

WATER UTILITY REFERENCE MANUAL

Minimum Accounting Requirements and Internal Control Recommendations

The Public Service Commission (PSC) requires all utilities to maintain, at a minimum, the following accounting books and records:¹

- General ledger
- Plant ledgers with detail by primary plant account
- Cash receipts journal
- Cash disbursements journal (check register)
- Sales journal (revenue summary)
- Customer accounts receivable ledger
- General journal

These books and records should enable verification and identification of all entries to the accounts. The accounts maintained by these records conform to the Uniform System of Accounts prescribed by the PSC for the class and type of utility service being provided.

¹ PSC order, "Accounting Records for Utilities," docket 05-US-101, dated May 22, 1986

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General Ledger

The general ledger provides for the orderly accumulation of financial transactions in summary form as recorded in the general journal, cash receipts journal, cash disbursements journal (check register), and sales journal (revenue summary). Postings are from the general, cash disbursements/receipts, or sales journals, and are made monthly or quarterly.

- All books should be closed at the end of each calendar year.
- Transactions include the account title and number and are recorded with offsetting debits and credits.
- Each entry in the general ledger includes a reference indicating from which journal the related entry was posted.
- The utility may create subaccounts within each account, provided that the total for such subaccounts agrees with the account balance reported in the PSC annual report. The account number for a subaccount should be a decimal extension of the primary account number.

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Plant Ledger

The plant ledger (required for Class AB²) is a subsidiary ledger to the general ledger providing individual records of plant assets for each plant account. The records should include items such as plant asset description, the location of the asset, the date the plant asset was placed in utility service, the general ledger account, and the related depreciation reserve, the original cost and contributed cost of the asset. It may also include other information relating to the asset.

- The plant ledger is maintained as plant transactions occur.
- The sum of balances in the plant ledger should equal the general ledger plant account balances.
- Underlying records which detail property units and costs are also maintained. These records are referred to as continuing property records (CPRs). For more information, please see Chapter III: Utility Plant and Accumulated Depreciation, Work Orders, and Continuing Property Records.

Contributed plant is donations or contributions in cash, services, or property for purposes of construction that are delivered from states, other municipalities, other governmental agencies, individuals, etc. The current accounting procedures for the way donations are recorded are covered in Chapter III.

Class C and D utilities are not required to keep plant ledgers, but it is a good bookkeeping practice to track the many assets of a utility. A plant ledger keeps the elementary data for asset management and can assist utility managers in making good decisions that affect the efficiency of their utility.

² Class C & D utilities are not required to keep a separate plant subsidiary ledger. These utilities may keep detail by primary plant account in the General Ledger.

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Cash Receipts Journal

The cash receipts journal provides the original record of all prenumbered receipts issued in numerical order (including voided receipts), the issue date of each receipt, receipt number, payer, amount received, and the accounts debited and credited.

- The utility may maintain separate collection books for voluminous collections (such as water bills), total such books periodically, and issue general receipts for the totals deposited in the bank in lieu of individual general receipts.
- For computer systems, the postings to the general ledger accounts should be identifiable and easily traced to the specific receipts.
- For manual journals, each item in the cash column is equal to all amounts in the distribution columns. These columns are totaled each month to ensure that the monthly total in the cash column is equal to the summation of the monthly totals in the distribution columns. Monthly or quarterly, the totals of the account classification columns are credited to the proper accounts in the general ledger, and the total of the cash column is debited to the cash account.
- All receipts are deposited in the bank on a timely basis, and the bank statements are reconciled to the accounting records monthly.

If collections for electric, water, and sewer bills are initially deposited in one checking account, but the utility maintains separate checking accounts for electric, water, and sewer operations, transfers to individual utility checking accounts should be made on a regular basis. Deposits are reconciled to the receipts or the collection book.

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Cash Disbursements Journal

The cash disbursements journal provides the original record of all cash disbursements. This record lists all checks issued in numerical order, the issue date of each check, check numbers, payees, amounts disbursed, and the accounts debited and credited. Checks are pre-numbered and listed in the journal in numerical order, including voided checks.

- For computer systems, the postings to the general ledger accounts should be identifiable and easily traced, either directly or through computer runs, to supporting checks.
- For manual journals, the totals of the account distribution columns are debited to the proper accounts in the general ledger, and the total of the cash column is credited to the cash account. Each amount in the cash column is equal to all amounts in the distribution columns and totaled monthly.
- The totals from the cash disbursements journal are posted to the general ledger either monthly or quarterly.

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Sales Journal or Revenue Summary

The sales journal (also known as a revenue summary) is the original record of the total sales for each billing period. It provides a summary of sales, typically billed monthly, or quarterly. This journal includes the summary of the types of sales by customer classification, the amount of sales, and the accounts debited and credited.

- Billings are recorded in this journal when the bills are issued. (When the bills are paid, collections are recorded in the cash receipts journal.)
- It is not necessary to record each individual bill issued in the sales journal. The utility may use the billing register to keep a record of detailed customer bills. It is only necessary to record the monthly or quarterly total sales for each classification of customer in the sales journal.
- The total sales recorded in the debit column should equal the total sales in the credit columns for each entry made. Each of the summary totals is posted to the general ledger.

