


# 2020 Academy for Good Governance

## FINANCIAL RESPONSIBILITIES

Presented by:  
Natch Greyes, Municipal Services Counsel  
Barbara Reid, Government Finance Advisor

[nhmainfo@nhmunicipal.org](mailto:nhmainfo@nhmunicipal.org) / 800.852.3358 / [www.nhmunicipal.org](http://www.nhmunicipal.org)



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The  
Budget  
Process



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## The Budget Process: Key Players

- ▶ Legislative Body
- ▶ Governing Body
- ▶ Budget Committee: Advisory v. Official



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## The Town Meeting

Approves all appropriations

Votes to create and fund common municipal funds

Citizen authority to propose appropriations by petition

May amend separate articles to reduce or zero out appropriations

May amend budget to reduce (or increase) total bottom line appropriation

Can zero out line item appropriations in DRA budget form


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## Governing Body\*

\*21:48 Governing Body. - the term "governing body" shall mean the board of selectmen in a town, the board of aldermen or council in a city or town with a town council, the school board in a school district or the village district commissioners in a village district

- ▶ Prepares warrant, drafts separate warrant articles
- ▶ Pay all sums of money received to the town treasurer
- ▶ Prepare manifest to pay all town expenses
- ▶ Maintain records of all town financial transactions
- ▶ Publish in annual report, the general fund balance sheet based upon audited financial statements
- ▶ Establish and maintain appropriate internal control procedures
- ▶ Annually review and adopt an investment policy
- ▶ Ensure all funds totaling \$500 or more are remitted by departments, town clerk and tax collection to the treasurer
- ▶ Submit proposed budget to the Budget Committee or Town Meeting.




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## Schools

- ▶ RSA chapter 189 would seem to grant school boards all the relevant authority.
- ▶ **BUT** RSA 21-N:9 (II)(p) & RSA 186:8 require the state Board of Education to adopt rules pertaining to the duties of superintendents. Now in Ed. 302.01-302.02.
  - ▶ Serves as the executive officer of the districts within the SAU;
  - ▶ Responsible for developing and maintaining an accounting system and financial reporting procedures for all funds.



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## Budget Committee

- Review current year's expenditures
- Review proposals, request information
- Prepare budget
- Schedule and hold budget hearings
- Forward final proposed budget to governing body
- Does not control spending
- 10% Rule in towns with official budget committee

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## Whose Budget Is It?

- ▶ Budget = recommended “plan” for spending
- ▶ Only the voters adopt a budget!
- ▶ Budget cuts & *Brentwood School District v. Brentwood Budget Committee* case

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## Transfer Of Appropriations RSA 32:10





- ▶ Governing body may transfer money from one line to another
- ▶ Transfer authority is the same over the default budget
- ▶ Voters cannot restrict transfer authority
- ▶ Special warrant articles - can transfer into, but not out of

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## “Separate” Articles



“Special” Articles, RSA 32:3, VI:

- Petitioned
- Bonds
- Capital reserve/town-funded trust funds
- Designated non-lapsing, non-transferable, special

- Nontransferable, RSA 32:10, I(d)
- Can be encumbered for one more year
- Can be designated initially as nonlapsing for up to 5 years

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## No Means No - RSA 32:10, I (e)

- ▶ **IF**
- ▶ Budget line item reduced to zero or
- ▶ Separate warrant article with appropriation defeated reduced to zero.
- ▶ **THEN**
- ▶ That "purpose" is deemed to be one where no appropriation is made.
- ▶ No money may be spent for that defeated purpose during the ensuing fiscal year.



