Financial Policies

Development, Review, Best Practices

GFOAT Fall Conference 2016 – Arlington, TX

Presented by: Bret Starr, Budget Administrator, City of Irving
Overview

• Financial Policy Development
  – Policy Design
  – Policy Scope
  – Policy Structure
  – Format and Content Examples
  – Authorization and Implementation
• Policy Review and Compliance
• Internal Controls
• Case Study – Irving’s Financial Policy Journey
Credit Where Credit is Due

“If you steal from one source, it’s plagiarism. If you steal from three or more, it’s research.” - Joseph Cummings Chase

- GFOA Best Practices
- GFOA 109th Annual Conference – 2015
  - Peggy Bunzli, City of Boulder, CO
  - Merrill King, City of Minnetonka, MN
  - Bob Cenname, City of Baltimore, MD
- Jeff Litchfield – CFO, City of Irving
- Calvin Webb – President and CEO, Gradient Solutions Inc.
- City of Carrollton, TX
- City of Plano, TX
- City of Richardson, TX
- City of Conroe, TX
- City of Georgetown, TX
- City of Round Rock, TX
- City of Webster, TX
Good Financial Policies

- Institutionalize good financial practices
- Clarify strategic intent for financial management
- Establish parameters for government operation
- Develop standards to judge fiscal performance
- Support good bond ratings
  - Financial management is 20 percent of Moody's General Obligation bond rating scorecard
- Promote long-term and strategic thinking
- Manage risks to financial condition
- Comply with established public management best practices
Why are we really here?

Financial Policies...

• Provide guidance for operations
  – Establish procedures for specific actions and tasks
  – Use as a reference guide
  – Set expectations and acceptable parameters
  – Reduce risk of financial loss and illegal activity

• Outline employer/employee obligations

• Enhance accountability and consistency

• Delineate authority and responsibility of employees
  – Transaction authorization and approvals
  – Safekeeping of assets and records

• Increase employee understanding and support of internal controls

The first two questions of any internal control review:
1. Is there an adopted policy to cover this situation?
2. Has staff been trained on this policy?

Attributed to Calvin Webb
Policy Development

• Scope
• Creation/Revision
• Design/Format
• Presentation/Approval
• Distribution/Training
• Review
Scope - Global

- General Fund Reserve
- Operating Budget
- Debt
- Grants
- Other Funds Reserves
- Structurally Balanced Budget
- Investments
- Procurement
- Economic Development Incentives
- Capital Asset Management
- Accounting and Financial Reporting
- Risk Management
- Expenditures
- Revenues
- Long-Term Financial Planning
- Internal Control
Policy Development

• Foundation of good governance
• Not a top priority
• Other daily business will require attention
Get by With a Little Help From Your Friends

• GFOA Best Practices recommendations
• Review policies of peer organizations
  • Theft is the most sincere form of flattery
  • Do not reinvent the wheel
• Customize policies to fit your organization
  • Size/ Scope/Structure
• The City Attorney can be your best friend
• Seek input from:
  • Subject matter experts
  • Affected departments
  • Long-tenured employees
  • Public comments
Development Process

- Define the problem the policy will address
  - Limit each policy to a specific issue
- Draft the policy
  - Be aware of legal requirements
  - Consider employee/public comments
  - Look at experiences of peer organizations
- Review and present to government officials
- Adopt policy
- Implement policy
  - Publish (across multiple media)
  - Train and educate staff
Policy Design

- Written in clear language
- **Comprehensive, yet concise**
- Written for multiple audiences
  - Elected officials (policy makers)
  - Employees (current and future)
  - Public (residents, taxpayers)
  - Auditors
  - Financial Professionals
  - Peers
Policy Statements vs. Policy Document

• Many policies are grouped together in one document
  – All policies in one place/file/link
  – GFOA recommends placing all financial policies together in the budget document
  – Some organizations may not have the resources to create/review/maintain detailed policies

• Some policies require separate authorization
  – Annual investment policy review and approval

• Significant revisions can be bogged down over questions relating to just a few of the policies

• Policies in a larger document can grow stale if not reviewed and considered individually
Policy Scope

• Suggest creating a separate policy for each area/topic
  – Update each policy as it changes without having to revise and reapprove the entire document
  – Issue separately to appropriate individuals
  – Better audit trail
  – Can drill down further into each policy while providing a high-level summary for the annual budget
  – Policy summaries can be combined as a section of the budget document

• Can overlap into procedure documents
  – Policy comes first
  – Then provide the procedures to implement the policy
Policy Structure

• Statement of Purpose (Goals and Objectives)
  – The **WHY**
  – Principles establishing agreement and buy-in
• Background, introduction and/or scope
• Provisions
  – Relevant topic only
  – Defined by the scope in the background section
• Authorization
  – Authorizing signatures/actions
  – Date of approval and subsequent amendments/revisions
  – Date of implementation
Know Your Limits

