



Date
March 16, 2023

Time
11:10 AM – 12:10 PM

Instructor
Diane B. Allison, CPA,
CGMA, CGFO, Director
of Local Government
Services

Location
Live-Streamed and
Onsite at Milton J.
Womack Park –
Community Recreation
Center

Method of Delivery
Classroom instruction
& Live-Streamed

Learning Level
Basic

CPE Hours
1.0 Hours

CPA Subject Matter
Accounting and
Auditing

Prerequisite
None

Developing Strong Financial Policies for Local Governments

Description

Financial policies of local governments provide the guidance that shapes the decisions of elected officials, governing boards, and the accounting team. Strong policies are effective, preserve or enhance the fiscal health of governments, and increase citizen confidence in government. This session will discuss why financial policies are important, writing good policies, the many steps involved in developing policies, and key financial policies every local government should have, along with essential elements that should be addressed in each.

Objectives

By the end of this session, participants will understand:

- Why financial policies are important and why they should be in writing
- The difference between policies and procedures
- The 10 steps for developing strong financial policies
- The 6 essential policies and 7 highly advisable policies as recommended by the Government Finance Officers Association (GFOA)

Who Will Benefit

- Elected Officials/Appointed Officials
- Local Government Employees/Local Government Auditors

About the Instructor

Diane Allison joined the Louisiana Legislative Auditor's office (LLA) in May 2021 as the Director of Local Government Services, having served as chief financial officer in three different local governments for a combined total of 17 years. LLA's Local Government Services primarily oversees the work of more than 280 independent CPA firms that conduct over 3,600 audits and other types of engagements, educates local governments on governmental accounting and internal controls, provides financial, operational and compliance advice to local governments, and prepares fiscal notes for the Louisiana Legislature. Diane's areas of expertise are accounting and financial reporting, financial management, budgeting, fiscal policies, internal controls, fiscal compliance, and school activity funds. Diane has over 30 years of accounting experience, including in the for-profit manufacturing, not-for-profit, public accounting, and local government sectors. She has been a Certified Public Accountant for over 25 years and also holds certifications as a Chartered Global Management Accountant and Certified Government Finance Officer. In 2019 she received the Woman to Watch Award from the Society of Louisiana CPAs.

Diane has presented at national, state, and regional accounting conferences, including the American Institute of CPAs (AICPA), Society of Louisiana Certified Public Accountants (LCPA), Government Finance Officers Association (GFOA), Accounting and Financial Women's Alliance, and both the Southern and Louisiana Associations of School Business Officials. In addition, she has written articles for various professional publications.

Diane has served on and chaired various LCPA state and chapter committees. She currently is Chair of the national GFOA Accounting, Auditing, and Financial Reporting committee; serves on the LCPA state and local Governmental Accounting and Auditing committee; is President-Elect of the Accounting and Financial Women's Alliance, New Orleans Chapter; and is President of the Women in Public Finance, Louisiana chapter.

Diane is a graduate of Benjamin Franklin High School in New Orleans and graduated *Magna Cum Laude* from Wright State University in Dayton, Ohio with a Bachelor's degree in English and Accounting. She is a member of the following professional associations:

- American Institute of Certified Public Accountants
- Society of Louisiana Certified Public Accountants
- Government Finance Officers Association of the United States and Canada
- Louisiana Government Finance Officers Association (past President)
- Accounting and Financial Women's Alliance (past President of the New Orleans chapter)
- Louisiana Association of School Business Officials
- Association of Government Accountants
- Institute of Internal Auditors
- Women in Public Finance

Developing Strong Financial Policies for Local Governments



CENTER FOR LOCAL GOVERNMENT EXCELLENCE

March 16, 2023

Diane B. Allison, CPA, CGMA, CGFO
Director of Local Government Services

Your Trusted Advisor

We want to explore your needs, challenges, and strengths to find ways to make you more prepared, resilient, and productive. We are a trusted resource that can positively impact the success of your organization – and ultimately the success of the state.



