

Travel Expense Voucher (Form A-10)

Expenditure document used to report travel expense incurred by State employees and to request reimbursement.

Treasury Permit (Form A-6)

Form used by the Department of Finance for transmitting all State money to the State Treasurer and authorizing such amounts to be credited to the accounts indicated.

Trial Balance

A list of the balances of all ledger accounts with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal, the ledger is said to be "in balance."

Trust Fund

A fund consisting of resources received and held by the State as trustee to be expended or invested in accordance with the conditions of the trust.

Unallotted Appropriation

Appropriation balances available for allotment.

Unencumbered Balance of Allotment

That portion of an allotment not yet expended or encumbered.

Unexpended Balance of Allotment

That portion of an allotment which has not yet been expended.

Unliquidated Encumbrances

Encumbrances which have not yet been paid or approved for payment.

Voucher

A document that serves as authorization by the Department of Finance for a disbursement by the State. In most cases the voucher consists of a Standard Invoice together with supporting documents.

Voucher for Old Age Assistance (Form OA-30)

Expenditure document issued by the Department of Welfare certifying the names of persons to whom the old age assistance payments are to be made and authorizing such payments.

Voucher Transmittal Register (Form A-25)

A record of vouchers transmitted to the Auditor; it is the basis for reconciling total vouchers transmitted with total warrants issued by the Auditor.

Voucher Transmittal Sheet (Form A-7)

Form used by the Department of Finance to authorize the Auditor to issue warrants on the Treasurer for the payment of the vouchers transmitted therewith.

Warrant

An order upon the State Treasurer authorizing him to pay a duly approved claim against the State.

## FOREWORD

The Governmental Reorganization Act of 1936 established a centralized Department of Finance in the Kentucky State Government with the objective of securing for the Commonwealth the benefits of integrated and effective administration of its finances. The new Department of Finance was vested with broad powers and responsibilities in connection with the accounting, budgeting, purchasing, personnel, and property control functions of the state government. The adoption of this legislation was followed immediately by the formulation and installation of organization plans and operating procedures designed to secure the most effective administration of the activities allocated to the Finance Department by the Reorganization Act.

The development of the organization structure and procedures was necessarily complicated by the fact that the Reorganization Act provides, until January, 1940, for some duplication of accounting activities between the Department of Finance and the Auditor of Public Accounts, and moreover the Department must until that time perform post audit functions which will thereafter be the major responsibility of the Auditor. Certain features, therefore, were included in the installation with the understanding that they are to be discarded upon the termination of this transitional period. The procedure also recognizes certain terms and practices that are not consistent with approved standards but are required by existing constitutional or statutory provisions. In particular, the county fee system presented a formidable obstacle in securing adequate control over the State receipts and expenditures involving county officials.

It was realized that a sound installation could not be achieved by the application of purely theoretical criteria, but that the particular conditions under which the fiscal offices must function had to be given careful consideration. Throughout the course of the work, the approach was that of providing the State with fiscal structure and procedures that embody recognized practice and at the same time are adapted to the specific needs and conditions of the Commonwealth of Kentucky. With this in mind, the final detailed description of the installation was deferred until the Department of Finance had been functioning for a period of six months, and the organization plan and procedures had thus been subjected to adequate trial, with necessary adjustments made in the light of actual experience.

It was felt that the stability and the efficient operation of the State reorganization and installations would be facilitated through the preparation of a handbook dealing with fiscal matters proper. This handbook deals only incidentally with procurement functions, as these are covered in a separate "Purchasing Manual," issued in November, 1936. The detailed rules and regulations governing personnel administration obviated the need for preparing instructions covering that subject.

The complexities of financial administration in Kentucky called for a document that would not be a mere outline of organization and procedures but that would gather in one volume all the basic facts pertinent to the handling of the State's finances. Thus the scope of the Handbook of Financial Administration embraces not only the functions of the Department of Finance but also those of the Department of the Treasury, Auditor of Public Accounts, and the Department of Revenue.