- State and Federal law
- Generally Accepted Accounting Principles (GAAP)
- City Charter
- Corporate Culture
  - The more a policy differs from established practice, the more time and effort will be needed to:
    - Explain the need for change
    - Educate employees on the new policy
    - Gain acceptance and compliance
Provisions

• The specific provisions and level of detail for each policy will depend on the policy and the specific conditions of your organization

• GFOA Best Practices is a good place to start

www.gfoa.org/best-practices
Policy vs. Law

• It is important to note what part of the policies are required by law and which are internal decisions
  – What we choose to do

<table>
<thead>
<tr>
<th>RESTRICTION ON DEBT ISSUANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The City of Round Rock will not use long-term debt to finance current operations or normal maintenance.</td>
</tr>
<tr>
<td>• Derivative products will not be used by the City.</td>
</tr>
<tr>
<td>• Swaps will not be entered into without establishment of a Swap Policy.</td>
</tr>
<tr>
<td>• Variable rate debt will not be entered into without establishment of a Variable Rate Debt Policy.</td>
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<table>
<thead>
<tr>
<th>LIMITATIONS ON OUTSTANDING DEBT</th>
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<tbody>
<tr>
<td>There is no direct debt limitation in the Round Rock City Charter or under State law. The City operates under a Home Rule Charter (Article XI, Section 5, Texas Constitution) approved by voters in August 1977 that limits maximum tax rate, for all City purposes to $2.50 per $100 assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for general obligation debt service.</td>
</tr>
</tbody>
</table>

– What we are required to do
– Human Resources example: State law dictates how civil service exams are conducted, it is silent on the use of three part canary yellow forms for personnel actions
I. STATEMENT OF PURPOSE

The City of Conroe (City) has an important responsibility to its citizens to carefully account for public funds, manage municipal finances wisely, manage growth, and plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities. In these times of rapid growth in the Conroe area, the City needs to ensure that it is capable of adequately funding and providing those local government services needed by the community. The following Financial Management Policy is designed to establish guidelines for the fiscal stability of the City. The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The scope of these policies generally spans, among other issues, accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, asset management, debt management, and planning concepts, in order to:

1. demonstrate to the citizens of Conroe, the investment community, and the bond rating agencies that the City is committed to a strong fiscal operation;

2. provide precedents for future policy makers and financial managers on
Statement of Purpose
Individual Policies

STATEMENT OF PURPOSE:

This directive is to establish the City of Carrollton’s policy on acceptance of credit cards and the procedures to be followed when processing credit card payments.

City of Webster
Fund Balance Policy
(Revised for GASB 54 on February 15, 2011)

Purpose

The purpose of this policy is to establish a key element of the financial stability of the City by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City’s general operations.

Sources: City of Carrollton, TX, City of Webster, TX
Form – Consistent Headers

CITY OF PLANO POLICIES AND PROCEDURES
300.000

Department Name: Finance
Procedure: Financial Policies
Effective Date: 07/08/1991
Revision Date(s): 11/13/2000, 6/30/06, 3/31/2012

Accounts Payable Policy
Ref. # ACCTG2.0

Section: Finance
Category: Accounts Payable
Topic: Accounts Payable Policy

Approved by: Leonard Martin by Email
Reference Number: ACCTG2.0
Effective Date: 08/26/2015
Revision Date: 8/26/2015

Sources: City of Plano, TX, City of Carrollton, TX
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<td>11. Vendor Number</td>
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<td>12. Check Errors &amp; Lost Checks</td>
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<td>13. Standard Payment Terms</td>
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<td>14. Sales Tax Exemptions</td>
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<td>15. Related Policies and Procedures</td>
<td>8</td>
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Source: City of Carrollton Accounts Payable Policy
Provide Guidance

- Policies should reflect actual conditions instead of ideals
- Why adopt policies you are in immediate violation of?
  - Better not to articulate a policy at all
- Illustrate where you are and where you want to go
- Update policies when goals are achieved

A. The annual budget shall be presented to Council, with each fund reflecting minimum ending fund balances as follows:

- General Fund: 60 days of expenditures
- General Debt Service Fund: 30 days of expenditures
- Water and Sewer Fund: 90 days of expenditures
- Utility Debt Service: Compliance with bond covenants
- Golf Fund: 30 days of expenditures, building towards 60 days
- Solid Waste Fund: 60 days of expenditures, building towards 90 days

Source: City of Richardson, TX
Policy Design and Format

- Make the format easy to read and find specific information
- Use of outline structure, bullets, numbering, italics, boldface, underlining, colors

1.2. If guidelines are not established in this document that relate to a specific situation or if interpretative assistance is needed, please contact the Accounts Payable department at 972-466-3110 or by e-mail to accountspayable@cityofcarrollton.com

2. Payment Process Roles and Responsibilities

2.1. Accounts Payable Department Responsibilities:

- Oversees the City's disbursement process to ensure that only authorized payments are made, that the disbursement process is efficient, and that tax reporting related to disbursements is completed.

