

The Basics of Financial Policy

Katherine Heck,
Government Finance Advisor
New Hampshire Municipal Association





NEW HAMPSHIRE MUNICIPAL ASSOCIATION

ABOUT

ADVOCACY

LEGAL SERVICE

Shopping cart

Your shopping cart is empty.

[Home](#) >

The Basics of Financial Policy

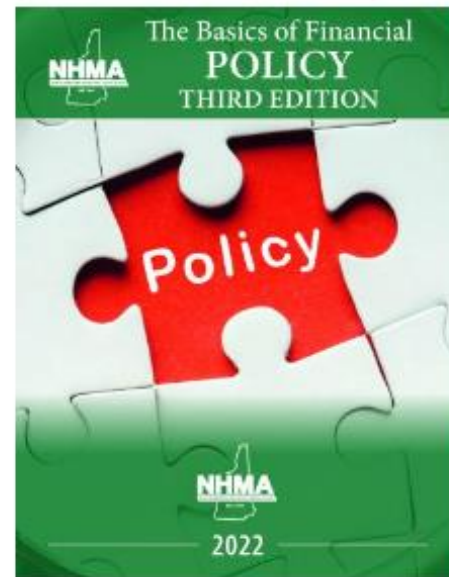
Original Price: \$70.00

Member Price: \$35.00

Type

Digital Download ▾

ADD TO CART



Publication Date:

Monday, November 28, 2022

Please visit the
NHMA store to
download your copy
today!

<https://www.nhmunicipal.org/product/basics-financial-policy>

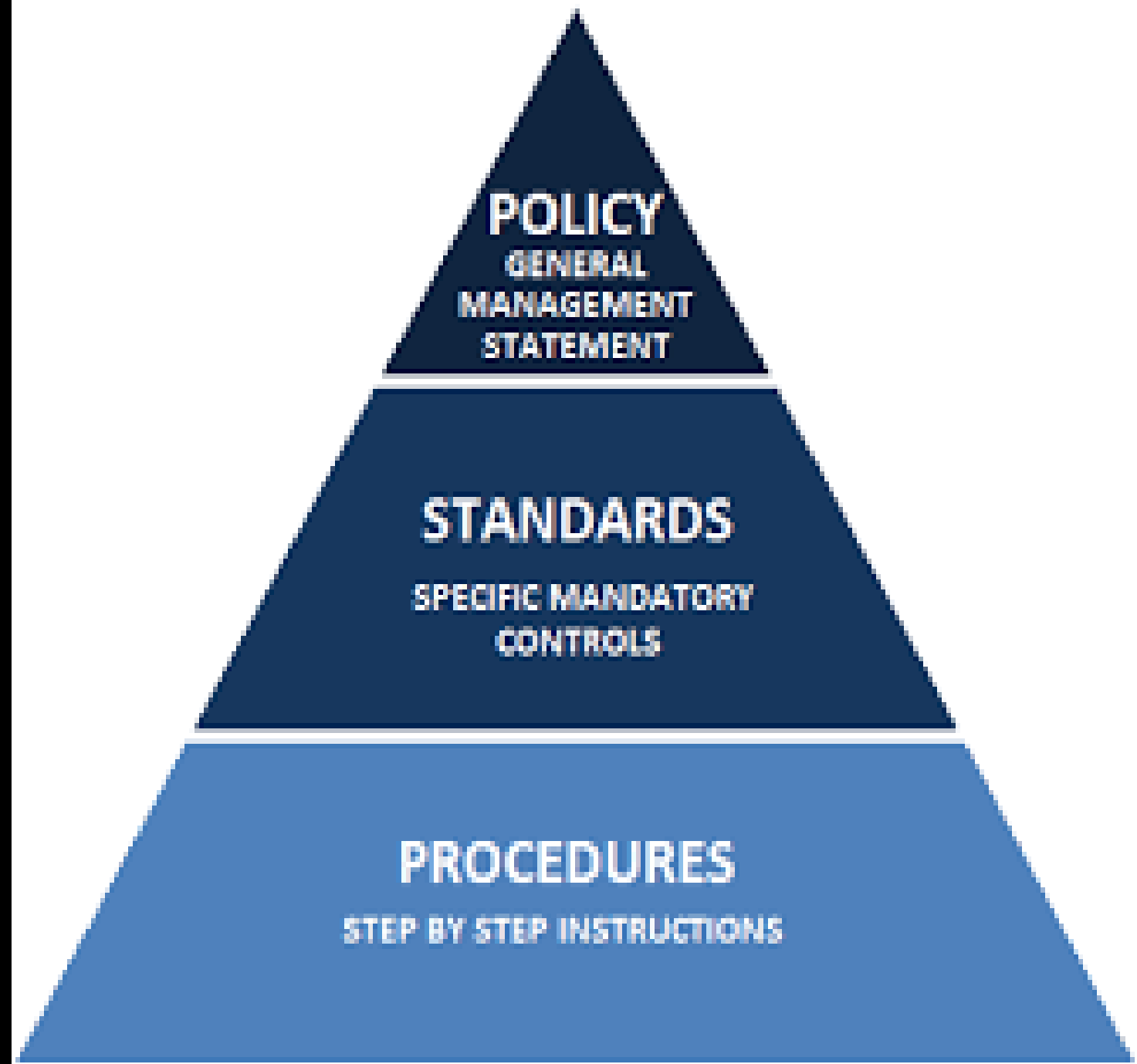
AGENDA

1. SOLVING THE POLICY PUZZLE
2. THE NEED FOR FINANCIAL POLICES
3. NINE KEY POLICY CATEGORIES
4. WHERE TO START?
5. DEVELOPING AND ADOPTING EFFECTIVE FINANCIAL POLICIES



What Are Financial Policies?