In order to achieve its ultimate objectives, this Handbook of Financial Administration

has been designed to serve five purposes: (1) to enable all agencies of the Commonwealth to understand the prescribed procedures, (2) to instruct employees of the various fiscal offices, (3) to expedite effective supervision of such employees, (4) to indicate constitutional and statutory provisions relating to finance that require revision, and (5) to make available to interested citizens a complete description of how the State's finances are administered.

With these purposes in mind, an effort has been made first to present a description of the essential procedures in as non-technical a manner as is possible in dealing with material of this type, second to summarize the principles of accounting and administration upon which the procedures are based, and third to explain the constitutional and statutory provisions which circumscribe the new fiscal organization and operations. This has necessitated the inclusion of considerable background material to supplement the description of the procedures.

The preparation of the Handbook of Financial Administration completes the work of Public Administration Service in assisting in making effective the Reorganization Act of 1936. The following staff members working under the direction of Joseph Pois, Administrative and Legal Consultant, and Donald C. Stone, Director of Public Administration Service, participated in the development and installation of the procedures and the preparation of this Handbook: Walter O. Harris, C.P.A., Edward B. Wilber, Milton A. Provus, Israel Rafkind, and John D. Lange.

## TABLE OF CONTENTS

### PART I

	Page
CHAPTER I - FISCAL STRUCTURE OF THE STATE GOVERNMENT . . . . .	1
Constitutional and Basic Statutory Provisions . . . . .	1
Auditor of Public Accounts . . . . .	2
State Treasurer . . . . .	4
Department of Finance . . . . .	6
Division of the Budget . . . . .	7
Division of Accounts and Control . . . . .	8
Division of Post-Audit . . . . .	9
Division of Purchases and Public Properties . . . . .	9
Division of Personnel Efficiency . . . . .	10
Kentucky Real Estate Board . . . . .	11
Department of Revenue . . . . .	11
 CHAPTER II - DEPARTMENT OF REVENUE . . . . .	 13
The Organization of Department of Revenue . . . . .	13
Relationships with Local Officials . . . . .	16
Relationships with Other State Agencies . . . . .	17
Relationships with the Public . . . . .	17
Departmental Procedures . . . . .	18
 CHAPTER III - BUDGET ADMINISTRATION . . . . .	 19
Scope of Budgeting . . . . .	19
Effect of Fund Structure upon Budgeting . . . . .	20
Statutory Provisions Relative to Budget Administration . . . . .	21
Budget Calendar . . . . .	23
Requests for Budget Estimates . . . . .	23
Estimates of Expenditures for Personal Services . . . . .	24
Estimates of Expenditures for Other Than Personal Services . . . . .	26
Summary of Expenditure Estimates . . . . .	26
Explanation of Estimated Expenditures for Replacements and Capital Outlay . . . . .	29
Statement of Activities . . . . .	29
Estimates of Revenue and Receipts . . . . .	29
Review and Revision of Estimates . . . . .	32
Nature of the Budget Document . . . . .	32
Part I of Budget Document - Governor's Message . . . . .	33
Part II of Budget Document - Detailed Revenue and Expenditure Estimates . . . . .	33
Legislative Action on Budget Plan . . . . .	35
The Appropriation Act . . . . .	35
Execution of the Budget Plan . . . . .	37
Advice of Allotment . . . . .	37
Function of Accounting in Budgeting . . . . .	39
 CHAPTER IV - FUNDS OF THE COMMONWEALTH . . . . .	 41
Nature of Funds . . . . .	41
General Fund . . . . .	41
Revolving Funds . . . . .	42
Trust and Agency Funds . . . . .	43
State Road Fund . . . . .	43
Highway Bridge Bond Fund . . . . .	44
Highway Bridge Bond Sinking Fund . . . . .	44
National Industrial Recovery Act Highway Fund . . . . .	44
County Road Trust Fund . . . . .	44
Special Deposit Trust Fund . . . . .	45
State Fire and Tornado Insurance Fund . . . . .	45
Unemployment Compensation Fund . . . . .	46
School Fund . . . . .	47

TABLE OF CONTENTS Cont'd.

