all office mail. Mail should then be distributed to the appropriate staff for processing. Mail should be opened in an area that is open and visible to other staff members. A log should be created and maintained for all mail that is for other departments or must be returned to the sender. If it is not feasible to have two persons because of limited staff, have a single staff process mail in an open area visible to other staff following above guidelines.
- d. Assuming your bank verifies cash and check composition on each deposit, daily deposits should be prepared by each individual cashier. The check and cash composition on the deposit should match the receipted composition for that cashier. If more than one deposit is included in a single depository bag taken to the bank, that process for combining deposits to the bank should be handled by non-cashier staff.

Management should assign next day review and verification of deposits on a daily basis to someone other than a cashier.

- e. Checks received in the mail should be reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.) and receipted as soon as possible. Checks with obvious inaccuracies should not be receipted and included in the deposit. In such a case, the Treasurer should contact the payor and request that the payment be corrected or reissued. Many treasurers receipt checks for over the amount and use the refund process to remit the difference back to the payor.
- f. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.
- g. Manual receipt forms should be pre-numbered and imprinted with the name of the local government. (Note: State Auditor's discourage the use of generic receipt forms (e.g., Rediform, etc.)).
- h. Receipt forms must include the following information:
 - Name of payor (address if feasible).
 - Amount received.
 - Mode of payment (cash, check, credit card, other).
 - Purpose of payment.
 - Name of employee who prepares receipt.
- i. In instances where cash is received at decentralized locations (e.g., sheriff department, parks department, solid waste drop boxes, etc.), the Treasurer should control the numbers and may combine those receipts onto one treasurer's receipt. The treasurer's receipt should indicate the total amount received from each location, the composition (check, cash, etc.) as well as, the appropriate account codes. Many treasurers now require that cash from remote collection sites be delivered to the office in the form of a prepared deposit in a locked or disposable deposit bag with a transmittal form attached or deposited directly to the treasurer's bank and a copy of the deposit slip and transmittal form delivered, mailed or faxed to the treasurer's office.
- j. If a receipt is voided, the original and any copies of that receipt must be retained. Cashiers should not have the authority to void electronic receipts that authority should only be allowed for a staff person who does not handle the cash.
- k. Monthly bank statement reconciliation should be performed by an independent person who does not have cash custody or bookkeeping responsibilities over cash (or the Treasurer if limited). Any differences that are identified during the monthly bank reconciliation should be researched and resolved.
- l. The daily deposit should be delivered to the bank in the bank bags and should have locks or other tamper-proof devices. Many banks now provide plastic prenumbered

disposable bags that cannot be opened without cutting them open. The number on the bag can be tracked to the deposit accounting system.

- m. Cash receipts should be properly protected during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible. Cashiers should always lock their till or cash drawer when not in their station.
- n. Access to the safe or vault should be limited and combination should be changed periodically. In addition, the safe and vault combination should be changed after employees with access have terminated employment.
- o. If the entity utilizes cash registers, there should be only one change fund and one cash register (or drawer) per cashier. This enables the entity to affix responsibility for cash to a specific individual at all times. Small counties may compensate by purchasing a locking metal box for each cashier and keeping them in the vault until it is needed by the individual to whom it is assigned.
- p. Accounting and cash handling manuals or policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts. County Treasurer should facilitate the training of policies for cash/revenue handling for all county employees handling cash.

VI. REPORTING

Monthly Reports

- **Treasurer's Monthly Report:** The monthly report is completed with data derived from daily activity/posting of taxes, general receipts, warrants issued/paid, bonds and coupons paid, remittances, and investments and transfers. Cash on hand of each fund is shown on the report with other relevant financial information. The report is submitted to county's legislative authority or designated representative (CEO or Finance Committee).
- **School Reports:** Reports are due to each school district by the 7th working day of each month ([28A.510.270](#)). They must be uniformly formatted as prescribed by the Superintendent of Schools.
- **Monthly Report to Districts:** Each district is provided reports on money collected and held by the county treasurer, warrant activity, investments and other financial activity.
- **Additional Report to Cites and Towns:** When the treasurer makes the monthly distribution to the cities and towns a report is provided show the composition of the distribution.
- **Monthly Reports to State Treasurer:** On forms provided by the State Treasurer, all revenues collected for the state listed. The funds are transmitted to the State

Treasurer by electronic funds transfer (EFT) no later than the 20th of the monthly following collection. Remittance forms should be sent prior to the distribution of funds. The exception is the Real Estate Excise Tax and the technology fee must be transmitted on the last working day of the month see Chapter 6 Real Estate Excise Tax for more information.