Developing Strong Financial Policies

- Why financial policies are important
- Difference between laws, policies and procedures
- Characteristics of effective policies
- Steps to developing financial policies
- 12 key internal control policies required by Statewide Agreed-Upon Procedures
- 6 essential policies identified by Government Finance Officers Association (GFOA)
- 7 highly advisable policies recommended by GFOA

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New Castle County, Delaware Addresses Fiscal Stress by First Examining Policies

- Faced a \$100 million revenue shortfall, so assembled a subcommittee that comprehensively examined its policies and procedures, leading to the adoption of policies to
 - Maintain user fees at levels sufficient to cover ongoing costs,
 - Maximize the return of idle funds through the use of outside investment managers with the objective of outperforming Treasury bill rates, and
 - Promote aggressive revenue collection, with the goal of reducing outstanding accounts receivable by 7.7%



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Results of New Castle County's Successful Implementation of Policies

- ✓ Generated \$18 million in new revenues over three years as a result of the user fee policy,
- ✓ Investment proceeds exceeded projections by \$14 million as a result of the investment policy, and
- ✓ Aggressive revenue collection brought in an additional \$6 million over 4 years
- ✓ County has a triple-A bond rating



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Financial Policies . . .

1. Are guidelines for operational and strategic decision making related to financial matters
2. Should be adopted by the governing body
3. Are VERY IMPORTANT to credit rating agencies
4. Clarify and crystallize strategic intent for financial management
5. Institutionalize good financial management practices

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Financial Policies . . .

6. Define limits on actions staff can take
7. Promote long-term and strategic thinking
8. Manage risks to financial condition
9. Should comply with established public management best practices

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Financial Policies are Needed by All Sizes of Governments

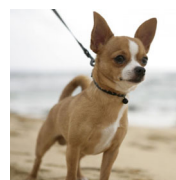
East Baton Rouge Parish

- Population: 443,763
- Component units: 16
- Total # of funds: 49
- Revenues all funds: \$1.4B
- Revenues general fund: \$350M
- Total assets: \$4.1B
- Debt outstanding: \$1.9B
- Pages in audit report: 378



Village of Mer Rouge

- Population: 600
- Component units: 1
- Total # of funds: 2
- Revenues all funds: \$993K
- Revenues general fund: \$661K
- Total assets: \$3.8M
- Debt outstanding: \$0
- Pages in audit report: 80



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Control vs. Flexibility

Generally, the more control, the lesser flexibility



Should have more **control**

- To maintain fairness
- To remove discretion
- To ensure integrity
- For areas often associated with risk of mismanagement or fraud, such as debt, procurement, and investments

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Control vs. Flexibility



Should have more **flexibility**

- To meet performance goals
- When the public is involved
- To determine details on a case-by-case basis

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Control vs. Flexibility: User Fees

Flexible Policy

User fees will be commensurate with the cost of providing the service.

- Managers have discretion to decide what portion of a service's cost will be recovered through user fees.

Control Policy

User fees will be set at an amount that covers 100% of the cost and will be reviewed annually to make sure the target is being met.

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Control vs. Flexibility: Operating Budget

The school board's annual budget shall be developed in accordance with policies and procedures set forth in the district's Five-Year Instructional Goals and long-term strategic plans, in addition to federal and state laws.

Funding shall be prioritized for programs and providers that have a demonstrated track record of success in achieving the school board's desired learning outcomes for students, and those programs proven to produce larger gains in student learning relative to their cost.