	Page
CHAPTER V - PURPOSES AND GENERAL NATURE OF THE ACCOUNTING SYSTEM . . . . .	49
Purposes of the Accounting System . . . . .	49
Use of Accounting Methods . . . . .	49
Basic Approach of the Accounting Procedure . . . . .	50
Main Features of the Accounting Installation . . . . .	50
Accounting Documents . . . . .	52
Accounting Records . . . . .	52
Double Entry Method . . . . .	53
Proprietary and Budgetary Accounts . . . . .	53
Property Accounts . . . . .	53
Accrual Basis . . . . .	54
Bookkeeping and Addressing Equipment . . . . .	54
Reporting of the Accounting Data . . . . .	54
Departmental Accounting and Cost Records . . . . .	54
Duplication until January, 1940 . . . . .	55
CHAPTER VI - FINANCIAL STATEMENTS AND REPORTS . . . . .	57
Purposes of Financial Statements and Reports . . . . .	57
Statement of Cash by Funds and Depositories . . . . .	58
Forecast of Cash Position . . . . .	58
Statement of Receipts - Estimated and Actual . . . . .	58
Statement of Encumbrances, Expenditures, Allotments, and Available Balances . . . . .	61
Summary of Charges, Allotments, and Available Balances . . . . .	61
Statement of Revenue and Charges . . . . .	61
Statement of Revenue Collections and Charges . . . . .	61
Statement of Appropriations, Allotments, and Unallotted Balances . . . . .	61
Detailed Analysis of Expenditures . . . . .	63
Balance Sheets and Analyses of Changes in Surplus . . . . .	63
Statement of General Fixed Assets . . . . .	63
Annual Financial Report . . . . .	63
CHAPTER VII - THE ACCOUNTING RECORDS . . . . .	69
General Ledger . . . . .	69
General Journal . . . . .	70
Daily Summary of Financial Transactions . . . . .	71
Expenditure and Encumbrance Ledger . . . . .	76
Expenditure and Encumbrance Journal . . . . .	78
Detailed Expenditure Analysis Ledger . . . . .	80
Summary of Daily Receipts . . . . .	81
Revenue and Receipts Ledger . . . . .	82
Revenue and Receipts Journal . . . . .	84
Voucher Transmittal Register . . . . .	85
Interest-Bearing Warrant Record . . . . .	86
CHAPTER VIII - ENCUMBRANCE DOCUMENTS . . . . .	87
Purchase Order . . . . .	87
Confirming Order . . . . .	87
Departmental Purchase Order . . . . .	87
Notice of Award of Contract . . . . .	90
Advice of Change in Purchase Order . . . . .	90
Authorization for Out of State Travel . . . . .	90
Miscellaneous Encumbrance Requisition . . . . .	90
Highway Purchasing Forms . . . . .	96
Encumbrance Transmittal Sheet . . . . .	96
Handling of Encumbrance Documents by Filing Section . . . . .	96
Handling of Encumbrance Documents by Pre-Audit and Computing Sections . . . . .	98
Handling of Encumbrance Documents by Control Clerk . . . . .	99
Posting of Encumbrance Documents . . . . .	99
Disposition of Posted Encumbrance Documents . . . . .	100

TABLE OF CONTENTS Cont'd.

