

# Accounting Manual

## Business Office

McLennan Community College

May 2001

## **I. INTRODUCTION**

The purpose of this manual is to present in an organized manner the accounting functions at McLennan Community College. This manual will serve as an orientation vehicle for the new employee as well as a reference manual for the seasoned employee.

The manual begins with the organization of the areas supervised by the Vice President, Business Services, continues with an overview of the financial management system, explains the account structures, and ends with a detailed explanation of policies and procedures.

Since the accounting system continues to be reviewed and revised to meet necessary changes, this manual will be updated as appropriate.

## **II. ORGANIZATION OF OFFICE OF VICE PRESIDENT, BUSINESS SERVICES**

A. Organization Chart – See Appendix B

B. Departments under the supervision of the Vice President, Business Services

1. Sr. Executive Secretary
2. Director, Financial Services
3. Director, Physical Plant
4. Director, Human Resources
5. Specialist, Central Services
6. Chief of Police

C. Departments involved in the accounting function

1. Office of the Vice President, Business Services

The organizational chart reflects all the personal under the supervision of the Vice President, Business Services. This Accounting Manual will be concerned only with those personnel involved in the accounting function--Director, Financial Services and the Business Office. The Director, Financial Services is responsible for the accounting records to be maintained accurately and up-to-date by working closely with the Business Office.

## 2. Business Office

The accounting records are physically located in the Business office. The Director, Financial Services is responsible for the Business Office operations.

### **III. Financial Management Systems**

#### A. Accounting Policies

##### 1. Fund Accounting

The college uses the fund accounting concept. The following is as excerpt from the Higher Education Finance Manuel, 1975, published by the National Center for Educational Statistics, which explains fund accounting.

The characteristics that have a major influence on the kind of reporting used in higher education are (1) the nonprofit nature of higher education institutions and (2) the unique flow of revenues in higher education.

##### a. Nonprofit Nature of Higher Education

Higher education institutions are created to carry public service rather than to produce profits. Naturally, the institution will want to be able to provide for its future operating needs. The user of higher education financial data, however, should focus on the sources and use of institutional resources and the way in which those uses contribute to the attainment of the institution objectives.

##### b. Flow of Revenues

In the profit sector, each product is purchased by one consumer who pays at least the company's full cost of producing the product. However, in higher education the "products" (instruction, research, public service, etc.) are paid for by a number of sources (private gifts, tuition, governmental appropriations, etc.), each of which pays some portion of the total cost. The persons or agencies providing the revenues are not necessarily the same persons or agencies that directly benefit from the products of higher education (e.g., donors usually receive no goods or services in return for their gifts).

Donated monies are a source of income for higher educational institutions. However, such monies are often donated with accompanying “restrictions” that stipulated how they are to be used by the institution. These restrictions usually are specified by the donor as a precondition for the acceptance of the funds by the institution and are legally binding. Funds also are received in return for goods or services that must be rendered to the payer. These monies may be either unrestricted funds (e.g., student tuition) or funds upon which very specific restrictions have been placed (e.g., federal grants). This mixture of restricted and unrestricted funds introduce to higher education financial reporting an addition dimension that does not exist in the profit sector.

As a result of these and other characteristic of higher education finance, a type of financial accounting known as “fund accounting” is used for the maintenance and reporting of financial data.

c. Classification of Accounts into Fund Groups

The basis for almost all fund accounting reports is the concept of “fund groups.” A fund group is used to report all those institutional resources that are available for, or restricted to, the same purpose. Each fund group may include resources that are restricted to a particular purpose as well as those unrestricted resource that the institution decides to use for the same purpose.

McLennan Community College has the following fund groups and funds:

**Fund Group 1 = Current Fund Group Unrestricted**

- Fund 10 = Current Operating Fund
- Fund 12 = Student Organizations Fund
- Fund 14 = Student Organizations Fund
- Fund 17 = Auxiliary Fund
- Fund 19 = Payroll

**Fund Group 2 = Current Funds Restricted**

- Fund 21 = Private and Local Grants
- Fund 25 = State – Texas Workforce Grants
- Fund 27 = Other State Grants

**Fund Group 3 = Federal Funds**

- Fund 33 = Federal/Perkins
- Fund 35 = Title IV Grants
- Fund 32 = Other Federal Grants