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## Estimated Tax Impact



RSA 32:5, V-b



Must be adopted by legislative body



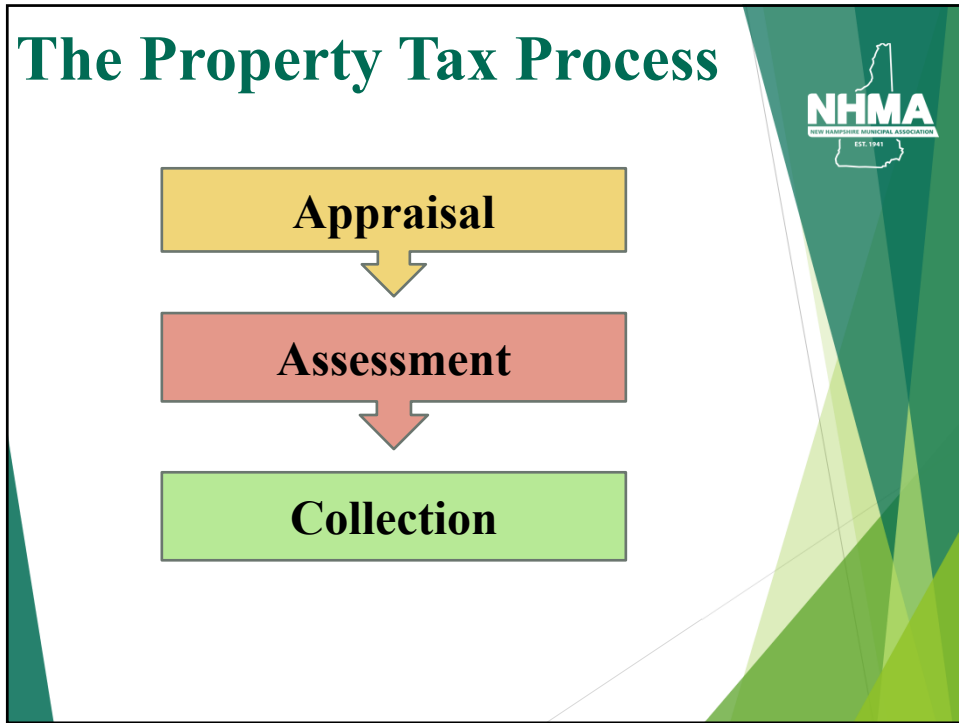
Governing body determines



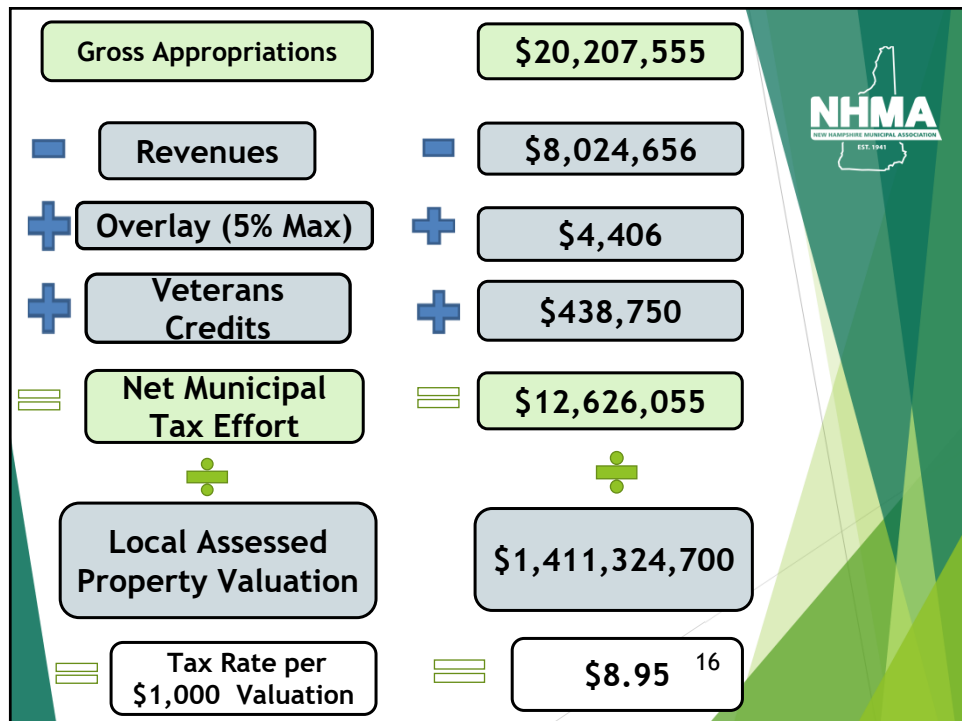
Only an estimate!