	Page
CHAPTER IX - EXPENDITURE DOCUMENTS . . . . .	101
Standard Invoice . . . . .	101
Payroll Voucher . . . . .	101
Travel Expense Voucher . . . . .	103
Schedule of Petty Cash Disbursements . . . . .	103
Inter-Account Bill . . . . .	106
Receiving Report and Departmental Authorization for Payment . . . . .	106
Voucher Transmittal Sheet . . . . .	106
Handling of Expenditure Documents by Filing Section . . . . .	110
Handling of Expenditure Documents by Computing and Pre-Audit Sections . . . . .	111
Handling of Expenditure Documents by Control Clerk . . . . .	112
Posting of Expenditure Documents to Expenditure and Encumbrance Ledger . . . . .	112
Disposition of Expenditure Documents . . . . .	114
Coding of Vouchers and Posting to Detailed Expenditure Analysis Ledger . . . . .	114
CHAPTER X - PAYROLL PROCEDURE . . . . .	117
Standard Payroll Voucher . . . . .	117
Reporting Payroll Changes . . . . .	121
Data Inserted on Payroll Voucher by Departments . . . . .	121
Pre-Audit of Payrolls and Issuance of Checks . . . . .	122
Time Records and Anticipation of Time . . . . .	124
CHAPTER XI - HANDLING OF RECEIPTS AND DISBURSEMENTS . . . . .	125
Control over Financial Stationery . . . . .	125
Pay-In Voucher . . . . .	125
Current Auditing of Receipts . . . . .	127
Preparation and Distribution of Treasury Permits . . . . .	127
Handling of Treasury Permits by Control Clerk . . . . .	129
Posting of Receipts . . . . .	129
Handling of Receipts by the Treasurer . . . . .	131
State Depositories . . . . .	131
Transfers between Depositories . . . . .	132
Handling of Disbursements by the Treasurer . . . . .	132
Records in the Office of the Treasurer . . . . .	133
Cash Records in the Division of Accounts and Control . . . . .	134
Handling of Checks Not Honored for Payment . . . . .	135
CHAPTER XII - STATE INDEBTEDNESS . . . . .	137
Constitutional Provisions Concerning Indebtedness . . . . .	137
Issuance of Interest-Bearing Warrants . . . . .	138
Interest-Bearing Warrant Record . . . . .	139
Payment of Principal and Interest on Warrants . . . . .	139
Issuance and Recording of Special Bonds . . . . .	140
State Fair Bonds . . . . .	140
State Sanatorium Bonds . . . . .	140
Bridge Revenue Bonds . . . . .	141
Bonds for Construction at Educational Institutions . . . . .	141
Erection of Educational Buildings by Sale and Lease of Property . . . . .	142

PART II

CHAPTER XIII - RELATION OF COUNTY FEE SYSTEM TO THE STATE . . . . .	143
Constitutional Provisions . . . . .	143
General Statutory Provisions . . . . .	144
Commonwealth Attorney . . . . .	145
County Attorney . . . . .	145

TABLE OF CONTENTS Cont'd.

CHAPTER XIII (Cont.)	Page
County Judge and Justice of the Peace . . . . .	146
Clerks of Court - General . . . . .	147
Circuit Court Clerk . . . . .	148
County Court Clerk . . . . .	149
Sheriff - Felony and Court Fees . . . . .	151
Sheriff - Tax Collection Fees . . . . .	152
Sheriff - Settlement with Commonwealth . . . . .	153
Sheriff - Compensation for Highway Patrol and Investigations . . . . .	154
County Tax Commissioner . . . . .	155
County Supervisor . . . . .	155
Jailer . . . . .	156
Jury Commissioner . . . . .	156
Jurors . . . . .	157
Witnesses . . . . .	158
Allowance to Pauper Idiots . . . . .	159
Special Provisions Relative to Counties Having a Population of Seventy-Five Thousand or Over . . . . .	160
Reporting, Pre-Audit, and Recording of County Transactions . . . . .	163
Reports Received in Connection with County Fees and Receipts . . . . .	163
Criminal Prosecutions . . . . .	165
Fines and Forfeitures . . . . .	167
Jury Funds . . . . .	168