**Fund Group 5 = Plant Funds (including Debt Retirement)**

Fund 50 = Unexpended plant Funds

Fund 5B = Series 1999 I&S

Fund 5M = Amphitheater

Fund 5C = Series 1999 I&S

Fund 5H = Series 1992 Reserve

Fund 5J = Series 1995 I&S

Fund 59 = Net Investment in Plant

**Fund Group 6 = Agency Funds**

Fund 60 = Agency and Scholarship Fund

**Fund Group 7 = Student Loan Funds**

Fund 70 = Student Loan Fund

d. Unrestricted and Restricted Funds

Restricted often are placed on the use of certain institutional funds. However, there are various types and degrees of restrictions. Unrestricted funds are monies that the institution's management may use for any purpose it deems necessary. Restricted funds are given to the institution for a very specific purpose and must be used only for that purpose.

Generally, any monies added directly to a fund group often than the "current operating fund group" are restricted. All unrestricted funds the institution receives must be reported first in the unrestricted "current operating fund group." If necessary or desirable, they may be classified as designated and transferred to another fund group.

e. Transfer and Interfund Borrowing

Accounting for the institution's resources in several fund groups is somewhat analogous to several distinct businesses operated by one manager--the institution. Therefore, it is not unusual for the institution to make transfers between fund groups whenever necessary and permissible. If the institution determines that one fund group needs additional resources in order to adequately perform its functions, the institution often will "borrow" them from the unrestricted funds of one of the other fund groups. If it is intended that the money be paid back to the lending fund group, the transaction is referred to as an interfund borrowing. Interfund borrowings are shown in financial reports as a due to (liability) in the borrowing fund group and as a due from (asset) in the lending fund group.

A second procedure used to provide funds to other fund groups is to take the money out of unrestricted funds without paying it back. This type of transaction is known as a “transfer.” For reporting purpose, there are two types of transfers: non-mandatory transfer and mandatory transfer. A non-mandatory transfer is made at the discretion of the institution’s governing board between unrestricted funds and another fund group. A mandatory transfer is made from unrestricted funds to fulfill a legal obligation of the institution in another fund group. For example, if funds are needed to meet debt obligations in the “plant fund,” a mandatory transfer may be made from the unrestricted “current fund” to the “plant fund.” If the same kind of transfer were made with no attendant legal obligation, it would be reported as a non-mandatory transfer.

## 2. Accrual Accounting

The college’s accounts are maintained according to the accrual basis of accounting, which means that revenues are recorded when earned, and expenditures when materials or services are received.

## B. Fund Groups

A fund is defined as an accounting entity with a self-balancing set of accounts consisting of assets, liabilities, and fund balance. Since many funds have the same characteristics, they are combined to make fund groups.

### 1. Current Fund Group-Unrestricted

The current fund group consists of resources, which will be used for general operating purpose during the current fiscal year. Current funds at the college are classified as unrestricted, general scholarship, student organization, auxiliary, and payroll.

#### a. Current Operating Fund

These are current funds upon which no restrictions have been made by an outside agency as to how the funds are to be expended. Tuition, interest on investment, or state appropriate would be examples of unrestricted current funds.

#### b. General Scholarship Fund

These are current funds designated for institutional scholarships. This fund is separate for reporting and information purpose.

c. Student Organizations Fund

These are current funds designated for student government and student activities. This fund is separated for reporting purposes and information purpose.

d. Auxiliary Fund

An auxiliary enterprise is an entity which exists to furnish goods or services to students, faculty, or staff and which charges a fee that is directly related, although not necessarily equal, to the cost of the service. Most auxiliary enterprises are profit oriented. Examples are the Cafeteria and Vending Machine sales.

e. Payroll Fund

All employee paychecks are processed through this fund. This fund is basically a clearing fund for payroll.

2. Current Funds Restricted

Current funds restricted at the college are classified as state and federal Grants.

These are current funds upon which restrictions as to how they may be expended have been imposed by outside agencies. Outside agencies are to be distinguished from the college's Board of Trustees that would be considered an internal agency. A federal or state government grant would be an example of a restricted fund.

Federal funds are grants received from the federal government. Some grants this fund included are Pell, Work Study, SEOG, Upward Bound, and Title III. This fund conforms to record keeping requirements of the federal government.