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# Property Tax Calculation



▶ \$300,000 assessment

▶  $\$300 \times \$8.95 = \$2,685$

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# The 3-Finger Rule



\$1,411,324,700  
Local Assessed Value

\$1,411,324 = \$1.00

\$141,132 = \$.10

\$14,113 = \$.01



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# Estimated Impact on the Tax Rate



\$400,000 Fire Truck  
\$400,000/1,411,324 = \$0.28



\$25,000 CBA Cost Item  
\$25,000/1,411,324 = \$0.02



# ESTIMATED Cost for Your Municipality?



2019 Net Local Assessed Valuation = \$ \_\_\_\_\_

**\$1.00** on the tax rate = \$ \_\_\_\_\_

**\$.10** on the tax rate = \$ \_\_\_\_\_

**\$.01** on the tax rate = \$ \_\_\_\_\_



## SB 2 & Default Budgets: RSA 40:13

- Governing body calculates, unless delegated to budget committee
- As long as statutory formula is used, default budget may be higher or lower than last year's budget
- Default budget is amount of the same appropriations as contained in the operating budget authorized for the previous year . . .
  - reduced and increased, as the case may be, by debt service, contracts, and other obligations previously incurred or mandated by law, and
  - reduced by one-time expenditures contained in the operating budget and by **salaries and benefits of positions that have been eliminated in the proposed budget.**
  - RSA 40:13, IX(b).

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## Default Budget Terms Defined

“One-time expenditures”: Appropriations not likely to recur in the succeeding budget.

“Contracts”: Contracts previously approved, in the amount so approved, by the legislative body in either the operating budget authorized for the previous year or in a separate warrant article for a previous year.

“Eliminated positions” does not include vacant positions under recruitment or position redefined in the proposed operating budget.

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## Default Budget Procedure

- ▶ Disclosed and presented for questions and discussion at first budget hearing
- ▶ Line item changes must be available at budget hearing:
  - ▶ Appropriations in last year's budget
  - ▶ Reductions and increases, including identification of specific items that constitute a change by account code and the reason for change
  - ▶ One-time expenditures
  - ▶ Reductions for eliminated positions
- ▶ Discussion and debate of default budget at deliberative session (not amended)

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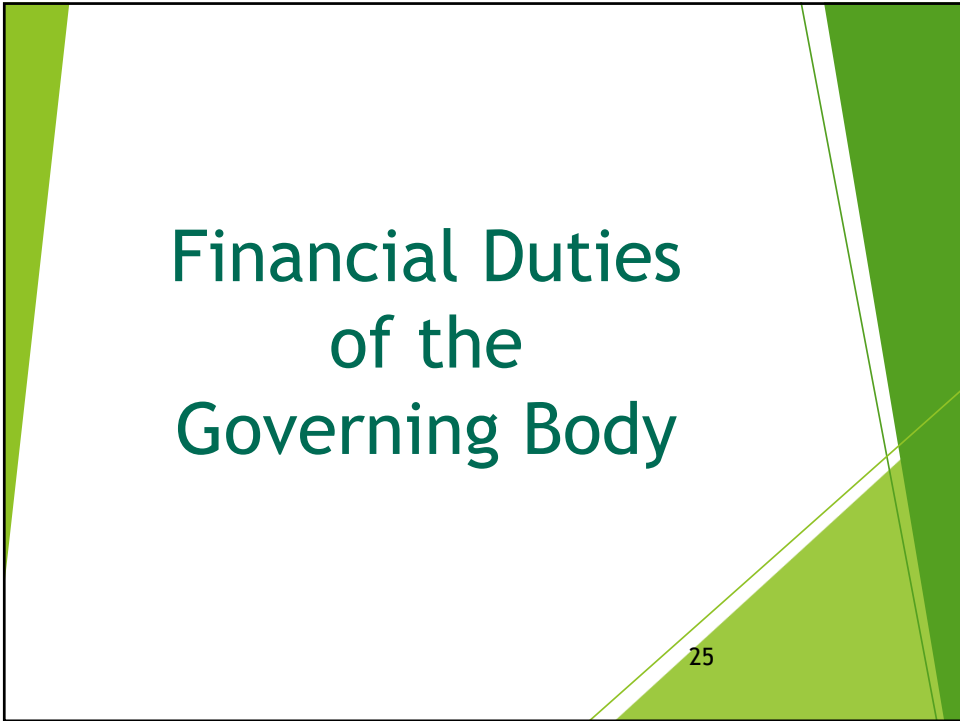
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## Lapse of Appropriations RSA 32:7