- ✓ Policies = general rules set by the stakeholders and decision makers in the organization
- ✓ Standards = parameters for financial stewardship that everyone agrees to
- ✓ Procedures = outline how certain tasks are done and/or policies are adhered to.



The Policy Puzzle

Putting the pieces together and making them fit



Goals, Priorities and Plans *CAN* be accomplished by developing a financial policy framework.



SOLVING THE POLICY PUZZLE

- › Elected and appointed municipal officials and staff are responsible for millions of taxpayer's dollars.

With varying levels of experience in government finance, polices:

- Inform good financial practices;

All financial decisions follow a common set of rules;

- Establish standards and priorities for the allocation of limited resources.
- Set objectives and common financial goals;
- Create a roadmap to achieving those goals;
- Provide standards against which fiscal performance can be measured.

THE NEED FOR FINANCIAL POLICIES



Financial policies are the framework for developing long term, strategic approach to financial management.



The adoption of financial policies helps to provide:


**Consistency,
Stability and
Continuity**



Sound practice that fosters confidence in the fiscal operations of the municipality.



Benefits of Financial Policies

- › Most local government decisions are driven by the entity's fiscal health.
 - › Citizens expect their cities, towns and special purpose districts to deliver essential services such as public safety, transportation, and utility services well into the future.
 - › Effective financial policies are essential to fiscal health and can help elected officials, management, and staff make the right decisions for their citizens now and in the future.
 - › Policies provide stability and continuity over the years as staff and elected officials turn over by establishing what actions are acceptable and unacceptable, identifying who is responsible for taking certain actions, and providing standards to measure your jurisdiction's performance.
- 

**FORMAL POLICES *SHOULD*
OUTLIVE THEIR
CREATORS**

Generally, written policies:

- ✓ clarify governing body intent;
- ✓ define boundaries;
- ✓ resolve conflicts;
- ✓ create consistency;
- ✓ avoid allegations of bias or favoritism;
- ✓ foster positive culture and climate;
- ✓ instill public confidence.



PURPOSE OF FINANCIAL POLICIES

Institutionalize good financial management practices.

- Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.

Clarify and crystallize strategic intent for financial management.

- Financial policies define a shared understanding of how the municipality will develop its financial practices and manage its resources to provide the best value to the community.

Define boundaries. Financial policies define limits on the actions staff may take.

- The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.

Support good bond ratings and thereby reduce the cost of borrowing.

Promote long-term and strategic thinking.

- The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the municipality.

Manage risks to financial condition.

- A key component of governance accountability is not to incur excessive risk in the pursuit of public goals.
- Financial policies identify important risks to financial condition.

Comply with established public management best practices, state statutes and federal law.

NINE KEY POLICY CATEGORIES

- ❖ Internal Controls
- ❖ Operations
- ❖ Budget
- ❖ Fund Balance
- ❖ Revenue
- ❖ Expenditures
- ❖ Investments
- ❖ Debt
- ❖ Capital Improvement Planning



What are Internal Controls?

Internal control is a process.

Dynamic – ongoing and active

Iterative

Each process is defined and implemented by a set of policies and procedures...

