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Philip D. Murphy  
*Governor*

Tahesha L. Way  
*Lieutenant Governor*

Jacquelyn A. Suárez  
*Commissioner  
& Director*

**Contact**

**Website**

[www.nj.gov/dca/dlgs](http://www.nj.gov/dca/dlgs)

**E-mail**

[dlgs@dca.nj.gov](mailto:dlgs@dca.nj.gov)

**Phone**

609.292.6613

**Mail and Delivery**

101 South Broad St.  
PO Box 803  
Trenton, New Jersey  
08625-0803

**Distribution**

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**General Ledger & Encumbrance Accounting Systems:  
Local Finance Board Regulatory Update**

The Local Finance Board made substantial updates to N.J.A.C. 5:30-5.7 as part of its readoption of N.J.A.C. 5:30. N.J.A.C. 5:30-5.7 establishes required procedures for proper maintenance of a general ledger accounting system that are applicable to all local units, including authorities, fire districts, and joint meetings/regional service agencies.

This Notice, which supersedes Local Finance Notice CFO-2003-14, provides updated guidance on the procedures for maintaining a general ledger accounting system for all funds of the local unit (e.g. current, state, and federal grant, capital, all trusts, and utilities). The Notice also contains a brief discussion of updates made to Subchapter 5 as it pertains to encumbrance accounting for purchasing.

**Key Updates to General Ledger and  
Encumbrance Accounting Requirements**

New subsections (c) through (j) largely codify existing requirements concerning the maintenance of general ledger accounting systems, which are further explained in this Notice. However, two significant changes pertain to all local units, including authorities, fire districts, and joint meetings/regional service agencies, now being required to:

- maintain a general ledger for all funds of the local unit;
- maintain required books of original entry in an electronic format; and
- post the totals for all funds to the general ledger on at least a monthly basis.

Previously, N.J.A.C. 5:30-5.7 only required a general ledger for a local unit's current fund. Local Finance Notice CFO-2003-14 had allowed for maintaining original books of entry in a manual or electronic format and permitted the closing of funds with little complexity or few transactions to be done only at the end of the fiscal year.

Flexible Chart of Accounts (FCOA) codes specified by the Division of Local Government Services (Division), which are required for the annual budget and audit along with all other financial statements, are not required to be implemented for internal accounting purposes.

N.J.A.C. 5:30-5.2, which requires municipalities, counties, and joint meetings/regional service agencies to maintain an encumbrance accounting system for all funds, has been amended to require that all purchases charged to "Other Expense," or other non-salary line items be sequentially numbered through a computerized system that produces appropriate purchasing internal controls. Previously, municipalities, counties, and joint meetings/regional service agencies were permitted to utilize pre-printed multiple copy purchase orders for this purpose in lieu of a computerized system.

If a local unit is subject to the Local Authorities Fiscal Control Law (N.J.S.A. 40A:5A-1 et seq.), such as a local authority or fire district, and does not maintain an encumbrance accounting system, the finance officer responsible for certifying the availability of sufficient funds for all contracts and amendments thereto is responsible for maintaining, at minimum, a record of all open contracts, including open purchase orders. The finance officer responsible for certifying the availability of funds for an authority or fire district must consult the record of open contracts in determining whether there are available, sufficient uncommitted appropriations before certifying the availability of funds or, where a certification is not required, otherwise determining whether sufficient funds are available to provide for payment. The record of open contracts must also be updated to reflect awarded or amended contracts, including purchase orders, and any purchases made pursuant to an open-end contract.

The text of N.J.A.C. 5:30-5.2 through 5.5 and 5:30-5.7 is available on the Division's [Rules and Regulations webpage](#).

### **What is a General Ledger Accounting System?**

The general ledger is a local unit's official permanent record which summarizes all financial transactions recorded in the double-entry accounting system books of original entry. A general ledger accounting system supports the "fund" basis of accounting required by the Division. Each fund must be able to provide for the immediate and current identification of its balances, assets, liabilities, revenues, expenditures, and surplus/fund balance. This is accomplished by using a self-balancing chart of accounts for each fund using a general ledger accounting system. An accounting transaction is not to be considered completed unless it is: 1) documented and supportable; 2) recorded in the applicable book of original entry; and 3) posted from the book of original entry to the affected general ledger accounts.

The general ledger together with the books of original entry (described below) and supporting subsidiary ledgers constitute a complete accounting system. The implementation and utilization of a fully functional general ledger accounting system demonstrates compliance with the local unit's required form of accounting and facilitates preparation of all Division-required financial documents including the budget, annual audit and, if applicable, the Annual Financial Statement (AFS) and the Annual Debt Statement (ADS).

Current accounting software records all transactions into the book of original entry, with those transactions being posted seamlessly to the general ledger and creating an audit trail from the transaction to the book of original entry to the general ledger. These systems integrate and automate the process such that the concept of a “journal” and “book of original entry” are often obscured.

### **Required Original Books of Entry**

In support of the general ledger, the following books of original entry (journals) are required to be maintained in an electronic format:

1. Cash Receipts Journal: Used to record all transactions where cash is received by the local unit; either for revenue or non-revenue (e.g. reimbursement of expenditures, debt proceeds). The term “cash” means all forms of payment realized to the local unit.

2. Cash Disbursements Journal: Used to record all transactions where cash is disbursed by the local unit for any purpose, such as: budget appropriations, grant expenditures, capital ordinances, trust funds or payroll. While many of these transactions are the result of the satisfaction (payments) of a purchase order generated in an encumbrance journal, there must be a separate cash disbursements journal.