- ▶ All appropriations shall lapse at the end of the fiscal year and any unexpended portion thereof shall not be expended without further appropriation, **UNLESS**:
  - Encumbered by legally-enforceable obligation
  - Nonlapsing fund
  - Appropriation to capital reserve fund
  - Unanticipated moneys
  - Special warrant article:
    - Governing body can encumber one more year
    - If article was labeled as nonlapsing (up to 5 years)

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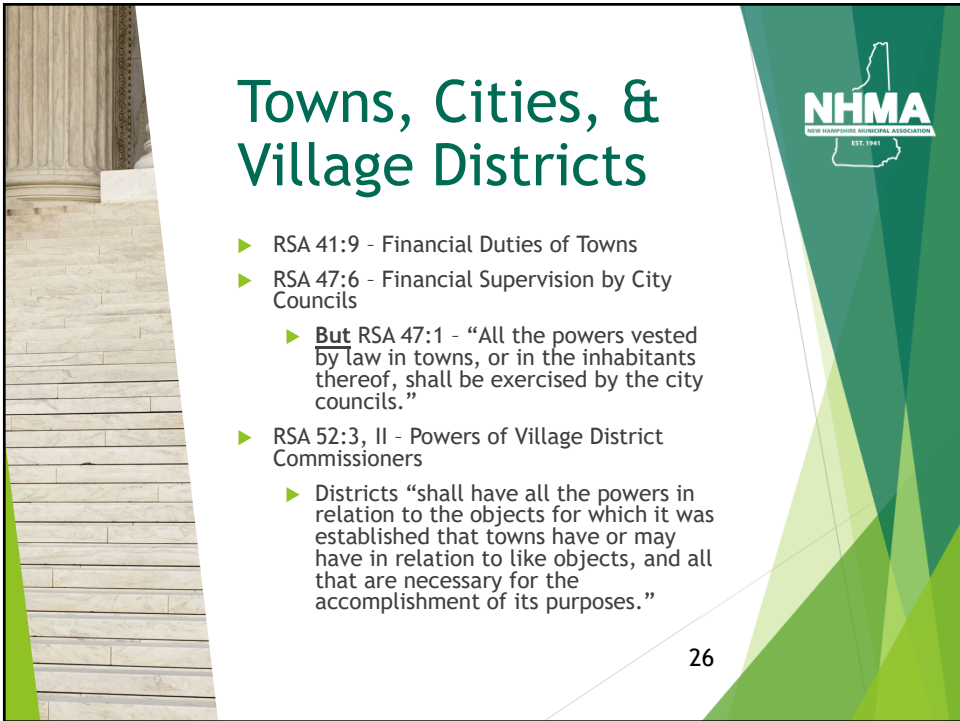


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# Financial Duties of the Governing Body

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## Towns, Cities, & Village Districts

- ▶ RSA 41:9 - Financial Duties of Towns
- ▶ RSA 47:6 - Financial Supervision by City Councils
  - ▶ **But** RSA 47:1 - “All the powers vested by law in towns, or in the inhabitants thereof, shall be exercised by the city councils.”
- ▶ RSA 52:3, II - Powers of Village District Commissioners
  - ▶ Districts “shall have all the powers in relation to the objects for which it was established that towns have or may have in relation to like objects, and all that are necessary for the accomplishment of its purposes.”





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## Select Boards & Town Treasurers RSA 41:9





- ▶ Select board must pay all money received by it on behalf of the town to the town treasurer immediately, with a statement about who it is from and why given.
- ▶ Select board must draw orders upon the treasurer for the payment of all accounts and claims against the town allowed by them, and take proper vouchers therefor.
- ▶ Select board must annually review and adopt an investment policy for the investment of public funds, and shall advise the treasurer of such policies
- ▶ Select board is responsible for establishing procedures to ensure that all funds paid to the town from any department shall be remitted to the treasurer at least on a weekly basis or daily whenever such funds total \$500 or more.
  - ▶ Remittances to the treasurer from the tax collector must follow RSA 41:35
  - ▶ Remittances from the town clerk must follow RSA 261:165.