3. Plant Funds

All of the college's Physical Plant assets and debt requirements are recorded in the fund.

a. Unexpended Plant Funds

This fund includes funds that are available for new construction, renovations, and acquisition of physical

properties, but which are, as of the date reporting, unexpended.

b. Debt Service Funds for Retirement of Indebtedness

1) Series 1995

This fund includes funds from pledge revenues designated for debt retirement. Tuition (\$15 per student in long term and \$7.50 each summer term.)

2) Series 1999

This bond requires that money come from taxes collected.

4. Agency Funds

This fund includes funds held by the college as custodian or fiscal agent. This includes student club funds and scholarship donations from individuals and corporations.

5. Loan Funds

a. Student Loan Fund

This fund includes funds set aside by the college for short-term loans to students.

b. Nursing Student Loan Fund

This fund includes funds from loans receivable from former nursing student who received loans from the federal government. At the current time, this fund is inactive.

C. Classification of Accounts

1. General Ledger Accounts

Each fund group has set of general ledger accounts--assets, liabilities, and fund balances. Assets usually consist of cash, accounts receivable, notes receivable, prepaid items, investments, inventories, and amounts due from other fund groups. Liabilities usually consist of accounts payable, notes payable, deposit held for others, and amounts due to other fund groups. The fund balance is the difference between the assets and liabilities of a fund group.

## 2. Revenue Accounts

Revenue accounts consist of control accounts and subsidiary accounts receivable accounts. The accrual basis of accounting requires that revenues be reported when earned. Unrestricted monies are recorded in the revenue accounts when earned.

Since restricted funds are not earned until money is expended, according to the agreement under which the funds are given to the college, they are not recorded as revenues until the funds are expended. Revenue accounts are closed out at the end of the fiscal year into the general ledger fund balance account.

## 3. Expenditure and Transfer Accounts

The expenditure account consists of disbursements. When merchandise and services are requested, they are set up as encumbrances in the accounting records. When merchandise and services are paid, the encumbrances are released and the cost is recorded as an expenditure.

Transfers are amounts moved between fund groups which will benefit the receiving fund group.

The expenditure and transfer accounts are closed out into the general ledger fund balance account at the end of the fiscal year.

## IV. ACCOUNT STRUCTURE

### A. Account Code System

The account number at the college is composed of 14 digits.

XX-XXXXXX-XXXXX-X

Fund XX

**X** = Fund Group (Current, Federal, Plant)  
**XX**= Fund (Current Operating, Unexpended Plant)

## First digit

The first digit identifies the fund groups as follows:

- 1** = Current Unrestricted
- 2** = Current Restricted
- 3** = Federal Funds
- 5** = Plant Funds
- 6** = Agency Funds
- 7** = Loan Funds

## Second digit

The second digit identifies the fund as follows:

- 10** = Current Operating Unrestricted
- 12** = Current Operating General Scholarship
- 14** = Current Operating Student Activities
- 17** = Current Operating Auxiliary
- 19** = Current Operating Payroll
- 20** = Current Operating Restricted
- 30** = Federal Funds
- 50** = Unexpended Plant Funds
  - a. 5B – Series 1998 Bond
  - b. 5M - Amphitheater
- 5C** = Bond Interest & Sinking Fund Series 1999
- 5H** = Reserve Fund Series 1992
- 5J** = Bond Interest & Sinking Fund Series 1995
- 59** = Net Investment in Plant
- 60** = Agency and Scholarship
- 70** = Student Loan Funds
- 71** = Nursing Loan Funds

## DIVISION AND DEPARTMENT XXXXXX

- XX** = Function (e.g. Resident Instruction)
- XXX** = Division (e.g. RI-General Aca, RI-Dev Ed)
- XXXXXX** = Department (e.g.. Math, Child Development)

## Division and Department (third through eight digit)

Section 22, House Bill 1, Chapter 12, Acts of the fifty-ninth Legislature, Regular Session, 1965 required a uniform system for reporting the educational and general functions for institutions of higher education in Texas. These are referred to as the definitions of the elements of

institutional cost. The Coordinating Board, Texas College and University Systems officially adopted these definitions, on January 21, 1972. The functions and subfunctions in the college's accounting system are derived from the "Definitions of the Elements of Institutional Cost" with the exception of student aid, auxiliary enterprises, transfers (mandatory), and transfer (non-mandatory). The third through fifth digits refer to the functions and the sixth through eighth digit refer to subfunctions.