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Policies vs. Procedures

Policies

1. Overarching guidelines or principles of financial management decisions

Procedures

1. Detailed steps to accomplish business processes



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Policies vs. Procedures

Policies

2. Written down in an authoritative document and approved by the board
3. Concise

Procedures

2. May or may not be written down; not adopted by the governing body
3. Can be lengthy



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Policies vs. Procedures

Policies

- 4. Written for a broad audience
- 5. Developed through a process

Procedures

- 4. Staff-level directives
- 5. Often practices that have evolved over time



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Policy or Procedure: Ad Valorem

- A. *The Mayor and the Finance Director collaborate to determine if new ad valorem revenue is needed, the use of the revenue, the millage rate, and the term of the tax, consulting with bond counsel and the municipal advisor. The Council takes formal action, which includes filing resolutions and other required documents with the Bond Commission, Secretary of State, Legislative Auditor, and Assessor. Establishing a new ad valorem tax and renewing expiring ad valorem taxes requires a vote of the residents of the City.*
- B. *The Council shall annually adopt a resolution by June 1, levying taxes as authorized by the Constitution, the laws of the State of Louisiana, and voters of the City, including taxes to meet the principal and interest on outstanding bonds, and shall forward such resolution to the parish Assessor. Special tax elections shall be called for the electors of the City to vote on renewal of existing taxes and/or for additional tax millage for City government purposes as provided by laws of the state.*

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True or False?



Financial policies are not needed for the following because state statutes already provide guidelines for financial management:

- Budgeting (Local Government Budget Act, R.S. 39:1301-1315)
- Purchasing (Public Bid Law, R.S. 38:2211 *et seq*)
- Debt (Limit of Indebtedness, R.S. 39:562)
- Ethics (Louisiana Code of Governmental Ethics, R.S. 42-1101 *et seq*)
- Data Security (Database Security Breach Notification Law, R.S. 51:3071-3077)
- Prevention of Sexual Harassment (R.S. 42:341-345)

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Budgeting – Are State Statutes Sufficient?

R.S. 39:1301-1315

- Budget Message
- General fund and all special revenue funds
- Columns, revenues by source, expenditures by function
- Ordinance/resolution
- “Balanced”
- Timeline, public hearing, available for inspection
- How to amend
- Monitoring and required notifications
- Emergencies

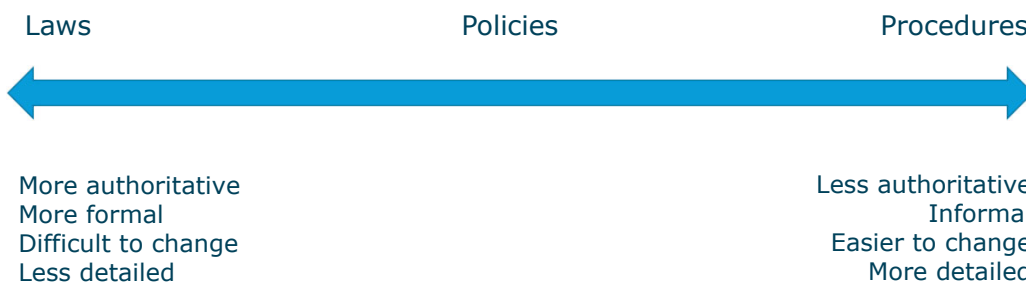
Policy

- Which funds?
- Length of budget period
- Basis of budgeting
- Legal level of budgetary control
- Government’s definition of a balanced budget
- Budget Message
- Apply for GFOA award?
- Budgeting principles and funding priorities
- Internal budget processes

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The Continuum of Laws, Policies and Procedures



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Effective Policies Are . . .

- ✓ Explicit, in writing, easy to understand, and are formally adopted by the governing board
- ✓ Current and relevant
- ✓ Literal – mean what they say and are written in plain language
- ✓ Address all the relevant issues and risks that prompt the need for a policy
- ✓ Easily accessible – on the website, in the budget document, known to staff, referenced in the accounting procedures manual
- ✓ Concise yet comprehensive

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Suggested Policy Elements

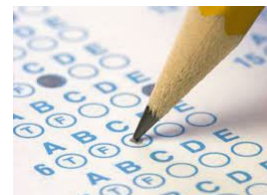
- ❖ **Purpose.** Describes the rationale behind the policy and why it is important.
- ❖ **Policy.** States the official policy of the governing board on the subject at hand.
- ❖ **Procedure(s) to accomplish policy.** Describes the steps staff will take to enact the policy.
- ❖ **Responsibility and authority.** Describes who in the government is responsible for seeing that the policy is implemented.
- ❖ **Definitions.** Defines any critical or ambiguous terms in the policy.

