

## SECTION III--SOURCE DOCUMENTS

### SOURCE DOCUMENTS

The details of financial transactions are usually described on various documents received by or produced within the municipality. These documents provide “input” into the accounting system. Any document that initiates or controls a financial transaction would normally be considered a source document and would be retained and recorded in the books of original entry.

#### **Receipts:**

A receipt should be written for all money received by the municipality. A receipt serves several purposes:

1. It provides a proof of payment for the payer.
2. It identifies the individual to whom payment was made.
3. It identifies when the payment was made.
4. It provides controls through a means of accountability for money received by the municipality.
5. It provides a reference for recording money received by the municipality in an orderly manner.

Receipts issued should contain the following information:

1. The name of the municipality.
2. The name of the payer.
3. The date the receipt was written.
4. The number of the receipt. (Receipts should be prenumbered by the printer with sequential numbers.)
5. The amount received.
6. A description of what the money was received for.
7. The signature of the person issuing the receipt.
8. The fund(s) and account(s) to which the money will be credited.

An example of what a receipt might look like is presented at Illustration 1.

Receipts should be made in duplicate with the original going to the payer and the duplicate being retained for reference. All copies of receipts which are voided should be retained in the receipt book.

Money received should be deposited intact on a current basis, preferably daily but at least weekly. Depositing intact means the deposit should equal the total receipts issued since the last deposit.

The nature of some receipts will require supporting documents be maintained and occasionally verified by municipal officials. For example, money received for enterprise revenue such as water sales will usually not be individually receipted. This type of revenue will generally be supported by water bill stubs which will be receipted and batched daily or over a current period of time. The enterprise revenue may also be recorded individually on a cash register with the water stubs being batched to support a daily receipt and cash register tape total. It is important that good internal control procedures be maintained to safeguard that receipts recorded agree

## **SECTION III--SOURCE DOCUMENTS**

with batch totals. Occasionally, for internal control safeguards, an independent comparison of batch totals and receipts recorded should be made by another municipal employee.

### **Purchase Order: (Optional)**

A purchase order is a document which authorizes a vendor to deliver described merchandise or materials at a specified price. Upon acceptance by a vendor, a purchase order becomes a contract.

The purpose of a purchase order is to provide a control over purchases. Some of the things it will do is to eliminate duplicate ordering, or maintain expenses within budgets, to provide a record of what is on order and what has been received and to control the cash flow.

An example of a purchase order is shown at Illustration 2.

The purchasing and related accounting procedures should consist of the following steps: (1) preparing the requisition, (2) securing prices and bid specifications, (3) receiving purchase authority, (4) placing orders, (5) receiving the merchandise, (6) receiving the invoice, and (7) paying for the merchandise.

These steps require a systematic approach and may be accomplished as outlined in the following paragraphs.

The department that is requesting the supplies and materials should issue a purchase order in triplicate showing the items requested and the estimated cost thereof. If the costs exceed the bid requirements, bid specifications should also be drawn up. The order is then taken to the finance officer/city auditor for approval to insure that budget authority exists for these items. In this manner the person authorizing the purchase is aware that the items have been provided for in the budget and will avoid any overexpenditure of the budget.

After the purchase authorization is granted, and bids are accepted, the third copy of the purchase order is returned to the finance officer/city auditor for encumbrance of the budget, numbering and filing. The budget is encumbered through the use of a "Purchase Order Journal" in which purchase orders are numerically listed and appropriations for the fund, activity and object are encumbered for the estimated costs. This is done by a debit to "Encumbrances" and a credit to "Fund Balance Assigned for Encumbrances."

The second copy of the purchase order is retained in the department requesting the purchase and is filed until the goods are received. The original copy is sent to the vendor as his authorization to sell and/or ship merchandise to the municipality. Along with the original copy of the purchase order, a voucher should be sent to the vendor to be filled in, signed and returned with the invoice.

When the merchandise is received by the department, the second copy of the purchase order is documented as to the receipt of the merchandise and is returned to the finance officer/city auditor who compares it with the third copy on file in the business office. If they are in agreement they are filed in an unpaid purchase order file.

Upon receipt of the vendor's invoice and a signed voucher, a comparison is made against the unpaid purchase order. If all agree in items, quantities and prices, the voucher is numbered,

## SECTION III--SOURCE DOCUMENTS

coded, and recorded in the check register as an expenditure. Simultaneously an entry is made in the general journal to debit the "Fund Balance Assigned for Encumbrances" and credit "Encumbrances."

These documents can then be forwarded to the governing body for approval and payment.

The triplicate purchase order serves as a requisition, a purchase authorization, a budget control document and a receiving document. The voucher serves as a payment authorization. This procedure assures that no merchandise is paid for unless actually budgeted, ordered and received.

### **Claim Vouchers:**

A sample claim voucher is presented at Illustration 3.

A claim voucher should be prepared for all expenditures except regular payroll. Vouchers must be coded for the appropriate fund(s) and expenditure classification(s).

Two declarations are shown on the lower part of the voucher. The first declaration is for the claimant's signature and it must be signed for personal services performed by employees, travel reimbursements and contracted services. Claims for supplies and materials may be signed by the appropriate authorized agent of the municipality under the second declaration.

A check list for auditing claim vouchers by the city auditor/finance officer or other designated official before they are approved for payment should include but not be limited to the following items:

- Mathematical accuracy
- Legality
- Proper supporting documents
- Properly itemized
- Properly verified
- Sales tax charged
- Discounts available

### **Warrants:**

#### Regular Warrants

All claims against a municipality shall be paid by warrants. Unless otherwise ordered by the governing body or specially provided, all funds to be expended by duly authorized municipal boards shall be by written requisition, signed by the board president or, in his absence or disability, the vice-president, and countersigned by the board secretary, upon the city auditor or finance officer, as the case may be. All warrants should be pre-numbered by the printer. For improved internal accounting control, the municipal finance officer should keep all blank, unused checks in a locked area and issue checks as needed. Blank checks should never be signed, and all copies of voided checks must be retained. (SDCL 9-23-2.1, 3)

The municipal governing body may, by resolution, cancel any check or warrant that has not been presented for payment at any time within **one hundred eighty days** of the date on which

### SECTION III--SOURCE DOCUMENTS

the check or warrant was issued. Upon such resolution the auditor, clerk or finance officer shall note the cancellation in the check or warrant register. (SDCL 9-23-21)

The municipal governing body shall direct the payment of any properly issued check or warrant to any person entitled to payment thereof **until such time as the amount payable on such check or warrant is submitted to the state unclaimed property office.** (SDCL 9-23-22)

#### Registered Warrants

Warrants not paid for lack of funds should not be countersigned by the treasurer but should be registered. Each warrant registered shall be endorsed showing the registry number, date of registration, rate of interest, and the words "not paid for want of funds," and such endorsement shall be signed by the treasurer. (SDCL 9-23-9, 10)

Registered warrants shall draw interest at a rate to be determined by the governing body of the municipality. (SDCL 9-23-12)

The treasurer, as soon as money sufficient for the payment of registered warrants is received to the credit of the particular fund upon which the same was drawn, shall immediately notify by mail the persons in whose names the same are drawn, or if he shall receive written notice from some other person that he is the holder of any such warrant, then the treasurer shall notify such other person. Thereupon interest upon such warrants shall cease. (SDCL 9-23-19)

If registered warrants are not paid within one year, they may be called for payment of interest after they have been registered for one year. (SDCL 9-23-15)

Registered warrants when called for redemption or payment of interest are called in the order in which they are registered. (SDCL 9-23-11)