The following account numbers and the corresponding functions and/or subfunctions are defined in Appendix A., A Financial Reporting System for Public Junior Colleges in Texas, Revised, April 1976. A new financial reporting manual is currently being finalized.

<b>101XXX</b>	=	General Administration
<b>102XXX</b>	=	Student Service
<b>103XXX</b>	=	Student Organizations
<b>201XXX</b>	=	General Institutional
<b>301XXX</b>	=	Staff Benefits
<b>401XXX</b>	=	Resident Instruction – General Academic
<b>402XXX</b>	=	Resident Instruction – Developmental Ed
<b>404XXX</b>	=	Resident Instruction – Vocational/Technical Ed
<b>406XXX</b>	=	Continuing Ed
<b>408XXX</b>	=	Federal and State Grants
<b>501XXX</b>	=	Library
<b>601XXX</b>	=	Extension and Public Service
<b>701XXX</b>	=	Physical Plant
<b>801XXX</b>	=	Special Items
<b>890XXX</b>	=	Transfers
<b>901XXX</b>	=	Intercollegiate Athletics
<b>902XXX</b>	=	Academic Scholarships
<b>950XXX</b>	=	Auxiliary Enterprise
<b>960XXX</b>	=	Staff Benefits Auxiliary

**OBJECT XXXXX**

<b>X</b>	=	GL Class (Asset, Liability, Income, and Expense)
<b>XX</b>	=	GL Subclass Class (Cash, Operating Expense)
<b>XXXX</b>	=	GL Major Object (e.g. Bank Account, Service & Supplies)
<b>XXXXX</b>	=	Object (e.g. General Fund Bank Acct, Bookstore Supplies)

Object Code (ninth through thirteenth digit)

Object codes are used to identify the types of expenditures. All departments use the same object for like expenditures. For object codes and description see Appendix A.

LOCATION X

X = Location

Location is last digit (fourteenth) and is currently "0" for all locations.

## V. BUSINESS OFFICE PROCEDURES

### A. Receipts

All monies for the college are received at the Business Office. The following procedures explain the initial receipting of the money and how it is recorded into the accounting system.

#### 1. Receipting by Cashier

The Accounting Assistant receipts all monies received in the Business Office. Each person or office is issued a receipt showing amount received, name, type of payment (cash, check, MC/VISA or DISCOVER), cash GL Account and other Account Number.

#### 2. Daily Cash Report

Each morning a cash report is computer generated which totals receipts from the previous day and totals the amount to be deposited into each bank account. The Accounting Assistant counts and balances the cash from the previous day. The cash receipts are in a holding file in the computer system until all cash reports are run. Once the reports are run the cash receipts are moved from the holding file to the General Ledger Posting file. The information stays in the General Ledger Posting file until the general ledger posting process is run. This general ledger posting is run at least once a week and during busy time two or three times a week. After the posting process is, all revenue accounts are updated on the general ledger file.

#### 3. Bank Deposits

The Accounting Assistant prepares the bank deposits, matching the monies with the bank accounts shown on the daily cash report. When the deposits are completed, the Accounting Technician verifies the bank deposits with the deposit totals from the cash report. Monies are carried to the bank once each day by Campus Police.

#### 4. Daily Business Office Files

The daily cash report, copies of cash receipts, validated copies of bank deposits and any supporting documentation turned into the Business Office with monies are batched together and filed in chronological order by the Clerk/Cashier.

#### 5. Monthly Cash Report

After month end closes in the Business Office a monthly cash receipt report is printed for bank reconciliation purposes. The cash receipts report is generated in three parts:

- a. Daily counter transactions;
- b. Student Registration transactions;
- c. CE transactions.

The totals on the cash receipt report are verified against the totals on the general ledger and reconciled to the amount on the bank statement. The Payroll Sr. Accountant reconciles the general ledger account and the Sr. Accountant Manager for Controls reconciles the Payroll Account.