- Maintains the vendor file, administers travel advances, voids checks and issues replacement checks. Monitors vendor statements and investigates invoicing or payment errors, and outstanding invoices.

- Provides assistance and direction to departments in settling disputes with vendors and provides

Source: City of Carrollton, TX
Policy Design and Format

• Use of tables to summarize information

<table>
<thead>
<tr>
<th>Value of Purchase</th>
<th>Quotations Needed</th>
<th>Payment Alternatives</th>
<th>Approvals Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100</td>
<td>None</td>
<td>Petty Cash Credit Card Check Request</td>
<td>Department Finance City Manager City Council Yes Yes No No</td>
</tr>
<tr>
<td>$100-$10,000</td>
<td>Departmental Discretion</td>
<td>Credit Card Check Request</td>
<td>Department Finance City Manager City Council Yes Yes No No</td>
</tr>
<tr>
<td>$10,000-$25,000</td>
<td>Two Written</td>
<td>Electronic Funds Tsf Check Request</td>
<td>Department Finance City Manager City Council Yes Yes Yes(1) No</td>
</tr>
<tr>
<td>$25,000-$100,000</td>
<td>Two Written or RFPs (2)(3)</td>
<td>Check Request Electronic Funds Tsf</td>
<td>Department Finance City Manager City Council Yes Yes Yes(1) No</td>
</tr>
<tr>
<td>Greater than $100,000</td>
<td>Sealed Bids(2)</td>
<td>Check Request Electronic Funds Tsf</td>
<td>Department Finance City Manager City Council Yes Yes Yes(1) Yes</td>
</tr>
</tbody>
</table>

Source: City of Minnetonka, MN
Policy Design and Format

• Charts and graphs to explain concepts

Source: City of Conroe, TX
Policy Design and Format

• Charts and graphs to provide illustration

Per Diem
The Federal Meal & Incidental Expense (M&IE) per diem is the maximum amount allowed travelers for meal and incidental expenses for travel destinations within the United States. The Federal M&IE per diem for meal and incidental expenses is a flat rate payment and can be found at www.gsa.gov/perdiem.

FY 2016 Per Diem Rates for San Antonio, Texas

In the rare instance of travel outside of the United States, the U.S. Department of State Foreign per diem rates should be used (https://aoprals.state.gov/web920/per_diem.asp).

Source: City of Irving, TX
Form – Understandability

• Use **concrete language** to simplify complex financial concepts
• Be explicit about what is covered by the policy and what the rules are
• Avoid jargon, no “inside baseball”
• Spell out acronyms
Form – Longevity

• Do not refer to specific software programs or reports
• Do not refer to specific people in the organization
• Do not refer to the language of current trends, e.g. TQM, Six Sigma, etc.
• Policies explain why
• Procedure manuals explain how
Policy Design and Format

• Consistency within and among distinct policies
  – Formatting conventions, size, layout, fonts, etc.
Authorization and Implementation

• Policies should be issued at the appropriate level of management to emphasize importance and ensure compliance
  – City Council
  – City Manager
  – Chief Financial Officer

• Different policies may be approved at different levels for different reasons
  – Investment policy: State law requires annual review and approval by City Council
  – Retirement party spending amounts: can be approved administratively
Authorization and Implementation

• Get written approval to implement

• City Manager approval for internal policies
  – Provides guidance to entire city to follow policies

• Council or Council committee review or approval
  – Shows Council (and public) that you do have financial policies
  – Fundamental policy direction should come from the Council
    • Level of fund balance
    • Term and use of debt
    • Accumulation and expenditure of reserve balances
Authorization and Approval

• Include effective date
• Track changes and reviews
• Note reviews even if no changes are made
• Get signed approvals for the policy
• Include City Council action date if applicable

Policy History:

<table>
<thead>
<tr>
<th>Effective Date of this Policy:</th>
<th>03/xx/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replaces/Updates Policy Dated:</td>
<td>03/23/2005</td>
</tr>
<tr>
<td>Policy Reaffirmed with no significant changes:</td>
<td>N/A</td>
</tr>
<tr>
<td>Approvals:</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>City Manager</td>
</tr>
</tbody>
</table>

Source: City of Irving, TX
Implementation

• Written documents – GFOA best practice
  – Accessible and current
  – Not filed away in the supply closet
• On-line documents
  – Multiple ways to access
• Include relevant policies in Budget
• Staff orientation and in-processing
• Policy and procedure training
• Periodic review at staff meetings
Post to Your Website

Finance & Administration

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FISCAL & BUDGETARY POLICY

The City of Georgetown is committed to financial management through integrity, prudent stewardship, planning, accountability, full disclosure and communication. The broad purpose of the Fiscal and Budgetary Policies is to enable the City to achieve and maintain a long-term stable and positive financial condition, and provide guidelines for the day-to-day planning and operations of the City's financial affairs.