3. Payroll Journal: Used to record the details of each payroll for each employee indicating:

- The pay period;
- The employee’s name;
- Hours worked;
  - This is particularly important for hourly employees, and backup for pension and health benefit eligibility (e.g. minimum hours per week for State health benefits).
- Rate of pay;
- All pay categories (e.g. base pay, overtime, shift differential, longevity, paid time off (PTO)); and
- All payroll deductions.

**Note:** In lieu of maintaining a separate journal for payroll, a local unit may incorporate a payroll register into its Cash Disbursements Journal with the above detail.

4. General Journal: Used to record any transactions that cannot be recorded in any other journals. Examples of journal entries in the general journal include:

- Opening accounts at the beginning of the accounting period;
- Recording temporary and adopted budgets;
- Closing budgetary and operating accounts at the end of the accounting period;
- Recording adjusting entries or corrections to previously recorded transactions;

- Recording non-cash budgetary transactions such as:
  - Charging deferred charges (or accruals for GAAP entities) to appropriations;
  - Charging surplus to realized revenue;
  - Charging state and federal grants;
  - Charging reserve for uncollected taxes to appropriations; and
  - Recording non-municipal tax levies.
- Recording of the adoption of bond ordinances;
- Recording of prior year audit adjustments; and
- Recording of grant awards.

It bears repeating that modern accounting software records all transactions into the book of original entry, posting those transactions seamlessly to the general ledger and creating an audit trail from the transaction to the book of original entry to the general ledger. However, if a local unit maintains the general ledger and corresponding original books of entry in a more rudimentary electronic format such as Excel, all formulas and macros must be verified to ensure the general ledger accurately reflects information contained in the books of original entry.

### **Use of the General Ledger**

Postings are not made directly to the general ledger, unless first recorded in one of the books of original entry. The general ledger is the final record in which a financial transaction is recorded. A completed accounting transaction would involve the following steps:

- A documented and supportable transaction, such as:
  - A receipt
  - A disbursement
  - The adopted budget
  - A voided check
  - A governing body resolution
  - An adopted bond ordinance
- Recording the transaction in the applicable book of original entry; and
- Posting the transaction from the book of original entry to the general ledger.

At the beginning of the local unit's budget year, before any current period transactions are recorded, the general ledger accounts will reflect opening balances in asset, liability, reserves, and surplus/fund balance only. At the end of each accounting period, which shall be no less than a monthly basis, the books of original entry shall be reconciled by totaling the recorded transactions, with those totals then posted to the general ledger.

General ledger accounts shall reflect the following normal balances at the end of each accounting period (again, at least monthly):

- Balance Sheet Accounts
  - o Assets – debit balances
  - o Liabilities – credit balances
  - o Reserves – credit balances
  - o Fund Balance – credit balances

On at least a monthly basis, the corresponding budgetary and operating accounts shall reflect their respective balances, as well as denote 1) excess or deficits in revenue accounts, and 2) over-expenditures or reserves in spending accounts.

### **Auditor Independence**

Maintenance of an accurate and up to date general ledger is the cornerstone of sound financial and fiscal practices, providing elected and appointed officials with confidence that the budget, as the adopted spending plan, is being followed. An accurately maintained general ledger also provides the basis for the Chief Financial Officer (CFO) or Treasurer, as applicable to the local unit, to complete the required financial documents instead of the local unit's auditor.

The preparation and/or closing of the general ledger relative to the presentation of financial condition may represent a potential conflict with auditor independence. As these are areas of management decision and prerogative, officials in all local units should carefully review their practices to avoid compromising auditor independence. For example, a municipality relying on their RMA to complete the AFS, ADS, and/or construct the general ledger may present a challenge in that the distinction of who performs the work impacts the principle of "auditor independence," as the auditor should not audit work the auditor performed for their client. Ideally, the local unit's staff, with responsibility vested in the CFO or treasurer, as applicable to the local unit, should be responsible for the proper implementation and maintenance of the local unit's accounting system.

For further reference, auditor independence standards appear in Paragraphs 3.17 through 3.108 of the 2018 and 2024 versions of the Generally Accepted Government Auditing Standards (GAGAS), i.e. the [Yellow Book](#)<sup>1</sup>. The [Journal of Accountancy](#) article "[Yellow Book Revisions Update Independence Guidance](#)," published April 17, 2019, explains how auditors of government entities should implement the Yellow Book's auditor independence standards (which remain unchanged in the 2024 version) and maintain appropriate safeguards.

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<sup>1</sup> The United States Government Accountability Office (GAO) issued a new revision of the Yellow Book on February 1, 2024. The 2024 Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025. A system of quality management that complies with the Yellow Book is required to be designed and implemented by December 15, 2025, and an audit organization should complete an evaluation of the system of quality management by December 15, 2026. The 2018 Yellow Book is effective until implementation of the 2024 Yellow Book; however, early implementation of the 2024 Yellow Book is permitted.

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Approved: Jacquelyn A. Suárez, Commissioner & Director

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N.J.A.C. 5:30-5	<a href="https://www.nj.gov/dca/dlgs/resources/rules_docs/NJAC%205_30-5.pdf">https://www.nj.gov/dca/dlgs/resources/rules_docs/NJAC%205_30-5.pdf</a>
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