- **Monthly Report to the Department of Natural Resources (DNR):** On forms provided by DNR, the forest patrol collections are noted by year. The remittance form and a treasurer's check are mailed to the Commissioner of Public Lands.
- **Monthly Report to County Auditor:** On the first Monday of each month, the Treasurer must provide a statement of all fees received during the previous month. Most counties comply by recording the fee in a separate revenue account of the Auditor's general ledger.

Annual Reports

- **Cancellation of Uncollectible Personal Property Taxes:** If the county treasurer is unable, for the want of goods or chattels whereupon to levy, to collect by distress or otherwise, the taxes, or any part thereof, which may have been assessed upon the personal property of any person or corporation, or an executor or administrator, guardian, receiver, accounting officer, agent or factor, the treasurer shall file with the county legislative authority, on the first day of February following, a list of such taxes, with an affidavit of the treasurer or of the deputy treasurer entrusted with the collection of the taxes, stating that the treasurer had made diligent search and inquiry for goods and chattels wherewith to make such taxes, and was unable to make or collect the same. The county legislative authority shall cancel such taxes as the county legislative authority is satisfied cannot be collected. [RCW 84.56.240](#).
- **Court Ordered Cancellation of Personal Property Taxes:** The Treasurer of any county of the state of Washington, with the approval of the Board of County Commissioners of such county, through a resolution duly adopted, is hereby empowered to petition the superior court in or for his county to finally cancel and completely extinguish the lien of any delinquent personal property tax which appears on the tax rolls of his county, which is more than four years delinquent, which he attests to be beyond hope of collection, and the cancellation of which will not impair the obligation of any bond issue nor be precluded by any other legal impediment that might invalidate such cancellation. The superior court shall have jurisdiction to hear any such petition and to enter such order as it shall deem proper in the premises. [RCW 84.56.270](#).
- **Annual Report of Collection to County Auditor –** ([RCW 84.56.300](#)). On the first Monday of February of each year, the County Treasurer shall balance up the tax roll for December 31 of the prior year and report to the County Auditor the amount of taxes collected and specify the amount collected by fund. The Treasurer shall report

the amount of taxes that remain owing and delinquent upon the tax rolls, with collections and credits on account of errors and double assessments. The Treasurer shall then report the amount of collections on account of interest since the taxes became delinquent. This is generally in the form of a financial statement schedule or often already in the automated general ledger system.

- **Department of Revenue:** On a form provided by DOR, information on tax collections, and supplements and cancellations are summarized for the prior year.
- **Depository:** A list of designated depositories of public funds is filed with the county legislative authority on the second Monday of January, and at such other times as the treasurer deems necessary ([RCW 36.48.010](#)). This is usually accomplished through the County Finance Committee.
- **Treasurer's Annual PDC Report:** [RCW 42.17.245](#) requires the Treasurer to file a statement under oath that no public funds were invested in any financial institution where the Treasurer or member of the Finance Committee held an office directorship, partnership interest or ownership interest. A Treasurer who serves as treasurer for a port, PUD or city should file a separate report those entities.
- **Inventory:** An inventory of office machines, equipment, furnishing, etc., is given to the county auditor by the first Monday in March. ([RCW 36.22.010](#))
- **Unclaimed Property:** A report of unclaimed property held by the treasurer, as of June 30, must be furnished to DOR by November 1 ([RCW 63.29.170](#)).
- **Other reports may be needed:** Treasurers should provide any reports necessary to enhance the internal controls of the Treasurer's office and the districts served. The reports should provide customers and taxpayers with a clear understanding of the activity performed and provide totals for reconciliation and verification.