PART III

CHAPTER XIV - NATURE OF THE ACCOUNTS . . . . .	171
General Ledger Accounts . . . . .	171
Comparison between General Ledger Accounts of the Different Funds . . . . .	172
Relationship of General Ledger to Expenditure and Encumbrance Ledger . . . . .	173
Relationship of General Ledger to Revenue and Receipts Ledger . . . . .	173
Posting and Proving of General Ledger Accounts . . . . .	174
Expenditure and Encumbrance Ledger Accounts . . . . .	176
Detailed Expenditure Analysis Ledger Accounts . . . . .	178
Definition of Expenditure Classes . . . . .	178
Revenue and Receipts Ledger Accounts . . . . .	179
Fixed Asset Accounts . . . . .	180
List of General Ledger Accounts for All Funds . . . . .	182
Chart Showing General Ledger Accounts Involved in Posting the Daily Summary of Financial Transactions to the General Journal . . . . .	195
Chart of Fund and Subsidiary Control Accounts in the Expenditure and Encumbrance Ledger . . . . .	188
Chart of Fund and Subsidiary Control Accounts in the Revenue and Receipts Ledger . . . . .	190
CHAPTER XV - CHARTS AND DESCRIPTIONS OF GENERAL LEDGER ACCOUNTS . . . . .	191
General Fund . . . . .	192
Revolving, Trust, and Agency Funds . . . . .	211
State Road Fund . . . . .	225
Highway Bridge Bond Sinking Fund . . . . .	243
National Industrial Recovery Act Highway Fund . . . . .	246
County Road Trust Fund . . . . .	251
Special Deposit Trust Fund . . . . .	253
State Fire and Tornado Insurance Funds . . . . .	255
Fixed Asset Accounts . . . . .	275
CHAPTER XVI - CLASSIFICATIONS OF SUBSIDIARY LEDGER ACCOUNTS . . . . .	279
Expenditure Classification . . . . .	280
Subsidiary Classification of Expenditures . . . . .	300
Revenue and Receipts Classification . . . . .	304

TABLE OF CONTENTS Cont'd.

PART IV

	Page
CHAPTER XVII - REVENUE SYSTEM OF THE COMMONWEALTH . . . . .	315

PART V

CHAPTER XVIII - ORGANIZATION AND EQUIPMENT FACILITIES OF THE DIVISION OF	
ACCOUNTS AND CONTROL . . . . .	329
Controller . . . . .	329
Assistant Controller . . . . .	329
Filing Section . . . . .	331
Computing Section . . . . .	331
Pre-Audit Section . . . . .	331
Receipts Clerk . . . . .	332
Control Clerk . . . . .	332
Bookkeeping Machine Section . . . . .	333
Coding Clerk . . . . .	333
Reconciliation and Reports Section . . . . .	333
Stenographic Section . . . . .	333
Addressograph Section . . . . .	334
Application of Accounting and Addressing Machines . . . . .	334
Machines Used for Posting Revenue and Expenditure Ledgers . . . . .	334
Method for Posting Revenue and Expenditure Ledgers . . . . .	335
Posting Detailed Expenditure Analysis Ledger . . . . .	336
Use of Addressing Equipment . . . . .	337
Preparation of Plates . . . . .	337
Listing Machine . . . . .	337
Check-Writing Machine . . . . .	338

PART VI

CHAPTER XIX - FINANCIAL TERMINOLOGY . . . . .	339
---	-----

ORGANIZATION CHARTS

State Government . . . . .	opposite page	1
Department of Finance . . . . .		5
Department of Revenue . . . . .		14
Division of Accounts and Control . . . . .		330

TABLE OF CONTENTS Cont'd.