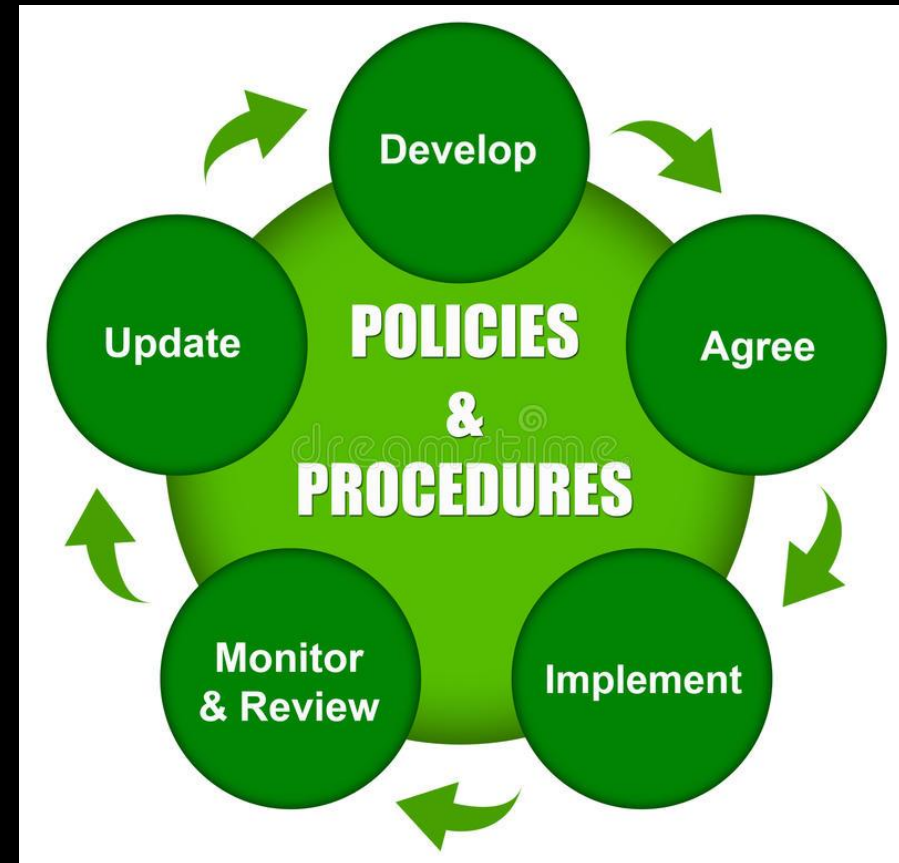
a series of ongoing actions and activities that occur throughout the organization.



Anything that helps safeguard assets.



Anything that helps make more effective and efficient use of those assets.



KEY CATEGORY : Internal Controls



What are internal Controls?

- › Continuous built-in component of operations;
- › A process: a means to an end, not the end itself.
- › Effected by people-not merely policy, procedures and forms.
- › Provides reasonable, but not absolute assurance that objectives will be achieved, and assets safeguarded.

NH RSA 41:9

requires the governing body to be responsible for establishing and maintaining internal control policies and procedures to ensure the safeguarding of all town assets and properties.

Objectives

Operations – effectiveness and efficiency of operations
Reporting – Reliability of reporting for internal and external use
Compliance – Compliance with applicable laws and regulations

Policy Considerations

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

INTERNAL CONTROLS

Policies should include:

- ✓ The Control Environment
- ✓ Risk Assessment
- ✓ Control Activities
- ✓ Information and Communication
- ✓ Monitoring

› Internal control consists of five interrelated components, each of which is an integral part of the management process and plays a specific role in the organization's internal control procedures.



INTERNAL CONTROLS

- ❖ Management Responsibility: The establishment and maintenance of a system of internal control is the responsibility of management.
- ❖ Reasonable Assurance: The cost of achieving the objectives of internal control should not outweigh its benefits.



***“Tone at the Top” provides
the foundation***

Control Environment



Types of Internal Controls:

Preventive – Designed to stop an unwanted outcome before it happens.

Reading/understanding policies

Review/approve purchase orders


Passwords to stop unauthorized access

Detective – Designed to find and correct errors that have already occurred.

Cash counts/reconciliation

Expenditures vs. budget

Reviewing payroll reports



General Areas of Internal Control Policy & Procedure:

1. authorization controls (advanced written approvals);
2. record controls (sequential numbering of forms, automatic duplicates);
3. security controls (controlled access, physical security, backup and disaster recovery for computers);
4. segregation of incompatible duties (inability of one individual to authorize a transaction, record the transaction and maintain custody of the asset);
5. personnel policies (hiring procedures, job descriptions, code of employee conduct, performance evaluations); and
6. periodic account reconciliations, verifications, and analytic review.

