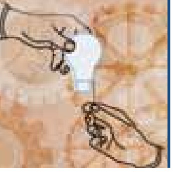

Implementing a New ERP System? Take the Opportunity to Develop a New Chart of Accounts

by Michael J. Mucha

> An up-to-date chart of accounts helps the organization view itself and it resources accurately, making service and resource allocation decisions easier.

A chart of accounts — a listing of the accounts an organization uses to define each class of items for which money is spent or received — provides a uniform format that local governments can use for reporting and accounting. The chart also organizes finances and segregates expenditures, revenue, assets, and liabilities to provide a better understanding of the organization's financial picture. It is a resource that governments can use for budgeting, accounting, and financial reporting.

Government agencies are not required to have logical or even defined charts of accounts or accounting reporting. Many states have suggested charts of accounts or even require that certain account ranges be used to report certain funding. GFOA, the Association of Government Accountants, and other professional associations strongly urge governments to pay close attention to the structures used for financial reporting. The responsibility for identifying and managing this important tool lies with the organization's management, just as the final responsibility for the financial audit's content also remains with management regardless of rules, regulations, guidelines, or suggestions.

GUIDELINES

GFOA has developed the following guidelines to assist governments in developing a new chart of accounts as part of an enterprise resource planning (ERP) implementation. For all projects, unless there are strict requirements that a specific chart of account structure be used, take the opportunity afforded by the ERP system implementation to develop a new chart of accounts.

1. **Define Each Segment.** Each segment of the chart of accounts should have a strict definition that can be communicated and enforced. This will prevent internal inconsistencies within the chart of accounts. For example, the government should universally agree on what a "fund" is, what a "department" is, and what a "program" is, and not allow any exceptions.

2. **Start Over.** When developing the chart of accounts, start fresh and don't initially worry about mapping back to the existing chart of accounts. Review the actual organizational structure and operations, and build the chart from there to avoid replicating a problematic chart of account structure.

3. **Start Simple and Build-Out Detail.** Identify major categories within each segment and then work to build out detail — again, this will help the government take a fresh perspective and prevent any unnecessary replication of the old chart. For example, when developing the object code listing, start by identifying major object code categories and then work to define detail to the extent necessary. This will also help ensure that the overall chart is organized.

4. **Don't Store Unnecessary Data.** If the chart of accounts is well developed, the government won't need to create new accounts very often. Most organizations attempt to keep the chart of accounts relatively simple and at a high level, and then use other components of the system (e.g., the project ledger, accounts receivable charge codes, salary pay codes, work order detail) to further define the detail. This structure will lessen the amount of maintenance required on the chart of accounts.

5. **Don't Repeat Ineffective Numbering or Accounts**. Converting existing chart of account data or reusing existing number schemes is not always beneficial. Many policies, processes, and systems will be changing as part of training and change management activities for the ERP implementation. Don't hold on to an old taxonomy or vocabulary with the chart of accounts. End users will eventually learn the new chart, and dealing with the initial learning curve is better than dealing with inefficiencies in the new chart of accounts for the length of time the new ERP system is in use.

COMMON STRUCTURE

Most governments should define a chart of accounts with five major components: fund, organizational unit, program/activity, object/account, and project. Each one will track a slightly different type of information, as described by the blocks below. Doing so will also enable the government to track all required information for accounting, budgeting, and financial reporting.

A government can have one or more segments within each major component that defines the level of detail necessary for its tracking, managerial, and reporting needs. Exhibit 1 shows potential options for each.

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The "Possible Segments" section of Exhibit 1 simply provides examples to choose from; most governments won't need to use all of them. Define your government's chart of account segments using what is necessary — remember, this structure should remain simple.

CONSIDERATIONS

The common chart of account structure defined above illustrates potential considerations and decision points that will be needed within each segment. After determining how many segments are most appropriate, the government will need to decide how many values to include and how each should be organized/numbered.