Policy scope generally spans areas of accounting and financial reporting, internal controls, both operating and capital budgeting, revenue management, investment and asset management, debt management and forecasting. This is done in order to:

1. Demonstrate to the citizens of Georgetown, the investment community, and the bond rating agencies that the City is committed to a strong fiscal operation;
2. Provide precedents for future policy-makers and financial managers on common financial goals and strategies;

Finance & Administration > Fiscal & Budgetary Policy

Finance & Administration

FINANCE & ADMINISTRATION

Financial Transparency

Financial Reports

Fiscal & Budgetary Policy

Finance Department

Purchasing Department

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Email

* Email
City Manuals Legislation introduced in 2015 in Minnesota would have required cities to have operating procedure manuals available to the public at city offices

- Include “clear operating policies, procedures, forms, deadlines, due dates or payment requirements relating to each duty or operation of the city”
Policy Review

• GFOA Best Practices
  – Review annually
  – Update periodically
    • Revise no less than every three years
    • Changes between reviews should be updated and distributed promptly
  – Assign a specific employee to oversee this process
  – Management oversight to ensure reviews are done consistently
Compliance and Internal Control

- Once your policies are created...
- How do you ensure the policies are being followed?
- How often do you review and test the policies?
- It is better to know and disclose where your organization is and is not complying with stated goals
  - Mitigating circumstances
  - Changes in policy direction from new council and management
- Better to know than to have it discovered and brought to your attention by council/residents/media
Internal Controls

• GFOA Best Practices
  – Recommends financial managers obtain information and training to take responsibility for internal control
  – Understand the comprehensive framework for internal control set by the Council of Sponsoring Organizations (COSO) of the Treadway Commission on Fraudulent Financial Reporting
  – Internal control procedures over financial management be documented
  – Periodically review internal control procedures
  – Determine specific actions to be taken and establish a timetable for implementation
Internal Controls

• Effective internal controls
  – Adherence to policies and procedures
  – Judgement as to how much control is enough
  – Monitor and assess effectiveness of controls

• COSO Cube framework
  – Apply internal controls at any level of an entity
  – Flexible approach to design, implement, and conduct internal controls
  – Considers how components and principles are functioning and how components operate together
  – Means to identify and analyze risks
  – Expand application of internal control beyond financial reporting to other reporting, operations, and compliance objectives
  – Eliminate ineffective, redundant, or inefficient controls
Internal Controls

• The COSO cube – three-dimensional internal control framework
Nothing is Ever Easy

In General – City of Irving Financial Policy Review

• Current policies – last comprehensive revision in 2005
• Updates and revisions 2011-12
  – Several obsolete policies deleted (Sale/use of tickets at Texas Stadium, Car Allowances)
  – Critical policies created/revised (Post-Issuance compliance)
  – Significant staff time and effort
  – No clear acceptance or approval from management
• Updates and revisions 2015-16
  – New city management, new CFO
  – Emphasis on internal controls and processes
  – Goal of reviewing one policy a month to refresh entire list
Nothing is Ever Easy

In Particular – City of Irving Travel Policy (proposed)

• Applies to appointed officials, city employees and others authorized to officially represent the city at various conferences and meetings
• Explicitly allow departments to have stricter policies than the main policy
• Define travel expense approvals based on department and position
• Pre-approval by department director and CMO before travel
• Reduced time to complete travel report from 60 to 45 days
• Changes reimbursement for meals and incidentals from requiring individual receipts to the federal per diem rate by location
• Removed provisions for reimbursement of long-distance calls

So, what were the sticking points?

– Change from itemized receipts to per diem
– Authority of policy over personnel appointed by Council/Boards
City of Irving
Organization Chart (Simplified)
Summary

Financial policies are central to a strategic, long-term approach to financial management.

Communicate to your audiences the *Why* and the *What* in a *form*, *design* and *format* that is *understandable* and *accessible*.

Use policies as a means to establish and maintain internal controls to guide operations, reduce risk, and provide efficient and effective delivery of services.
Additional Guidance

• GFOA Best Practices
  – www.gfoa.org/best-practices
• Financial Consultants
• Peers
Questions