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## Additional Financial Duties



- ▶ Select boards must keep a fair and correct account of all moneys received, all accounts and claims settled and all orders drawn by them, and of all their other financial transactions in behalf of the town. Select boards must publish in the annual report, or post at the annual meeting, the general fund balance sheet from the most recently completed audited financial statements or from the financial report filed pursuant to RSA 21-J:34, V.
- ▶ Select board must insert an article in the warrant recommending such action as they deem appropriate when there is an accumulated general fund deficit,
  - ▶ That may include, but is not limited to, raising additional taxes.
- ▶ Select board is responsible for establishing and maintaining appropriate internal control procedures to ensure the safeguarding of all town assets and properties.

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## RSA 47:6 Specific Requirements for City Councils

- ▶ City council must ensure that no money is paid from the city treasury unless previously granted and appropriated, and shall secure a just and prompt accountability from all persons entrusted with the receipt, custody or disbursement of the money or funds of the city, or the care of its property.
- ▶ At least yearly, the city council or board of aldermen shall review and adopt an investment policy for the investment of public funds, and shall advise the treasurer of such policies.

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## RSA 49-C City Charter Cities

- ▶ RSA 49-C:15: City Charter Cities shall have elected bodies which have all the powers and discharge all the duties conferred or imposed upon city councils.
  - ▶ *I.e.* follow RSA 47:6.
- ▶ **However**, RSA 49-C:23 provides additional budget control and fiscal process requirements for City Charter Cities - E.g.
  - ▶ At least quarterly reporting of the city's finances to the elected body by the chief administrative officer.
  - ▶ Establishment of a fiscal control function, including pre-audit of all authorized claims against the city before payment. The head of such function need not be a resident of the city or the state at the time of selection, shall not be treasurer, and shall be chosen solely on the basis of executive and administrative qualifications and actual experience in and knowledge of accepted practices in respect to the duties of municipal fiscal management.



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# Schools

**RSA chapter 198: School Money**

- Important to be familiar with the complex web of federal and state funding for school districts, alongside apportionment formulas, such as those contained in RSA 194-C:9, I.
- E.g. The school administrative unit board shall apportion the total amount of the budget among the constituent school districts in the following manner: the apportionment shall be based 1/2 on the average membership in attendance for the previous school year and 1/2 on the most recently available equalized valuation of each district as of June 30 of the preceding school year.

**RSA 197:5-a**

- The school board, if the school district is not controlled by the municipal budget act, shall prepare a budget for the annual or any special meeting upon a form prescribed and provided by the commissioner of revenue administration and shall post the same with and at the same time as the warrant for the meeting is posted.

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## What Are Internal Controls?





|             |   |
|-------------|---|
| Think about | Think about what YOU do:  |
| ↓           |   |
| Lock        | Lock your home and your vehicle.                                    |
| ↓           |   |
| Keep        | Keep ATM/debit card separate from PIN.                              |
| ↓           |   |
| Check       | Check your bills and credit card statement before paying.           |
| ↓           |   |
| Don't leave | Don't leave blank checks and cash lying around.                     |
| ↓           |   |
| Expect      | Expect your children to ask permission before doing certain things. |

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## What Are Internal Controls?

-  Municipal, county and school internal controls are similar:
-  Offices, buildings, vehicles are locked .
-  Computer passwords are changed periodically and not shared.
-  Invoices are reviewed and approved before payment.
-  Checks and cash are secured.
-  Authorization is required for certain activities or transactions.

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## Objectives of Internal Controls


-  Ensure accurate, reliable records.
-  Promote operational effectiveness and efficiency.
-  Encourage adherence to policies, rules, regulations and laws.
-  Protect assets.

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## What Are Internal Controls?



A **process**: a means to an end, not the end itself.



Accomplished by **people**, not merely policy, procedures and forms.

Reasonable, but not absolute, assurance that assets and resources are safeguarded.

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## Importance of Internal Controls



- ▶ Ensure objectives are accomplished.
- ▶ Reduce fraud opportunities.
- ▶ Prevent loss of funds or other resources.
- ▶ Establish standards of performance.
- ▶ Assure compliance with laws, regulations, policies and procedures.
- ▶ Preserve integrity.
- ▶ Avoid adverse publicity.
- ▶ Assure public confidence.