Funds. Governments often create new funds in their charts of accounts

Exhibit 1: Identifying and Defining Potential Segments

Component	Description	Possible Segments
Fund	A fund is the self-balancing accounting unit required for governmental accounting.	• Fund
Organizational Unit	An organizational unit represents the organizational hierarchy reflected by an organizational chart, listing of business units, or locations for which the government wants to track data.	• Department • Division • Business Unit • Location
Program /Activity	Programs (also commonly called activities) are the services performed by organizational units. Each program should have a service outcome — the result produced. Typically programs are ongoing and not limited to a specific organizational unit.	• Function • Program • Activity • Sub-Activity
Object /Account	The object or account is the classification of the balance sheet item, revenue, or expense. For expense and revenue, this defines what was spent or earned (e.g., supplies).	• Object /Account
Project	Projects are often used to track programs with defined start and end dates or other events that would require additional detail beyond the chart of accounts. Project costs would be summarized in this segment but broken out in more detail in the project ledger. This allows for detailed tracking by department.	• Project Roll Up • Additional segments defined as part of project/ grant accounting

as a way of tracking information in a legacy financial system that lacks the flexibility to add segments and track projects, programs, or grants separately. As a result, governments have long lists of "funds" that should not actually be tracked separately. GFOA's *Fund Accounting Applications* best practice (available at gfoa.org) advises governments to establish clear criteria for determining whether a given "fund" in its accounting system should be treated as a fund for purposes of external financial reporting. The application of these criteria to individual "funds" should be documented and periodically reviewed to take changes in circumstances into account (e.g., a significant decrease in a revenue source reported as a separate special revenue fund). Specifically consider whether the goals of general purpose external financial reporting could better be achieved by combining similar "funds" in the accounting system into a single fund for financial reporting purposes.

Organizational Units. As stated above, many organizations create one or more segments to refer to the organizational unit. These segments can include department, division (as a subsection of a department), or any other vocabulary used to create the organizational structure (typically supervisory and personnel reporting structures). When developing the chart of accounts and defining segments, keep all information within a segment consistent. Also, because each segment code can only be used once, consider numbering hierarchical relationships with prefix numbers that identify the grouping. For example, in Exhibit 2, all divisions belonging to the finance department begin with 10. For smaller organizations, one segment is probably sufficient.

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Program/Activity. The previous example wouldn't apply to programs or activities. These programs wouldn't usually be limited to one department; a different numbering method would be required. In Exhibit 3, all programs/activities would be created under the example roll-up number by major function. While this may be similar to organizational unit or department, the government should avoid establishing a 1:1 relationship between organizational unit and program (e.g., as not all police programs are focused on public safety, and presumably the police is not the only department that contributes to public safety).

Object. As stated previously, most governments should develop a new object code listing and take this opportunity to clear up and organize the set of object codes used throughout the organization. Much like funds,

Exhibit 2: Numbering Hierarchical Relationships with Prefix Numbers that Identify the Grouping

Department Number	Department	Division Number	Division
10	Finance	1010	Accounting
		1020	Purchasing
		1030	Revenue
		1040	Budget
20	Police	2010	Office of Chief
		2020	Patrol
		2030	Investigation
		2040	Jail

Exhibit 3: Programs Numbered by Major Function

Example Number	Description
10000	General Government
20000	Public Safety
30000	Transportation
40000	Health and Welfare
50000	Recreation
60000	Conservation and Planning
70000	Facilities
80000	Business Enterprises

object codes tend to be created to track projects, grants, and programs that should be tracked in other segments of the chart of accounts. Now that the government has the capability to redo its chart of accounts, that problem should be cleaned up. Exhibit 4 provides a structure for object codes as an example. (This structure is provided as an example only — the government should develop its own structure to meet its specific needs.) Additional detail can be defined within each major category.