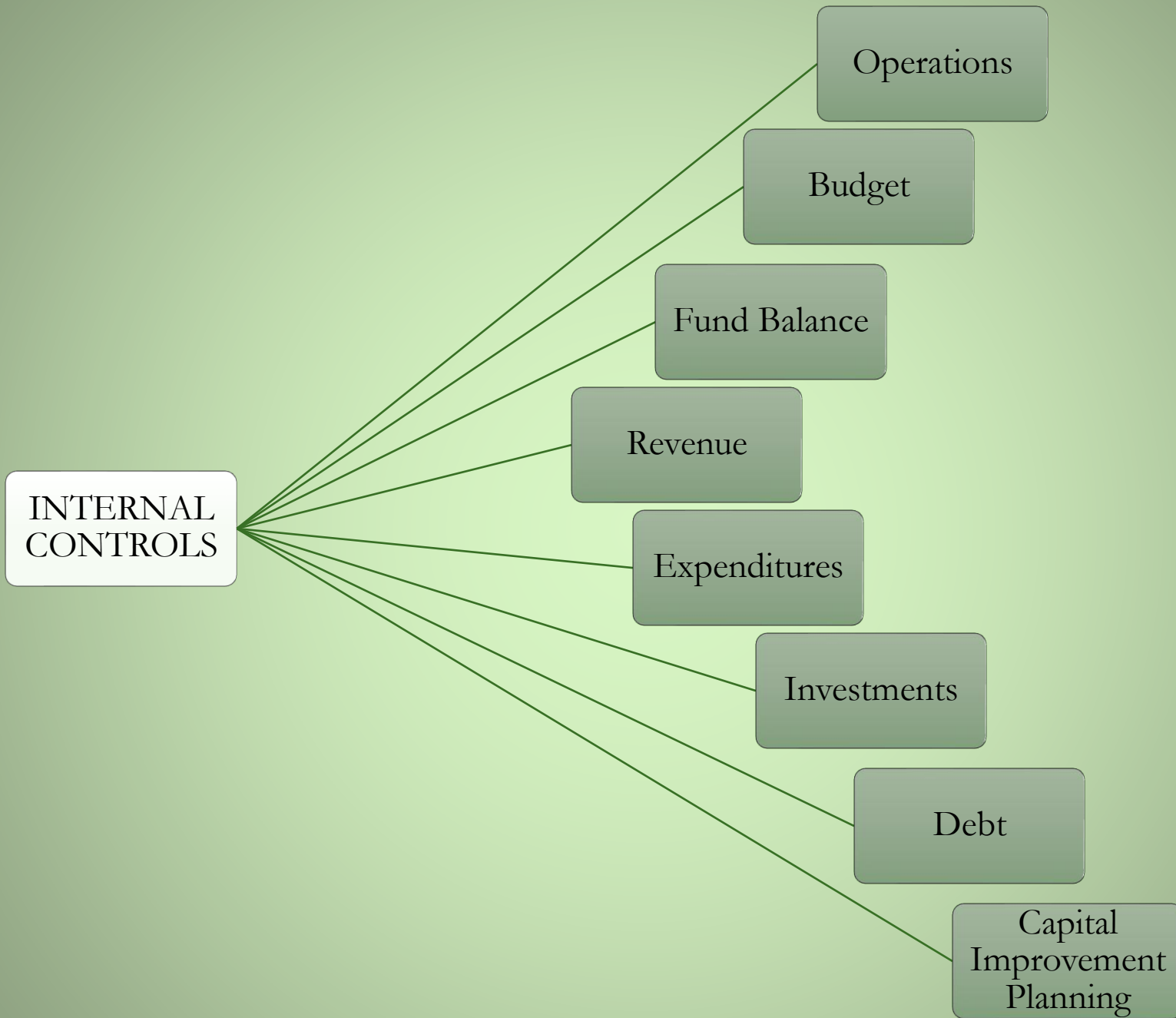
Who Is Responsible?

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

- › Governing Body – BOS, Council, School Board, Commissioners, Aldermen
- › Manager, Superintendent
- › Department Heads, Principals
- › Supervisory Personnel
- › Each Individual Employee
- › Budget Committee



A decorative graphic on the left side of the slide features a vertical column of interlocking puzzle pieces in a light green color. Above the puzzle pieces, a stylized umbrella with green and white segments and a purple handle is positioned as if it is raining. The background of the slide is a solid, muted green color.

INTERNAL CONTROLS

- ❖ Operations
 - ❖ Personnel Polices
 - ❖ Risk Management
 - ❖ Anti- Fraud
- ❖ Budget
 - ❖ Budget Development
 - ❖ Revenue & Expense Forecasting
 - ❖ Cash Flow Forecasting
- ❖ Fund Balance
 - ❖ Target Levels
 - ❖ Use of Excess
 - ❖ Replenishment
- ❖ Revenue
 - ❖ Cash Receipts
 - ❖ Returned Checks
 - ❖ User/Impact Fees
 - ❖ One-time Revenue
 - ❖ Grants/Gifts
- ❖ Expenditures
 - ❖ Purchasing/Bidding
 - ❖ Fixed and Capital Assets
 - ❖ Disposal of Surplus
 - ❖ Credit Cards
 - ❖ Petty Cash
 - ❖ Employee Reimbursements
- ❖ Investments
 - ❖ Investment Policy
- ❖ Debt
 - ❖ Debt Limits
 - ❖ Qualifying use of Debt
 - ❖ Debt Management
- ❖ Capital Improvement Planning
 - ❖ Capital Reserve /Trust Funds
 - ❖ Definitions of “Capital” Purchase
 - ❖ Financial Plan tied to the Capital Plan