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**Slide 35**

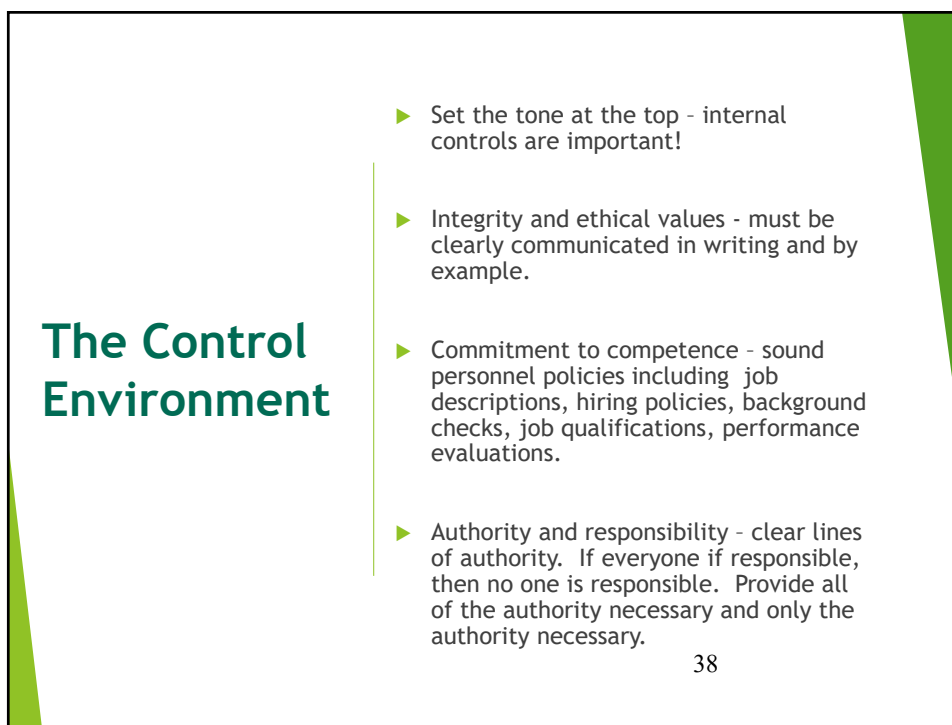
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**BR1**

Barbara Reid, 6/3/2020



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**Risk Assessment: Changes Effecting Risk**

- ▶ Changes in operations - economic, political.
- ▶ Changes in personnel.
- ▶ Changes in IT systems.
- ▶ Rapid growth.
- ▶ Change in structure, staff reductions.
- ▶ Change in programs, activities, services or vendors.

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**Risk Assessment: Inherent Risk**

- ▶ **Cash** - the more easily an asset can be converted to personal use, the more likely it is to be stolen.
- ▶ **Complexity** - the more that can go wrong, the more that is likely to go wrong.
- ▶ **Decentralization.**
- ▶ **Prior problems** - unresponsiveness to previously identified internal control weaknesses sends a negative message about management's attitude!

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## Risk Assessment: Fraud Risks

- ▶ **Financial Stress** - personal, business, illness.
- ▶ **Addictions** - gambling, drugs, alcohol.
- ▶ **Disaffection** - an employee believes they are being, or have been, mistreated.
- ▶ **Past Problems.**

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## Appropriate Control Activities

|                        |                    |                                  |
|------------------------|--------------------|----------------------------------|
| Authorization controls | Record controls    | Security of assets               |
| Segregate duties       | Reconciliation     | Verification                     |
| Analytic review        | Personnel policies | Document policies and procedures |

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# Sample Risk Assessment: Transfer Station Operation



| <b>Change Risk</b><br>↓ | <b>Inherent Risk</b><br>↓ | <b>Fraud Risk</b><br>↓ |
|-------------------------|---------------------------|------------------------|
| Rapid Growth            | Cash                      | Financial Stress       |
| Staff Turnover          | Decentralized             | Past Personnel Issues  |

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# Sample Control Activities: Transfer Station Operation




| <b>Change Risk</b><br>↓                        | <b>Inherent Risk</b><br>↓         | <b>Fraud Risk</b><br>↓                                 |
|--|-----------------------------------|--|
| Rapid Growth<br>*Reports                       | Cash<br>*Remit Daily<br>*Receipts | Financial Stress<br>*HR Resources                      |
| Staff Turnover<br>*Supervision<br>*Segregation | Decentralized<br>*Reports         | Past Personnel Issues<br>*Clear Expect.<br>*Evaluation |

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## Questions To Ask Regarding Risk Assessment




Where is the potential risk?