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Multiple Choice

My government's policies are kept



- a. Under lock and key in the Mayor's office
- b. Proudly displayed in 43 bound books in our Council meeting room
- c. On our website as a searchable electronic document
- d. Not really sure – maybe in a file cabinet in someone's office?

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Written Policies and Procedures . . .

1. Ensure clarity and minimize the chance for misunderstanding
2. Provide consistent accurate instruction and uniformity
3. Ensure proper processes are followed
4. Can be used for orientation and training
5. Provide a permanent record and are easy to preserve and verify

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Written Policies and Procedures . . .

6. Can easily present complex information
7. Prevent wasting time and money
8. Can be used as a reference
9. Preserve historical knowledge
10. Delegate authority



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Factors That Motivate the Need for a New Policy

- The governing board's vision for the government
- A current problem or issue
- Governing board feedback on areas needing improvement
- Desire to comply with best practices in financial management
- Recommendations from independent auditor or bond rating analyst
- Other governments' experiences

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Steps to Developing Financial Policies

1. Establish a vision and values for the desired financial condition
2. Define the problem the policy will address
3. Draft the policy
4. Executive team reviews the draft
5. Legal counsel reviews the draft

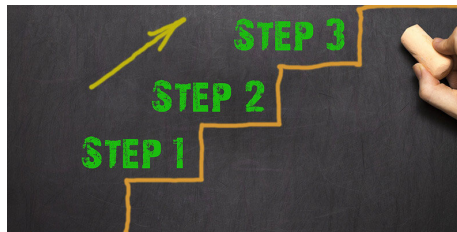


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Steps to Developing Financial Policies

6. Present to elected officials informally
7. Have a public comment period
8. Formally consider and adopt the policy
9. Put the policy into practice
10. Monitor and maintain the policy



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Policies/Procedures Required by Statewide Agreed-Upon Procedures

1. Budgeting
 - a. Preparing
 - b. Adopting
 - c. Monitoring
 - d. Amending
2. Purchasing
 - a. How purchases are initiated
 - b. How vendors are added to the vendor list
 - c. Preparation and approval process of requisitions and purchase orders
 - d. Controls to ensure compliance with the Public Bid Law
 - e. Documentation required to be maintained for all bids and price quotes



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Policies/Procedures Required by Statewide Agreed-Upon Procedures

3. Disbursements
 - a. Processing
 - b. Reviewing
 - c. Approving



4. Receipts/Collections
 - a. Receiving, recording, preparing deposits
 - b. Management's actions to determine completeness of all collections for each type of revenue or agency fund additions

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Policies/Procedures Required by Statewide Agreed-Upon Procedures

5. Payroll/Personnel
 - a. Payroll processing
 - b. Reviewing and approving time and attendance records, including leave and overtime worked
 - c. Approval process for employee rates of pay or approval and maintenance of pay rate schedule
6. Contracting
 - a. Types of services requiring written contracts
 - b. Standard terms and conditions
 - c. Legal review
 - d. Approval process
 - e. Monitoring process

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Policies/Procedures Required by Statewide Agreed-Upon Procedures

7. Travel and Expense Reimbursement
 - a. Allowable expenses
 - b. Dollar thresholds by category of expense
 - c. Documentation requirements
 - d. Required approvers
8. Credit, Debit, Fuel, and Purchase Cards
 - a. How cards are to be controlled
 - b. Allowable business uses
 - c. Documentation requirements
 - d. Required approvers of statements
 - e. Monitoring card usage