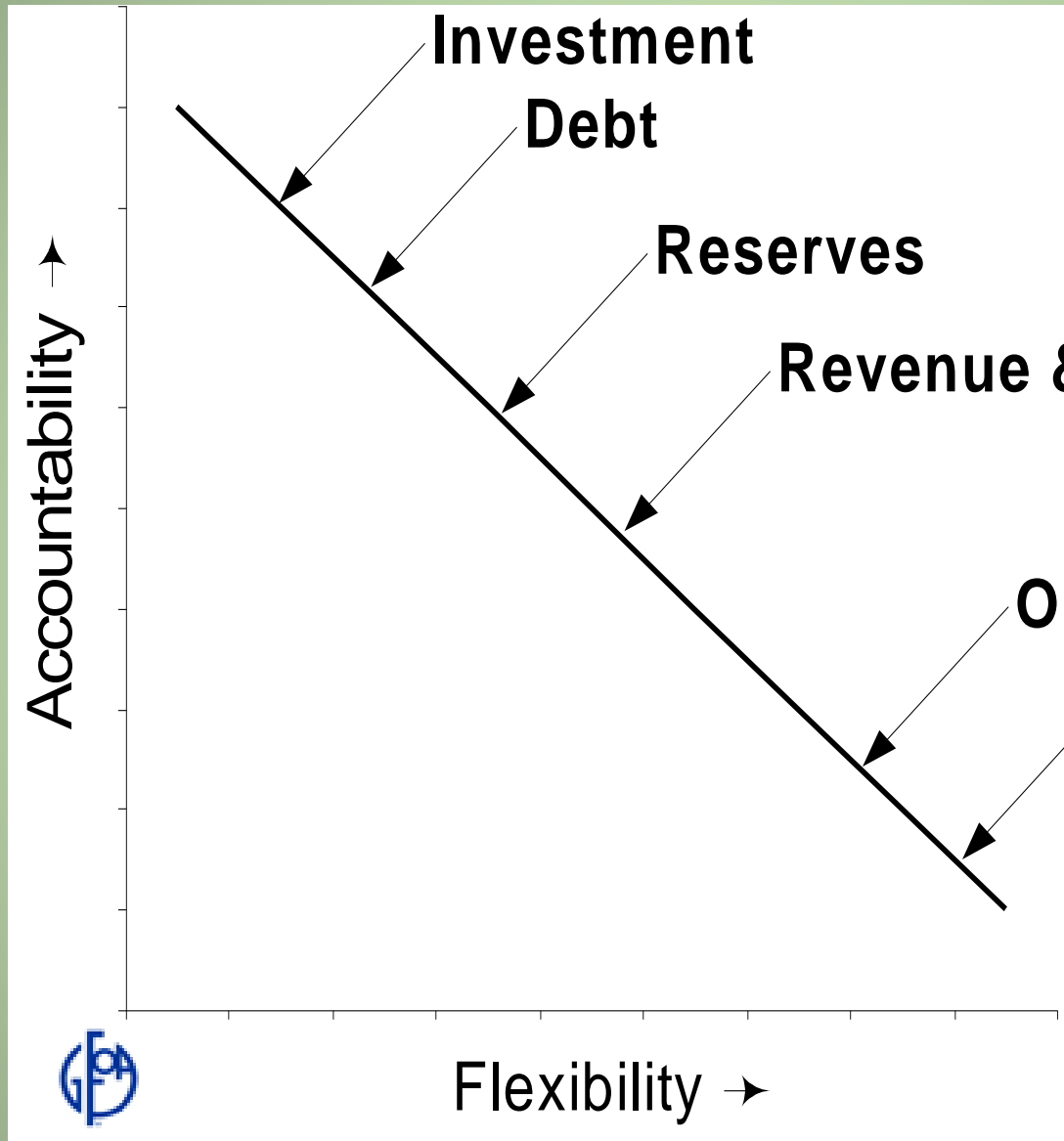


Accountability vs. Flexibility

Accountability: The requirements of responsibility to the public and to follow regulations

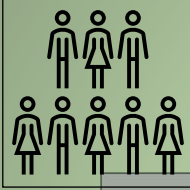
Flexibility: The ability of managers to take action in pursuit of public goals

Policies can provide varying levels of discretion to public officials.



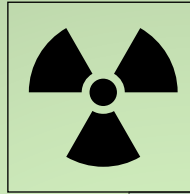
Operational Budgeting
Capital Budgeting

Operations



Personnel Policies

- A well-developed policy will set the tone of the municipality from the top and serve as a statement of the culture, climate, integrity and ethical values of the municipality. Highlighting the commitment to competence –sound personnel policies may include job descriptions, hiring policies, background checks, job qualifications, and performance evaluations.



Risk Management

- The municipality should develop and maintain a risk management program to protect the municipality against the financial consequences of accidental loss of property, liability, fraud and personal injury to the extent possible through effective prevention and loss control policies and practices.



Anti- Fraud

- Definitions and examples of fraud
 - Policy of zero tolerance
 - Responsibility to report and reporting procedures
 - Confidentiality, retaliation, and false allegations
 - Disciplinary actions
 - Fraud prevention
 - Employee acknowledgement



Budget Policies

❖ Budget Development

- › A local government's budget is a statement of policy and values.
- › The preparation and presentation of the annual budget is the critical responsibility of the governing body and the official budget committee and its administrative management team. (RSA 32:1-13).
- › As the main management tool - the budget is an operating plan that identifies likely sources and uses of limited resources and helps assess the effect they have on the municipality's financial position.
- › The purpose of a budget policy is to establish a framework from which all town departments and officials may work together to provide quality programs and services while maintaining financial viability.

