

**Testimony To The  
Advisory Commission on Intergovernmental Relations  
Prepared November 18, 2013 by  
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**REGARDING: UNIFORM CHART OF ACCOUNTS**

I would like to thank Chairperson Heller and committee members for the opportunity to provide written testimony to the discussion on implementing a uniform chart of accounts. I believe that a uniform chart of accounts is one of the most important elements of any organization's accounting system. I firmly believe that the North Dakota Legislature should implement a uniformed chart of accounts for all governmental entities. I believe that uniformity would produce a number of benefits for governmental entities, the Legislature as well as for the public.

There are numerous resources that cite the importance of a Uniformed Chart of Accounts. The vast majority of states around the country have some form of a statutory mandate for having a uniform chart of accounts in place for reporting, comparability, training, and reliability of financial information. Given that the majority of my governmental experience has been in a Minnesota County, I will reference their accounting manual, Minnesota County Financial & Accounting Reporting Standards (COFARS), as an example of why a uniformed chart of accounts are important to all governmental agencies, in particular county government.

The primary objective behind COFARS was to create standard procedures and to classify accounts to facilitate a means for accumulating financial information that is uniform for all counties. COFARS applies to all county governmental entities regardless of size, budget approach or type of accounting that is used. COFARS was also intended to serve as a guide in the preparation of financial reports that are required by statute as well as preparing management reports on county government performance.

COFARS was created primarily as a result of two statutes that were passed by the Minnesota Legislature:

*"Minn. Stat. § 6.47 states, in part:*

*The state auditor shall inquire into the accounting and budgeting systems of all local units of government and shall prescribe suitable systems of accounts and budgeting, and forms, books, and instructions concerning the same.*

*In addition, Minn. Stat. § 6.48 states, "the state auditor shall prescribe and install systems of accounts and financial reports that shall be uniform, so far as practicable, for the same class of [county] offices." Elected officials, accounting system users, the public, and state and federal agencies can use the Uniform Chart of Accounts to understand*

*similar transactions in the same manner, but still allowing information necessary for the selectivity and level of detail needed by the respective interested parties.”*

According to the manual:

*“COFARS was designed to serve the basic legislative, budgetary, and accounting needs of counties, and was developed with the active participation of a representative number of concerned users of county financial data. This Uniform Chart of Accounts and associated procedures manual can aid in accomplishing a number of other subordinate objectives which may benefit Minnesota counties in varying degrees:*

- It can aid in making available accurate and comparable financial data to all who provide the county with the revenues to deliver planned services--local taxpayers, the state legislature, and state and federal agencies.*
- It can aid in meeting adequate and desirable financial disclosure requirements of the accounting profession (the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the Financial Accounting Standards Board). It also provides management information to understand and control operations.*
- The procedures manual and narrative which accompanies the Uniform Chart of Accounts can serve as guidelines. Specific sections of the manual clarify reporting requirements, desirable accounting conventions, and provide for orderly updating and modification of the accounts, as needed.*
- The manual can serve as a training guide to instruct, inform, and improve the level of governmental accounting knowledge. It can be used as a teaching aid and reference for the accounting staff who will require it in their daily work with budget and statement preparation.*
- County commissioners and administrators can use the procedures manual to gain further background and thereby provide better fiscal management guidance. Ultimately, operations under their responsibility can be better evaluated by comparing plans against performance, whether they are single minor programs or annual county budgets.*
- In conjunction with this manual, counties can utilize the Counties Manual Accounting Procedures (COMAP) manual. COMAP illustrates appropriate methodology for the array of functions with which a county is involved. This is useful whether a county is accounting manually or is automated.”*

The Minnesota State Auditor has defined the following advantages for users of their COFARS system:

*“Internal Advantages*

- Greater accountability.*
- Greater utilization of limited resources.*
- Better fiscal controls.*
- Upgrading of accounting personnel through training.*
- Better management information.*

- *Less disruptive audit processes.*
- *Other governmental reporting is often a by-product of internal county accounting.*

*External Advantages*

- *Data to state agencies and the legislature is more meaningful.*
- *When additional data is requested from counties, the impact of these requests is better recognized by state agencies.*
- *When on automated systems, some state agencies accept computer output for reporting purposes.*

*Other Advantages*

- *Standardization allows for multiple county use of automated systems that are developed within the framework of the Uniform Chart of Accounts.*
- *Comparison of program costs between counties is more reliable.”*

*All of my cited text can be obtained from the Minnesota State Auditor's website or by following this link: <http://www.osa.state.mn.us/default.aspx?page=accountingdocs>*

As I stated earlier the vast majority of states have adopted a uniform chart of account in some fashion or another. As an example the State of Florida first implemented their standard Chart of Accounts and Standard Annual Reporting Forms in 1978. To further illustrate the importance of a uniform chart of accounts I am also supplying a copy of a Technical Guidance Note, Chart of Accounts: A Critical Element of the Public Financial Management Framework August 2011, issued by the Fiscal Affairs Department of the International Monetary Fund. While this note is focused on a national level the principles of their findings are the same at all levels of government. The Note also provides a very detailed description of the various elements of an organization that are impacted by a uniform chart of accounts.

In closing, I would like to thank the committee for allowing me to submit my opinion on this issue. I strongly urge North Dakota Legislature implement a uniform chart of accounts for all governmental entities. I believe with the cooperation and participation of a designated State Agency, the North Dakota Auditor's Association and the North Dakota Association of Counties can create an effective uniform chart of accounts to help facilitate the benefits realized in Minnesota, provide more timely and reliable information to the legislature while improving the overall transparency of governmental operations.