FORMS

Form Number		Page
A-1	Expenditure and Encumbrance Ledger . . . . .	77
A-2	Expenditure and Encumbrance Journal . . . . .	79
A-3	Revenue and Receipts Ledger . . . . .	83
A-4	Revenue and Receipts Journal . . . . .	84
A-5	Pay-In Voucher . . . . .	126
A-6	Treasury Permit . . . . .	128
A-7	Voucher Transmittal Sheet . . . . .	109
A-8a	Daily Summary of Financial Transactions - for Other than Highway Funds . . . . .	72, 73
A-8b	Daily Summary of Financial Transactions - Highway Funds . . . . .	74, 75
A-9	Signature Card . . . . .	98
A-10	Travel Expense Voucher . . . . .	104
A-11	Authorization for Out of State Travel . . . . .	94
A-12	Miscellaneous Encumbrance Requisition . . . . .	95
A-13	Detailed Expenditure Analysis Ledger . . . . .	80
A-15	Schedule of Petty Cash Disbursements . . . . .	105
A-17	Register of Checks Returned . . . . .	136
A-21	Journal Voucher . . . . .	175
A-23	Summary of Daily Receipts - General Fund . . . . .	81
A-25	Voucher Transmittal Register . . . . .	85
A-27	Interest-Bearing Warrant Record . . . . .	86
A-28	Monthly Statement of State Depository . . . . .	131
A-29	General Ledger . . . . .	69
A-30	General Journal - Miscellaneous Funds . . . . .	71
A-31	General Journal - General Fund . . . . .	70
A-35	Record of Payments for Pauper Idiots . . . . .	160
A-36	Record of Payments for Criminal Prosecutions . . . . .	165
A-37	Record of Receipts and Disbursements of Jury Funds . . . . .	170
A-38	Record of Receipt and Distribution of Fines and Forfeitures . . . . .	169
B-1	Advice of Allotment . . . . .	40
B-2	Estimates of Expenditures for Personal Services . . . . .	25
B-3	Estimates of Expenditures for Other Than Personal Services . . . . .	27
B-4	Summary of Expenditure Estimates . . . . .	28
B-5	Explanation of Estimated Expenditures for Replacements and Capital Outlay . . . . .	30
B-6	Statement of Activities . . . . .	30
B-7	Estimates of Revenue and Receipts . . . . .	31
B-8	Request for Allotments . . . . .	38
P-2	Purchase Order . . . . .	88
P-3	Advice of Change in Purchase Order . . . . .	93
P-5	Confirming Order . . . . .	89
P-7	Receiving Report and Departmental Authorization for Payment . . . . .	108
P-8	Standard Invoice . . . . .	102
P-12	Departmental Purchase Order . . . . .	92
P-13	Encumbrance Transmittal Sheet . . . . .	97
P-15	Inter-Account Bill . . . . .	107
P-16	Notice of Award of Contract . . . . .	91
PE-1	Personnel Roster Card . . . . .	123
PE-3	Advice of Employment . . . . .	119
PE-4	Advice in Change in Status of Employee . . . . .	120
PE-6	Payroll Voucher . . . . .	118

TABLE OF CONTENTS Cont'd.

EXHIBITS

	Page
Exhibit 1 - Statement of Cash by Funds and Depositories . . . . .	59
Exhibit 2 - Forecast of Cash Position . . . . .	60
Exhibit 3 - Statement of Receipts - Estimated and Actual - General Fund . . . . .	60
Exhibit 4 - Monthly Statement of Encumbrances, Expenditures, Allotments, and Available Balances . . . . .	62
Exhibit 5 - Statement of Revenue and Charges - General Fund . . . . .	64
Exhibit 6 - Statement of Revenue Collections and Charges - Revolving, Trust and Agency Funds . . . . .	64
Exhibit 7 - Statement of Appropriations, Allotments, and Unallotted Balances . . . . .	64
Exhibit 8 - Balance Sheet - General Fund . . . . .	65
Exhibit 9 - Analysis of Changes in Unappropriated Surplus - General Fund . . . . .	65
Exhibit 10 - Balance Sheet - Revolving, Trust, and Agency Funds . . . . .	66
Exhibit 11 - Analysis of Changes in Budget Surplus - Revolving, Trust and Agency Funds . . . . .	66
Exhibit 12 - Balance Sheet - State Road Fund . . . . .	66
Exhibit 13 - Analysis of Changes in Budget Surplus - State Road Fund . . . . .	67
Exhibit 14 - Balance Sheet - National Industrial Recovery Act Highway Fund . . . . .	67
Exhibit 15 - Balance Sheet - State Fire and Tornado Insurance Fund . . . . .	68
Exhibit 16 - Analysis of Changes in Budget Surplus - State Fire and Tornado Insurance Fund . . . . .	68
Exhibit 17 - Statement of General Fixed Assets . . . . .	68