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Policies/Procedures Required by Statewide Agreed-Upon Procedures

9. Ethics
 - a. Prohibitions in R.S. 42:1111-1121
 - b. Actions to be taken if an ethics violation takes place
 - c. System to monitor possible ethics violations
 - d. Require maintenance of documentation demonstrating that all employees and officials were notified of any changes to the ethics policy
10. Debt Service
 - a. Debt issuance approval
 - b. Continuing disclosure/EMMA reporting requirements
 - c. Debt reserve requirements
 - d. Debt service requirements

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Policies/Procedures Required by Statewide Agreed-Up Procedures

11. IT Disaster Recovery/Business Continuity

- a. Identification of critical data and frequency of data backups
- b. Storage of backups in a separate physical location isolated from the network
- c. Periodic testing/verification that backups can be restored
- d. Use of antivirus software on all systems
- e. Timely application of all available system and software patches/updates
- f. Identification of personnel, processes, and tools needed to recover operations after a critical event

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Policies/Procedures Required by Statewide Agreed-Up Procedures

12. Prevention of Sexual Harassment

- a. Agency responsibilities and prohibitions
- b. Annual employee training
- c. Annual reporting



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Essential Policies Identified by Government Finance Officers Association (GFOA)

1. Fund balance and reserves
2. Operating budget
3. Capital budget and planning
4. Debt management
5. Long-term financial planning
6. Investment



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Highly Advisable Policies Recommended by GFOA

1. Accounting and financial reporting
2. Revenues
3. Internal controls
4. Expenditures
5. Purchasing
6. Risk management
7. Economic development



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General Fund Reserve Policy Components

- Definition and purpose of reserves
- Reserve target levels
- Funding the target amount
- Conditions for use of reserves
- Authority over reserves
- Excess reserves
- Periodic review of targets



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Operating Budget Policy Components

Key Budget Features

- Scope
- Length of the budget period
- Basis of budgeting
- Cost allocation
- Level of control
- Definition of a balanced budget
- Budget form and information
- Long-term financial forecasts
- Performance measurement



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Operating Budget Policy Components

Principles for Budgeting

- Link the budget to long-term, strategic financial plans
- Critically examine past spending patterns
- Prioritize services
- Understand and manage the price of government
- Assign costs to others
- Maintain existing services over providing new services
- Fund liabilities
- Preferences for budget-balancing strategies
- Budget control system
- Amendments to the budget

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Capital Asset Management Policy Components

Capital improvement plan

- Scope
- Project identification
- Participants
- Selecting projects
- Balanced capital improvement plan (CIP)
- Funding strategies
- Operating budget impacts



Capital budget

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Capital Asset Management Policy Components

Capital project management

Capital asset maintenance

- Inventory and physical condition
- Establish standards by asset class
- Evaluate infrastructure and set priorities
- Develop funding policies
- Monitor and communicate progress



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Debt Management Policy Components

- Purpose of policy
- Conditions for debt issuance
 - Acceptable purposes and conditions for use of debt
 - Permissible debt instruments
- Restrictions on debt issuance
 - Common policy elements restricting the use of debt
 - Requirements for pay-as-you-go financing
- Financial limitations
 - General debt limitations
 - Revenue debt limitations

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Debt Management Policy Components

- Structuring practices
 - Maturity guidelines
 - Debt service schedule
 - Debt service funds
 - Use of credit enhancements
 - Use of redemption features
 - Use of interest
- Debt issuance process
 - Approval of issuance
 - Determining the method of sale
 - Selection and use of professional service providers
 - Credit ratings



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Debt Management Policy Components

- Debt management process
 - Investment of bond proceeds
 - Compliance practices
 - Refunding bonds
 - Market and investor relations
 - Credit rating goals
- Special situations
 - Use of derivatives
 - Interfund borrowing
 - Variable rate debt
 - Short-term debt
 - Lease debt



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Long-Term Financial Planning Policy Components