Operating budget policies may address:

- ✓ Timelines
- ✓ Roles and responsibilities of the budget process
- ✓ Budget priorities
- ✓ Budgetary constraints
- ✓ Budget controls such as fund balance levels
- ✓ Provide predictability and stability in services
- ✓ Protect and preserve assets, resources and infrastructure
- ✓ Plan for fiscal issues and economic challenges
- ✓ Allow for citizen involvement

Ongoing revenues = on-going expenditure
One-time revenues = on-time expenditures

❖ Revenue & Expense Forecasting

A revenue and expenditure reporting procedure should address how often the reports are to be produced, who should receive the reports, whose responsibility it is to compare to the actual results of the fiscal year to date, expenditure control techniques and a process for recording line-item transfers.

❖ Cash Flow Forecasting

A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions.

- ✓ An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering essential municipal services.

FUND BALANCE

Target Levels

- Guidelines regarding the appropriate level of unreserved fund balance to be retained in the general fund for a general-purpose governmental entity:
- 5 percent to 15 percent of regular general fund operating revenues, or
- 8 percent to 17 percent of regular general fund operating expenditures.

Desired or target level of unreserved fund balance:

- Equal to 2 months of operating expenses.
- (School Obligation, Accounts Payable, Payroll & Debt Service)

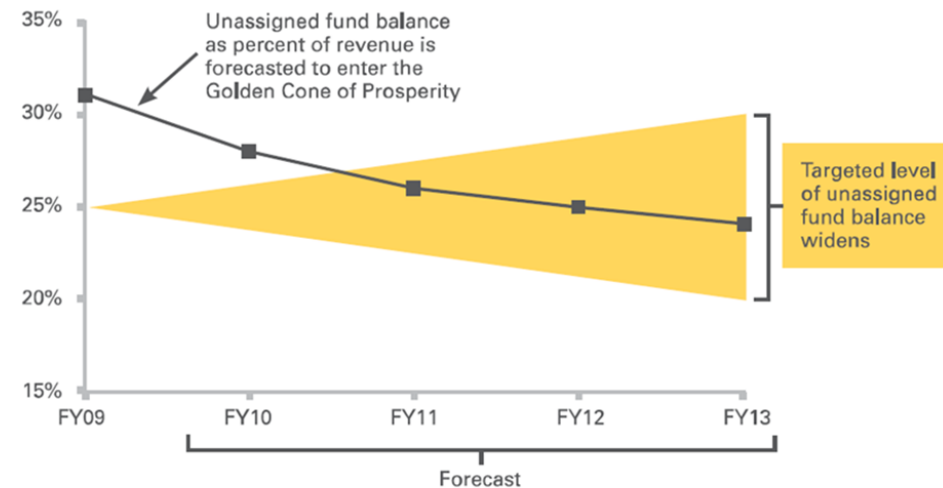
Uncertainty is inevitable

Find potential impact, using reference cases

Uncertainty will usually be underestimated

Source: Tempe's Golden Cone of Prosperity

Reserves are a Hedge Against Risk





Fund Balance

❖ Use of excess unreserved fund balance examples include:

- Establish resources in case of emergency or disruption of revenues

Generally, limit to one-time uses

Avoid using for on-going commitments

Exception could be where there is a plan in place

- Reduce the need to issue debt
- Provide financial stability
- Promote stable tax rates
 - Maintain good bond ratings
 - *Comply with established fiscal management best practices.

❖ Replenishment

- Describe the time period over which the components of fund balance will be replenished and how the funds will be replenished.



REVENUE

What is the Proper Use of One-Time Revenues?

One-time revenue should be used for one-time uses

- Buy a capital asset
 - Build reserves
 - Pay down debt
- ❑ The tracking of non-recurring expenditures can help determine if the municipality is using one-time windfalls to fund one-time expenses or to establish reserves.
 - ❑ If analysis finds an increasing portion of the budget is being offset with such revenues, the municipality may be using “one-offs” to address a structural imbalance between recurring revenue and recurring expenses.
 - ❑ The policy should aim to address this situation with long-term revenue or expenditure adjustments.

❖ Cash Receipts

- ❑ Regular deposit procedures
- ❑ Petty cash procedures
- ❑ Returned check procedures
- ❑ Segregation of duties

❖ Returned Checks

- ✓ Bank Fees
- ✓ Legal Fees
- ✓ Administrative fee
- ✓ Postage
- ✓ A clause for repeat offenses

❖ User/Impact Fees

- ❑ Reference to statutory authority
- ❑ User fee cost recovery levels
- ❑ Schedule for periodic review of user fees and how services are provided

❖ Grants/Gifts

- ❑ To ensure the alignment of funding initiatives with the municipality’s financial plans , strategic plan & policies
- ❑ To ensure proper oversight of all funds appropriated to the municipality.
- ❑ To minimize the municipality’s risk of non-compliance with grant requirements.
- ❑ To ensure proper administration and accounting of all grants and gifts.
- ❑ To adhere to New Hampshire State Statutes and Federal Laws.
- (RSA 31:95-b and Federal OMB Circulars and Uniform Guidance)

Expenditures

Purchasing/Bidding

Definitions

- Fair and open competition
- Allowable procurement methods
 - purchase orders
 - oral/written quotes
 - e-procurement
 - competitive bidding
 - bidding process
- Purchasing Levels with dollar thresholds
- Approval authority
- Exceptions/Special provisions
 - Emergency
 - Sole Source
 - Professional Services
 - Public Works and Infrastructure Projects
 - Contracts
 - Ethics/conflict of interest statement
 - *Purchasing and Bidding policy when separate should be cross referenced.*