#### 6. Monthly Revenue Report

All cash receipts are processed by the computer system. Each receipt has a bank account general ledger number and a revenue general ledger or various clearing account general ledger number. As a part of the Business Office reporting system, the revenue report is generated and distributed to the Board of Trustees, President, Vice President and appropriate budget heads. This report shows the following information:

- a. Annual budgeted amount
- b. Revenue received to date
- c. Percentage of budget received to date
- d. Balance remaining to be received

#### B. Disbursement Procedures

All funds disbursed by the college are processed by the Business Office. The following procedures explain the disbursement system from the receipt of a requisition in the Business Office, issuing of checks and finally to posting of disbursement into the account system.

## 1. Requisitions

The Accounts Payable Clerk received the requisition and checks for completeness of account number and for compliance with college purchasing policy. Purchasing Policy is in Appendix C. If funds are available, the requisition is given to the Clerk to produce the purchase order. The Vice President, Business Service or Director, Financial Services or designee signs all purchase orders and returns them to the Clerk for distribution. If funds are not available, the appropriate budget head is contacted and told funds are not available. A budget transfer or administrative approval must be obtained before the purchase order can be produced.

## 2. Accounts Payable

The accounts payable clerk prepares all bills for payment. The bill is checked for proper signature approval and compared with the purchase order. If everything is correct, a voucher is entered into the computer system. The accounts payable clerk also checks travel advance/expense requests for compliance with college policy.

Requisitions requesting reimbursement checks, travel advances/expense checks and request for student financial aid checks are entered into the computer system by the Clerk.

After vouchers are entered into the system, a check selection report is produced and checked for accuracy. Any correction necessary are made and checks are printed on Thursday afternoon.

After the checks are printed, the Clerk signs the checks with the check protector and gives the checks and supporting documentation to the Vice President, Business Services or Director, Financial Services or designee. The invoices and checks are reviewed and then the check copies are initialed. The checks and supporting documentation are then returned to the Clerk for distribution.

A board member must sign any checks over \$25,000.00. The Accounts Payable Clerk calls the President of the Board of Trustees and makes the necessary arrangements. Campus security carries the checks to the Board President when the daily bank run is made.

After the checks are signed and prepared for distribution, one copy of the check (yellow) is attached to the documentation and filed alphabetically in the Business Office.

### 3. Monthly Expenditure Reports

All cash disbursements are processed by the computer system. After month end close, the following reports are generated.

Monthly listing of cash disbursements with the following information:

- Account Number
- Payee
- Date
- Amount
- Check #

This report is checked and proofed by the Associate Director, Budgets & Disbursements and Vice President, Business Services and then mailed to the Board of Trustees prior to the board meeting. The Board of Trustees reviews this document and the Vice President, Business Services responds to any questions or comments at the monthly board meeting.

### 4. Monthly Budget Report

This report is distributed to the Board of Trustees, President and Vice-Presidents. This report has the following information:

- Date
- Approved Budget
- Year-to-Date Expenditures
- Percent of Budget Expended as of report date

### 5. Monthly Budget Status Report

This report is distributed to all budget heads and contains the following information:

- Date
- Account Number
- Account Name
- Approved Budget
- Detail of Expenditures for report period
- Encumbrances
- Balance remaining in Account

## C. Payroll

The payroll area is responsible for the processing and distribution of all payrolls, which include monthly, biweekly, and student payrolls. The Payroll Clerk performs all related activities and ensured that all proper documentation is in order prior to payment. The clerk also maintains a personal folder on each regular employee and is responsible for various reports including tax and state agencies, retirement and insurance remittances, and other reporting.

### 1. Controls

The Payroll Clerk may not pay any employee without proper documentation from personnel and the employee. All earnings, tax information, and deductions (United Way, Credit Union, etc.) must be authorized in writing by the employee. For earnings, a contract or employment recommendation form must be on file. Tax perimeters must be on a W-4 form and deductions must be supported by their appropriate form. In addition, every employee must belong to one of the retirement plans: TRS, OPR, PERC, or FICA.

All earnings input to the payroll system must be manually verified. In the case of one-time input, such as semester overloads, annual contracts for salaried employees, and summer pay for instructors, the Payroll Clerk will run a calculator tape of the amounts and verify the total against a computer run of that input. For hourly employees, the clerk will run a tape of hours by categories and verify it against the computer-generated voucher.

All disbursements from the payroll department such as tax, retirement, insurance, and other miscellaneous payments must be reconciled to the respective general ledger account prior to preparing a payment voucher.

