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Nonbusiness Organizations: Improving County Accounting: One State's Experience

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Improving County Accounting

One State's Experience

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Todd W. White, a writer, walked into the offices of a Texas county treasurer early in 1987 expecting to find "something resembling the accounting department of a medium-size company" [White, 1987, p. 5]. Confronted instead by a scene "more closely akin to the offices of Scrooge and Marley in Dickens' **Christmas Carol,"** he was observing firsthand the problems faced by smaller counties.

As a result of being forced by insufficient resources to "handle the challenges of the 1980s with the technology of the 1930s" [White, p. 5], the counties, the state, and the accounting profession in Texas have joined forces to improve financial accounting and reporting. A nine-year study of 30 smaller counties identified successes and failures of these joint ventures suggesting other local government units may benefit from the Texas experience.

The 30 counties comprising the study were identified as part of a more extensive research effort begun in 1979 and described in Dodson, 1980. In 1986, 30 treasurers and 24 auditors (six counties did not have auditors) from the counties involved in the original research were surveyed using mail questionnaires. Responses were received from 24 treasurers (80%) and 18 auditors (75%). Personal interviews were subsequently conducted with officials in eight of the counties.

Why County Accounting Is Where It Is

Accounting and financial management activities in Texas counties are vested in elected treasurers and, in some cases, auditors. The treasurer is the sole accounting and finance "manager" in many small counties, but an auditor must be appointed by the district judge in counties with populations exceeding 35,000 or with tax values greater than $15 million. (Statutory requirements related to county offices may be found in **Vernon's Civil Statutes of the State of Texas.)**

There are no legal stipulations as to education or experience for election to county treasurer; indeed, none of the treasurers recently surveyed held college degrees. Auditors, required by law to have two years of unspecified accounting experience, tend to be better educated; 44% of those responding to the questionnaire held college degrees, and an additional 50% had completed some college.

Considerable discretion is left to local officials as to which county office performs which accounting and financial management function. The treasurer and auditor are frequently at odds regarding assignment of duties within a county. Among those questioned, 39% of treasurers and 22% of auditors agreed with a statement suggesting they do not work well together.

The Texas Association of County Auditors and the Texas Association of County Treasurers assist elected and appointed officials with initial training, encourage members to complete specified hours of continuing education yearly, and provide a network of peers. A decade ago, an attempt by the two professional associations to develop a financial management system for the smaller counties was stymied by lack of funds, and the project was ultimately undertaken by the state.

The Office of the Texas Comptroller of Public Accounts has statutory authority to set budgeting, accounting, and reporting standards for Texas counties but made no real efforts to do so until 1977. At this time, a manual was compiled, ***Standard Financial Management System for Texas Counties*** (SFMS) [Texas Comptroller, 1977]. With this manual in hand, state personnel provided on-site technical assistance to officials adopting the state's simplified financial management system. This system — one of two outlined in the manual — allows manual recording of transactions in modified cash receipts and cash disbursements journals and emphasizes the inclusion of budgetary accounts. The alternative system is a more sophisticated "general" system that includes a provision for encumbrances. Current estimates place the number of SFMS users at 60 even though implementation is not mandatory. However, there has been no real attempt by the state either to measure compliance or to monitor conformance.

Since 1985, the state has been forced by fiscal constraints to curtail technical assistance through on-site visits to counties. As a substitute, a toll-free telephone system has been installed, linking local officials with the comptroller's local government assistance division. State personnel respond to inquiries, schedule seminars throughout the state, and evaluate budgets and annual reports submitted voluntarily by the counties. Periodic newsletters include a series of extensive self-tests which permit county and city officials to evaluate financial management practices such as budgeting, depository selection, purchasing, and cash management.

The accounting profession in general and some auditing firms in particular bear part of the responsibility for the nature of Texas counties' accounting practices. In the 1979 study, it was revealed that a few counties had received unqualified audit opinions for financial statements that were in clear violation of generally accepted accounting principles for governmental entities. Since officials tended to view the audit opinions as giving approval to their accounting and reporting practices, there was little incentive to change.

Whereas some of the counties included in the 1979 study were rarely audited, almost 90% of officials recently surveyed indicated their counties had annual outside audits, and all of the counties had audits at least every three years. Today, some counties are receiving "reports on examination" in lieu of unqualified opinions, an appropriate change considering the scope of audit work being done and the condition of the counties' records and reports.

Where County Accounting Is Going

Continued improvement in local government accounting will require a combined effort of county and state officials and accounting professionals. The public, increasingly aware of what county government encompasses, will not accept accounting and reporting practices which are measurably inferior to those of comparable business organizations.

In Texas, local officials and state personnel are concerned about the extent to which additional counties will adopt the state-developed financial management systems without on-site assistance during the implementation phase. Some current users, who admit they would not have attempted the conversion without state personnel close at hand, willingly serve as resource persons for non-implementing counties re-examining the state's system. Having adapted the state suggestions to their particular counties' needs, these officials offer firsthand knowledge and experience to inquiring colleagues.

It is difficult (and probably unrealistic) to assign a more comprehensive role to the comptroller's office in the immediate future. The staff —sharply curtailed in size from a few years ago — is generally evaluated highly by county treasurers and auditors. Approximately two-thirds of the officials recently surveyed rated the quality of state assistance as either "excellent" or "good."

The "hotline" manned by the comptroller's personnel is convenient for local officials whose questions require rapid responses, and the newsletters are an effective communications medium. But, short of enforcing mandatory compliance with its accounting and reporting standards, the state can realistically expect its influence on local government accounting to remain stable, at best.

Historically, smaller governmental units have responded best to external impetus for change. The increase in demand for outside audits, for example, is directly attributable to federal mandates regarding revenue-sharing funds. But a decade of experience with voluntary compliance provides evidence of counties' reluctance to implement state-developed financial management systems on their own. Although the number of counties employing SFMS has doubled since the study began, the majority of smaller counties have failed to adopt either system. Some officials have developed alternate practices and procedures that enable their units to meet the comptroller's standards, but others ignore the standards and make no effort to institute practices that would help them meet the guidelines.

Because of the diversity of the systems used and the opposition of some counties to adopt SFMS, audits required by federal agencies are time-consuming and audit fees may tend to appear unnecessarily high. Firms may spend extra time attempting to decipher unfamiliar records and procedures, find themselves locked in controversy with the county judge and commissioners when their fees are presented, and then discover they have been "outbid" for the next year's audit by a firm claiming it can perform comparable work less expensively. As a result, some accounting firms, distressed by counties which blatantly "shop" for the least expensive firm in order to comply with federal audit requirements, no longer accept local government audits.

Conclusion

Texas' experience with a state-developed system for governmental units demonstrates the effectiveness of state innovation and assistance. Significant changes cannot, and will not, occur without receptive local officials and supportive accounting professionals. Ω

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