What is the likelihood of an unwanted occurrence and what would be the impact?



What compensating controls can be implemented?




Does the cost of the controls exceed their benefit?

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## Who Is Responsible?

EVERYONE plays some role in effecting internal controls.



All personnel should be responsible to communicate:

|                        |   |  |
|------------------------|---|--|
| Problems in operations | Deviations from established standards or expectations | Violations of policy, law or regulations |
|------------------------|---|--|

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## Where to Start: Where Are the Risks?

Don't sweat the small stuff!

↓

Cash, decentralization, no segregation of duties, change, potential for fraud.

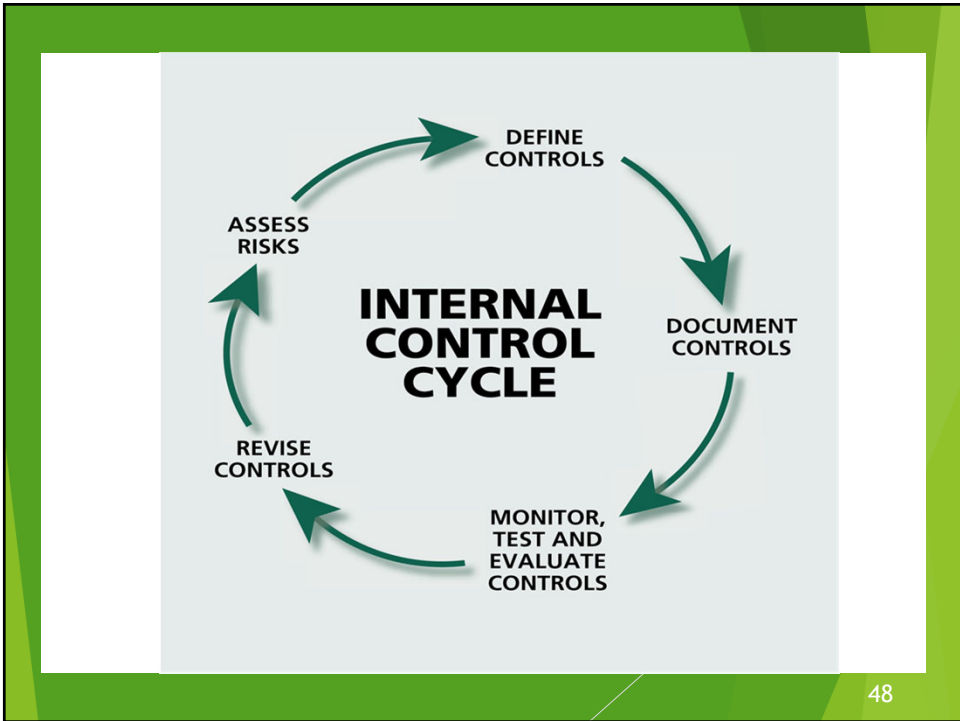
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Where does the money come from, where does it go?  
*"When cash passes through hands sometimes it sticks!"*




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# What is Fraud?

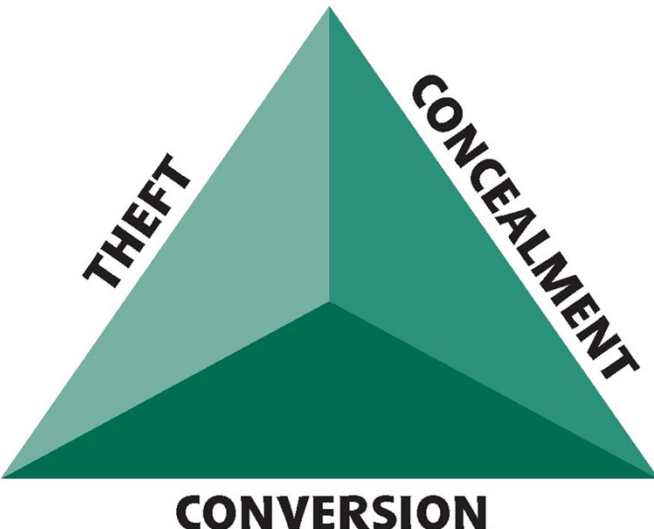



- A representation
- About a material point
- Which is false
- Intentionally so
- And acted upon by the victim
- To the victim's damage