- Commit to preparing a plan
- Scope of the plan
- Relationship between financial and strategic planning
- Find imbalances
- Long-term balance

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Investment Policy Components

- Scope and objectives
- Pooling funds
- Standards of care
 - Authority to invest
 - Prudence
 - Conflicts of interest and ethics
- Investment portfolio
 - Authorized investments
 - Prohibited investments
 - Diversification and maturities
 - Competitive bidding
- Safekeeping and custody
 - Eligible institutions
 - Investments advisors
 - Collateral
 - Safekeeping
 - Internal controls
- Reporting
 - Frequency and format
 - Performance targets

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Accounting and Financial Reporting Policy Components

- Audit committee
 - Membership
 - Responsibilities
- Accounting
 - Basis of accounting records
 - Empowerment of staff for management decisions on accounting issues
 - Endorsement of key management accounting policies
 - Examination of critical management practices
- Reporting
 - External reporting
 - Internal reporting
 - External auditing



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Revenue Policy Components

- Revenue goals
 - Diversification and stabilization
 - Equity
 - Relation to economic development
 - Collections
- Non-recurring and volatile revenue
- New revenues and changes to revenues
- Estimates of revenue
 - Forecasting philosophy
 - Multi-year forecasts
- User fees
 - Goal of user fees
 - Cost recovery
 - Review of fees
- Property taxes
- Grants



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Internal Control Policy Components

- COSO Framework
 - Operations, reporting, compliance
 - 5 elements
- Control environment
 - Segregation of duties
 - Security of assets and records
 - Periodic reconciliations and verifications
- Responsibility
 - Test controls
 - Review and update procedures
 - Cost of controls versus benefit
- Communication of internal controls

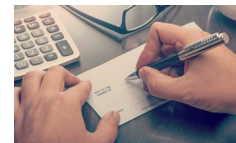


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Expenditures Policy Components

- Funding operations
 - Minimum level to ensure ongoing health, safety, and welfare
 - If expenditures in a specific fund need to be supported only by revenues in that fund
 - Investing in technology improvements
 - Limit commitments to what can be reasonably funded
- Personnel compensation
 - To attract and retain quality employees
 - Offer competitive pay rates
 - Fund enough positions to provide quality services
- Funding asset maintenance and replacement
- Outsourcing



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Purchasing Policy Components



- Guiding values
 - Accountability, ethics, impartiality
 - Professionalism, service, transparency
 - Compliance with Public Bid Law and/or State Procurement Code
- Objectives
 - Cost, quality, timeliness
 - Managing risks, maximizing competition
 - Managing integrity and transparency
 - Accomplishing social and economic objectives
- Purchasing authority and approval limits
- Procurement method, including use of federal and state grant funds
- Bids and quotes, online bidding, group purchasing
- Vendors
- Outsourcing

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Risk Management Policy Components



Hazard risks (fire, theft, accidents, weather, etc.)

- Objectives
 - Protect assets, provide a safe environment
 - Efficiency (risk avoidance, reduction, transfer, retention strategies)
- Authority and responsibility
- Implementation (insurance providers and coverage, safety programs, etc.)
- Risk financing (reserves, purchase of insurance, self-insurance)

Enterprise risk management (strategic goals across the organization)

- Financial, operational, strategic
- Attitude of organization towards risk
- Integration into planning and decision making
- Roles and responsibilities

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Economic Development Policy Components

- Scope
- Goals for economic development
- Project eligibility criteria
- Evaluating proposals
 - Evaluation criteria
 - Stakeholder involvement
 - Information required
- Performance standards
- Other issues
 - Financing mechanisms
 - Incentives
 - Regional considerations



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Where To Start?



1. Statewide Agreed-Upon Procedures (12)
2. Essential (6)
3. Highly Advisable (7)

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Resources



[Financial Policies](#) by Shayne Kavanagh

GFOA's Best Practice, [Adopting Financial Policies](#)



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Thank You!

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