### 2. Payroll Processing

- a. The Payroll Clerk must perform some common tasks with all payrolls. These include the following:
  1. Ensure that the master file has been updated with all changes that have been submitted since the last payroll.
  2. Organize all input data and review to ensure that all proper documentation has been received.

3. Key pay data into the computer utilizing specified controls.
  4. Process the payroll, print all menu reports, and print checks.
  5. Give checks to the Vice President, Business Services secretary for signing and stuffing into envelopes.
  6. Prepare manual checks for transfer of funds for the net payroll, the tax deposit, and transfer of funds for direct deposit monies. The Cashier/Clerk prepares the bank deposits and Campus Security carries the deposit to the bank when the daily bank run is made
  7. File all computer runs and other payroll data.
- b. For hourly employees the Payroll Clerk must perform additional tasks. These include the following:
1. No hourly employee can be paid without submitting a proper time sheet. The Payroll Clerk will ensure that an authorized supervisor has signed all time sheets.
  2. The Payroll Clerk will review the time sheets for completeness and accuracy.
  3. In addition to performing the hourly control procedures, The Payroll Clerk will prepare a list of comp time for Personnel.

### 3. Reconciliation's

On a monthly basis the Payroll Clerk will reconcile all general ledger accounts in the Payroll Fund (Fund 19). The Fund balance should always be zero. The clerk will make all corrections before the end of the month after the month being reconciled.

### D. Cash Management

Cash management can be defined as the maximum use of temporarily available cash for short-term investment. The Vice President, Business Services is responsible for cash management at the college. The

investment committee consisting of the Vice President, Business Services, Director, Financial Services, Sr. Director, Internal Audit/Technology and a faculty member recommending what should be invested, recommending the type of investment, and handling the mechanics of investment. (Institutional Investment Policy in Appendix D.)

The Director, Financial Services review cash account balances, outside receivables, interfund balances; project disbursements for a given period of time; and determine cash available.

#### 1. Mechanics of Investments

- a. The Director, Financial Services determines the excess funds that the college has on hand and how long these funds will be available to the college.
- b. If funds are available, the Director, Financial Services analyzes the market and determines what securities or certificates produce the best returns.
- c. If the college purchases a security from a federal agency, the following steps are taken:
  - (1). The broker, from whom the college purchases the security, purchases the security through a clearinghouse in New York.
  - (2). The clearinghouse wires confirmation to the depository bank's safekeeping bank. The safekeeping bank then confirms the purchase through the depository. The depository checks the letter that has been delivered to them, and if the purchaser agrees with what the college has approved, the funds are released to purchase the security.
  - (3). The safekeeping bank keeps the original of the security purchased.

#### E. Internal Office Controls

It is the policy of McLennan Community College to establish and maintain good internal controls for all accounting and record keeping functions. Responsibility for the installation and performance of this function rests with the Director, Financial Services and the Senior Accounting Manager for Financial Services.

### 1. Cash Funds

All cash receipts are turned in to the Business Office on a regular basis. All cash funds of any type are to be counted and verified. This would include change funds, cash register funds, and petty cash funds.

### 2. Receipt Numbers

An audit of receipt numbers is maintained in the Business Office. The receipt numbers are checked periodically to verify compliance and to identify any problems or problem areas.

### 3. Confirmation of Reconciliation's

A standard letter is developed for use in confirming receivables. This letter is used for all departments and all types of receivables. Status of past due accounts is checked.

### 4. Bank Account Reconciliation's

The Director, Financial Services participates periodically with the Sr. Accountant, Grants/G.L in the reconciliation of bank statements.

### 5. Travel

The Director, Financial Services or designee verifies that travel requests are being submitted in advance of trips, that they have correct approvals, and that travel expense statements are submitted promptly, with adequate support and are being handled correctly.

### 6. Accounts Payable

The Director, Financial Services or Associate Director, Budgets & Disbursement verifies that check-signing procedure as approved by Board of Trustees are being followed. All checks \$25,000 or under should be signed by the Vice President, Business Services. A member of the Board of trustees should sign checks over \$25,000. Audit includes checking to be sure Vendors are being paid promptly, all discounts are being taken, receiving reports are signed by appropriate personnel, etc.