Project. The project segment often acts as an "optional" segment that allows the organization to track additional detail (in addition to the seg-

Exhibit 4: An Example of a Structure for Object Codes

Example Number	Type	Description
10000	Asset	Assets
10100	Asset	Cash
10200	Asset	Petty Cash
10300	Asset	Restricted Cash with Fiscal Agent
11500	Asset	Investments
12000	Asset	Receivables
12200	Asset	Short-Term Receivables
12300	Asset	Interest Receivables
12400	Asset	Due from other Governments
14000	Asset	Due from other Funds
15000	Asset	Non-Current Asset
15100	Asset	Long-Term Receivable
15200	Asset	Other Assets
15400	Asset	Property Held for Resale
15500	Asset	Capital Assets
20000	Liability	Liability
21000	Liability	Current Liability
21100	Liability	Accounts Payable
21200	Liability	Accrued Liability
21300	Liability	Payroll Liability
21400	Liability	Other Current Liability
22000	Liability	Due to other Funds
25000	Liability	Non-Current Liability
25100	Liability	Non-Current Accrued Liability
25200	Liability	Other Non-Current Liability
25300	Liability	Deferred/Unearned Revenue
25400	Liability	Long-Term Debts
25500	Liability	Asset Forfeiture
30000	Fund Balance	Fund Balance
40000	Revenue	Revenue
41100	Revenue	Property Taxes
41200	Revenue	Special Assessment Revenue
41300	Revenue	Sales Taxes
41400	Revenue	Other Taxes
41600	Revenue	Franchise Fees
41800	Revenue	Intergovernmental Revenue – Federal
41900	Revenue	Intergovernmental Revenue – State
42100	Revenue	Intergovernmental Revenue – County
42200	Revenue	Intergovernmental Revenue – Local Agency
42300	Revenue	Fines & Forfeiture
42400	Revenue	License
42500	Revenue	Permits
43000	Revenue	Fees and Charges for Services
43400	Revenue	Other Fees
43500	Revenue	Utility Fees
44000	Revenue	Investment Income
45000	Revenue	Internal Service Charges
46000	Revenue	Other Revenue
49000	Revenue	Other Resources – Operating Transfers In
50000	Expense	Employee Services
51000	Expense	Salaries and Wages
51100	Expense	Salaries and Wages
51200	Expense	Paid and Unpaid Leave
51300	Expense	Premium Pay
55000	Expense	Employee Benefits
55100	Expense	Employee Benefits
55300	Expense	Workers Compensation Premium
60000	Expense	Operating Expenditures
61000	Expense	Maintenance and Utilities
61100	Expense	Maintenance
61500	Expense	Utilities
62000	Expense	Supplies and Services
62100	Expense	Supplies
62200	Expense	Services
62300	Expense	Travel and Education Expenditures
62500	Expense	Internal Service Charges
63000	Expense	Debt Service
70000	Expense	Capital Expenditures
90000	Other	Other Resource Use

Exhibit 5: Additional Segments for More Detailed Tracking under Project Ledger

ments described above). It also allows the government to use the "project ledger," opening up additional segments for more detailed tracking of and flexibility with expenses and revenues (see the dark red segments in Exhibit 5). Use of the project segment does not need to be limited to capital projects, although this will likely be one of the more common uses. The project ledger (also called "job ledger" or "sub ledger") can define unique attributes by project. As with all other the other chart of account segments, having a clear plan for how to use the chart of accounts and being consistent with the plan is key.

The following common features *may* be a good fit for the project segment (and project ledger):

- Capital projects.
- Operating projects with defined start and end dates (e.g., grants).
- Events (e,g., disaster clean-up).
- Expenses that relate to numerous revenue sources.
- Activities or events that require high levels of detail.
- Unique department-by-department tracking needs (project segment can typically be set differently for each project).

CONCLUSIONS

Organizations that do not take advantage of an ERP project as an opportunity to revise their chart of accounts often limit the ERP system significantly, and in the process make it much more difficult to use features and functions in the new software.

MICHAEL J. MUCHA is director of GFOA's Research and Consulting Center.