Fixed and Capital Assets

- Establish processes, appropriate standards, authorization requirements and internal controls to ensure that a municipality's fixed assets are acquired, safeguarded, monitored, disposed of, and accounted for in accordance with town policy, state and federal laws and generally accepted accounting principles (GAAP)
 - Depreciation policy
 - Annual Reporting
 - Capital Assets
 - Infrastructure Assets
 - Controlled Assets
 - Repairs and Maintenance
 - Custody and Accountability

Disposal of Surplus

- Establish regulations that must be observed by the municipality for the disposal, reuse, transfer or purchase of obsolete, surplus, or scrap city/town-owned equipment, furnishings, supplies and/or materials.
- It is not uncommon for this procedure and the personnel policy to the prohibit employees/officials from taking possession of any surplus property or the proceeds from the sale of surplus property designated for transfer, trade-in, return, donation, or disposal as trash, scrap, or as recyclables, except as lawfully authorized by persons designated with such authority by the city or town.

Credit Cards

- Written procedures for cardholders and approving supervisors
- Guidelines on appropriate uses
- Dollar limits per transaction/per month
- Outline of required documentation
- Description of approval process
- Procedures for dispute resolution, lost/stolen cards and employee termination
- Reconciliations and audits
- Written acknowledgement signed by cardholder
- Segregation of duties for acquisition, approval and accounting

Petty Cash

- ❖ Acceptable use
- ❖ Restrictions
- ❖ Purchase amount thresholds
- ❖ Receipts and documentation for each transaction, which may be subject to review by internal or external audit.
- ❖ A log for subject payments
- ❖ Physical security over the petty cash fund
- ❖ Naming the custodian of each petty cash fund
- ❖ Method for increasing and replenishing the fund

Employee Reimbursements

- The reimbursement of purchases made on behalf of the municipality should be avoided when possible.

Investments

State laws require that at least yearly, the select board, city council, or board of mayor and aldermen, review and adopt an investment policy for the investment of public funds in conformance with the provisions of applicable statutes

RSA 41:29 (towns) and RSA 48:16 (cities).

RSA 31:25 (trustees)

- Objectives
 - Safety
 - Liquidity
 - Yield

INVESTMENT POLICY CHECKLIST

- Scope
- Objectives
- Standard of care
- Authorized investments
- Maturity and diversification guidelines
- Collateral requirements
- Authorized financial institutions
- Internal controls
- Reporting requirements
- Annual review and adoption

Debt

❖ Debt Limits

- › Debt Limit –the total amount of debt that may be outstanding at any one time.
- RSA 33:4-b -This limit is calculated as a percentage of the total market value (equalized assessed value) of all taxable property in town.
 - 3 % for cities,
 - 3 % for towns,
 - 1 % for village districts and
 - 7 % for school districts.
- Special debt limits are provided for cooperative school districts under RSA 195.
 - The total debt limit for any municipality that contains an overlapping political subdivision (such as a school district and town that cover the same geographic area) can be limited to 9.75 percent. RSA 33:4-a and 33:4-b.

❖ Qualifying use of Debt

- Debt issued for the following purposes is not considered in the computations of a municipality’s statutory 3 percent debt limit:
 - Sewer treatment plants ordered by NHDES (RSA 33:5);
 - Water treatment facilities ordered by NHDES (RSA 33:5-a);
 - Voluntary sewer projects (RSA 33:5-b);
 - Projects involving municipal owned qualified utilities (RSA 33:6-b);
 - Solid waste management (RSA 33:6-e);
 - Qualified broadband projects (RSA 33:6-f);
 - Land acquired from a U.S. military base;
 - Landfill closure/cleanup projects (RSA 33:6-d).
- Tax anticipation notes do not count as part of the municipality’s total debt limit.
- Tax increment finance bonds issued under RSA 162-K are exempt from debt limit requirements.

❖ Debt Management

- › Long Term Debt limits
- › Short Term Debt provisions
- › Qualifying uses of debt
- › Other debt management provisions



Capital Improvement Planning

- ❖ Definitions of
“Capital”
Purchase/Project

- ❖ Financial Plan tied to
the Capital Plan

- › The CIP may include the following information:
 - ❖ A list of the capital projects, equipment, and major studies.
 - ❖ A ranking of projects based on a prioritization matrix reflecting the entity’s long-term goals and objectives.
 - ❖ A financing plan for each expenditure.
 - ❖ A timetable for the construction or completion of the project
 - ❖ A project justification and explanation for the project expenditures.