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Customer Accounts Receivable Ledger

The customer accounts receivable ledger is a subsidiary ledger to the customer accounts receivable account in the general ledger. This ledger provides details about the individual customer accounts receivable.

- The accounts receivable ledger is posted from the billing register and the cash receipts journal when the transactions occur.
- After all postings are completed, the sum of all customer accounts receivables in this ledger equals the customer accounts receivable controlling account balance in the general ledger.
- The returned portion of customers' bills are dated and stamped "Paid" to simplify reconciliation to customer accounts receivable detail and bank deposits.

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General Journal

The general journal is the initial record of accounting transactions which are not appropriately recorded in the cash disbursements, cash receipts, or sales journals. Because entries in the general journal are not as easily understood as those recorded in the receipts or disbursements journals, a full explanation or reference is recorded as a part of the entry so that its purpose is evident.

- The utility may include more detailed explanations in a journal voucher (a voucher specifically used to document a journal entry). The journal voucher is used as a source document for entry in the general journal. Depreciation expense, adjustments to previously recorded transactions, and non-cash transactions (including the recording of receivables, payables, and removing material from inventories) are recorded.
- The general journal is posted to the general ledger monthly or at least quarterly.
- The revenue and expenditure accounts are closed at the end of the year. The closing entries for the general ledger are compiled by:
 1. Debiting each revenue account, and
 2. Crediting each expenditure account.
 3. Unappropriated Earned Surplus is debited or credited for the net difference between totals from the revenue and expenditure accounts to affect a balanced entry.

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Internal Controls for Small Utility Offices

Segregation of Duties

The available office staff for small utilities precludes a proper separation of functions to assure adequate internal control. Management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge and monitoring of matters relating to the utility's operations. Following are some best practices of internal controls we recommend to those utilities with small office staff.

Disbursement Controls

1. All goods received should be inspected by qualified receivers who document their inspection.
2. All invoices should be reviewed for correctness and initialed by the clerk performing the review.
3. All invoices should be approved for payment by the appropriate department head who signs the invoice before it is submitted to the local governing body for approval.
4. All disbursements should be supported by adequate documentation.
5. All invoices attached to a voucher should be canceled in some way so that even if they subsequently become separated from the voucher, they could not be resubmitted for payment.

Failure to follow these procedures could result in paying for damaged or inferior goods or for items not received, in subsequent misunderstanding of who is responsible for a particular purchase, in overpaying improperly computed bills, and in duplicating payments.

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Internal Control Recommendations (continued)

Payroll Controls

- Payroll vouchers should be prepared for all commissioners and for salaried personnel.
- All employees should sign their time sheets.
- A responsible official should initial all time sheets to show review for clerical accuracy and approval.

Failure to follow these procedures could result in the payment of improperly computed wages or in the payment for hours not worked or authorized.

Bank Reconciliation

- All canceled checks should be examined for irregular endorsements.
- The monthly bank reconciliation should be reviewed by a responsible official.
- All voided checks should be retained with the canceled checks and the word “void” written plainly across the face of the check.
- Review all bank transfers to find out if both sides of the transaction have been properly recorded.

Failure to follow these procedures could result in undetected fraudulent signatures or endorsements, alteration of checks, improper use of void checks, or improper recording of bank transfers.

Prenumbered Receipts

The utility should issue prenumbered receipts for all collections, individually or in total from a daily compilation of similar transactions (blotters). When there are too many transactions to acknowledge by individual general receipts the utility may maintain separate daily records (blotters) of water bill collections and other voluminous collections. The utility should periodically total these compiled transactions (blotters) and issue general receipts for the totals deposited in the bank.

Bill Stubs

Date and stamp the duplicates of customers' bills “Paid” to simplify reconciliation to customer accounts receivable detail and bank deposits.

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Internal Control Recommendations (continued)

Bank Deposits

All monies received by the utility should be deposited intact in the bank on a timely basis and the bank statements reconciled to the accounting records monthly.

Fidelity Bond Coverage

The utility should carry bond coverage for personnel responsible for utility funds. Local governments should establish guidelines to help ensure that security bonds, in sufficient amount, are set for local officials and employees. Such bond coverage is protection for both the utility and the personnel charged with the above duties.

Bank Transfers

If collections for electric, water and sewer bills are initially deposited in one checking account, make transfers to individual utility checking accounts on a regular or timely basis, and reconcile all receipts to the deposits or the collection daily record of transactions.

Sequentially Numbered Checks

We recommend that the utility issue all checks for payments of its obligations in sequential order.

Void Check Retention

The utility is to retain all void checks and attach them to their respective check stubs. Properly deface all void checks by writing the word "Void" across the entire check surface.

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Internal Control Recommendations (continued)

Collection Procedures and Bill Stubs

Record the date of each collection for each customer in the collection register. The portion of the bill returned with the customer payment (bill stub) should be stamped "Paid" and dated when paid to simplify reconciliation to customer accounts receivable detail and bank deposits. If the customer fails to return the bill stub with the payment, make out a receipt showing the date of the payment. According to Section 185.19(4) of the Wisconsin Administrative Code, keep records relating to billings six years or until they are no longer needed to adjust bills.

Since the bill stubs are records of customer billings and receipts, we recommend that you retain them for at least six years.

Security of Cash

If the utility collects customer payments at the utility office, always secure the cash box by lock and always keep it under the supervision of a responsible utility official.