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# Elements of Fraud



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# The Fraud Triangle

**PERCEIVED PRESSURE**

**RATIONALIZATION**

**PERCEIVED OPPORTUNITY**

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# The Fraud Triangle

**PERCEIVED PRESSURE**

**RATIONALIZATION**

**PERCEIVED OPPORTUNITY**


- ▶ Greater the perceived pressure, the less rationalization needed.
- ▶ Greater the rationalization, the less pressure needed.
- ▶ Greater the opportunity, the less pressure or rationalization needed to motivate the fraud!

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|                         |  |
|-------------------------|--|
| <b>Police Chief</b>     | <b>Extortion, permits/fees, drug escrow account</b>  |
| <b>Office Manager</b>   | <b>Payments to self from secret checking account</b> |
| <b>Assistant to BOS</b> | <b>Payments to fictitious vendors</b>                |
| <b>Tax Collector</b>    | <b>Cash from property taxes</b>                      |
| <b>Town Clerk</b>       | <b>Cash from motor vehicle fees</b>                  |

**NH Fraud Cases:  
Opportunity**




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|                                     |   |
|-------------------------------------|---|
| <b>Secretary to Town Manager</b>    | <b>Transfer station revenue</b>   |
| <b>Planning Department Employee</b> | <b>Cash from permits</b>  |
| <b>School District Treasurer</b>    | <b>Bank fraud – scholarship funds</b>   |
| <b>Secretary to Fire Department</b> | <b>Overtime wages</b>   |
| <b>Town Manager</b>                 | <b>Cash, fees, credit card, abatements, pay advance, financial statements</b> |


**NH Fraud Cases:  
Opportunity**




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## Red Flags for Fraud






 The following conditions do not necessarily indicate the existence of fraud. Rather, each is an indication that fraud **may** be present.

 However, these conditions should **raise questions** and **prompt an inquiry** regarding the validity of the transaction.

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## Red Flags

-  Access to too many functions
-  "Special" accounts with limited controls
-  Funds not in the custody of the Treasurer
-  Absence or delay in reporting or reconciliations
-  Absence of supporting documentation
-  Vendors complaining of late or non-payment

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## Red Flags

-  Infrequent and untimely deposits
-  Loose controls over cash receipts
-  Unusual financial relationships
-  Excessive abatements, credits or voided transactions
-  Manual checks or checks written to "cash"
-  Unusual transfers between accounts

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## Red Flags

-  Change in the frequency, amount or percent of cash receipts
-  Insufficient cash flow with relatively high fund balance
-  Unused vacation time

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## Who Best To Detect Fraud?

Employees performing routine duties are in the best position to identify discrepancies, unusual transactions, or deviations from standard operating policies and procedures that may warrant further inquiry and investigation.

An effective fraud prevention program insures that all employees recognize that fraud prevention and detection is part of their job responsibilities!

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## Who Is Responsible?

EVERYONE plays some role in preventing and detecting fraud.



All personnel should be responsible to communicate:

Problems in operations

Deviations from established standards or expectations

Violations of policy, law or regulations

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## Fraud Awareness and Prevention Policy

- ▶ Definitions and examples of fraud
- ▶ Policy of zero tolerance
- ▶ Responsibility to report and reporting procedures
- ▶ Confidentiality, retaliation, and false allegations
- ▶ Disciplinary action
- ▶ Fraud prevention and detection is everyone's responsibility
- ▶ Employee acknowledgement that they read and understand the policy

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## Additional Resources

- ▶ Review the sample fraud prevention policies with key components highlighted
- ▶ Read *State of NH vs. Rosemarie McNamara*

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