- › A Capital Reserve Fund and Expendable Trust Fund policy should define:
 - Goals or alignment with the Capital Improvement Plan
 - Use of funds and when appropriate
 - Minimum / Maximum target reserve balance
 - Minimum / Maximum annual contribution in any fiscal year
 - A plan for replenishment



WHERE TO START

Already Adopted Policies

- ✓ Evaluate Effectiveness
- ✓ Monitor, Review & Update
- ✓ Add additional policy or procedure layers

Few or No Policies

- ✓ Begin with Required by Federal and State Law
- ✓ Conduct an internal controls assessment
- ✓ Reference Municipal Audit

Define the problem/issue/goal the policy will address

Purpose of the Policy or Policy Statement -

A concise statement of the rationale for the policy, including if appropriate, reference to external regulations, further policy discussion, etc. Summary (one paragraph) clearly stating the important policy content.

- When developing a policy document, begin with a statement of purpose that defines the intent and objectives of the policy. It should be relatively short and direct. It is suggested that it begin with an active verb such as, "To promote...., To comply...., To ensure...."

Scope/Applicability-

The range of application of the document in terms of covered persons, facilities, sites, etc.

- Exactly who the policy applies to and the consequences for non-compliance, if applicable. (Departments /Positions Affected)

Definitions/Common Language-

Definitions of terms (as needed).

Policy-

Objectives and strategies to achieve the purpose.

Procedures-

detailed procedures that are recommended in order to carry out the intent of the policy.

Communication and Training –

Key to effective implementation.

Monitoring, analysis and evaluation:-

indicators, data, reporting.

Implementing Control Activities

- › Policies (what should be done) and procedures (how it should be done) designed to ensure that the objectives (protect assets, effectiveness/efficiency, accurate records, and compliance) are achieved.

POLICY

The formal guidance needed to coordinate and execute activity throughout the district. When effectively deployed, policy statements help focus attention and resources on high priority issues - aligning and merging efforts to achieve the district's vision. Policy provides the operational framework within which the district functions.

- Widespread application
- Changes less frequently
- Usually expressed in broad terms
- States "what" and/or "why"
- Answers operational issues

PROCEDURE

The operational processes required to implement district policy. Operating practices can be formal or informal, specific to a department or building or applicable across the entire district. If policy is "what" the district does operationally, then its procedures are "how" it intends to carry out those operating policy expressions.

- Narrow application
- Prone to change
- Often stated in detail
- States "how", "when", and/or "who"
- Describes process



Developing and Adopting Effective Financial Policies



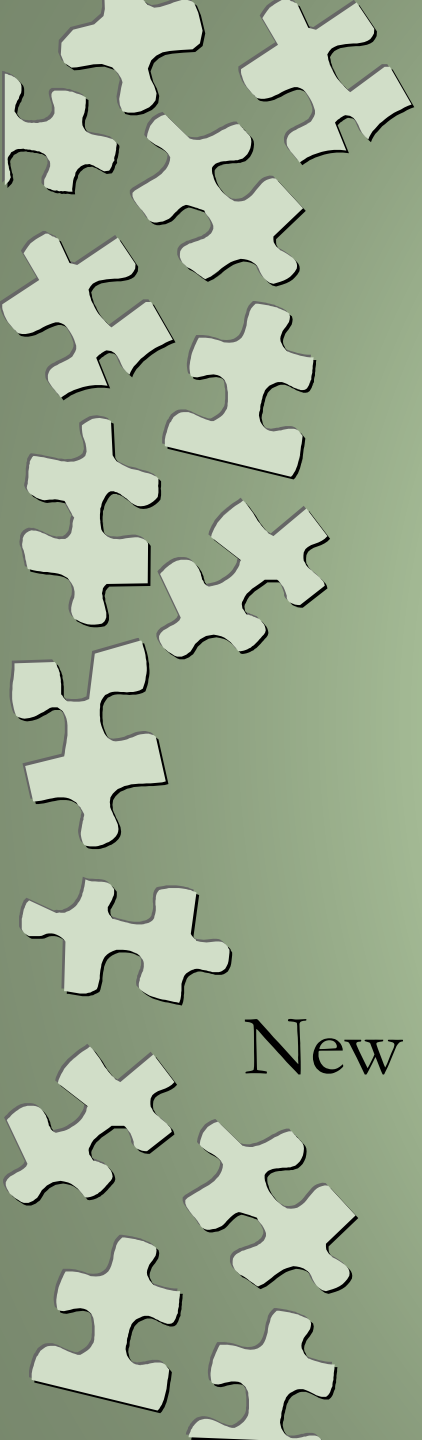
EFFECTIVE

- › Clear
- › Concise
- › Use Common Language
- › Adopt a standard Template of Format:
 - purpose of the policy, the scope and responsibilities, authority, accountability, definitions and reference accompanying procedures.
- › Has stakeholder input and buy-in.
- › Easily accessible to staff members, elected officials and the general public.



APPROPRIATE

- › Will out-live their creators
- › Flexibility vs Accountability
 - Benefits out-weigh costs;
- › Does not create excessive administrative burden.
- › Applies to a broad user group across or within the organization.
 - Policies are written for institutions, organizations, departments and positions., not *for* or *in reaction to* any one individual.



Questions?

Thank You!

Katherine Heck

New Hampshire Municipal Association

Office: 603-224-7447

KHeck@nhmunicipal.org

