

How to Effectively Use Financial Policies

Presenters:

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Items to be covered

- Policies the City of Wadsworth is using to stay financially accountable
- The policies your auditor focuses on
- Common audit citations issues over financial policies
- How involved should your governing body be?
- Benefits of strong financial policies
- Effective implementation of financial policies

Which Financial Policies Should You Have?

- **PLANNING AND BUDGETING**
 - General Fund/Other Fund Reserves
 - Long-Term Financial Planning
 - Capital Asset Policies
 - Economic Development
 - Budgeting
- **TREASURY**
 - Investment
 - Revenues

Which Financial Policies Should You Have?

- DEBT MANAGEMENT
- ACCOUNTING AND FINANCIAL REPORTING
 - Grants
 - Procurement
 - Credit Cards, P-Cards
 - Risk Management & Internal Controls
 - Cash Handling
 - Ethics, Vehicle Use, Cell Phones, Travel

General Fund / Other Fund Reserves

- Policy sets the amount of resources to be held in reserve and the conditions under which they can be used
- Recommended to be passed by governing board
- **General Fund Reserve Calculation Worksheet:**
- <https://www.gfoa.org/materials/general-fund-reserve-calculation-worksheet>

General Fund / Other Fund Reserves

- 5-year forecast indicates:
 - Financial health
 - Stable tax rates & services
 - Ability to fund unanticipated costs
 - Identification of need for debt issuance
- Good for bond rating

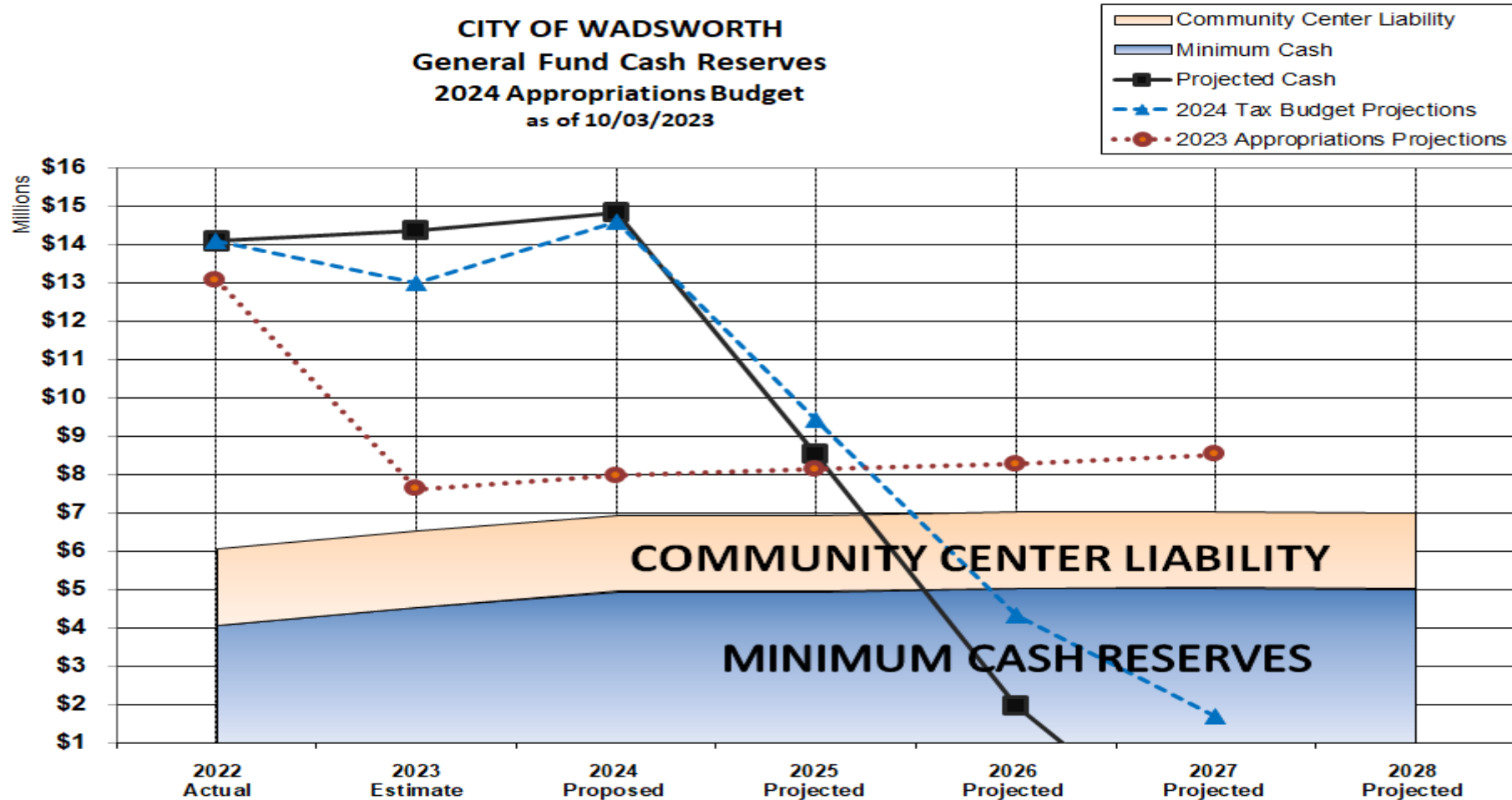
General Fund / Other Fund Reserves

- What if, cash falls below the minimum?
 - Revenue adjustments
 - Cost Reductions
 - Issuance of bonds to fund capital improvements
 - Modification of the assumptions used to determine the cash reserve levels

General Fund / Other Fund Reserves

2024 AP Budget as of 10/03/2023							
CITY OF WADSWORTH							
General Fund							
Cash Reserve Policy							
	Actual	Estimate	Proposed	Projected	Projected	Projected	Projected
	2022	2023	2024	2025	2026	2027	2028
Operating Expenditures	13,167,301	15,121,499	17,360,447	17,345,033	17,804,557	18,171,359	18,435,598
Next Year's Annual Debt Service	1,459,634	1,502,914	1,485,589	1,477,549	1,467,224	1,426,603	1,335,922
Percent of Operating Expenditures	20%	20%	20%	20%	20%	20%	20%
Percent of Debt Service	100%	100%	100%	100%	100%	100%	100%
Minimum Cash Reserve	\$4,093,094	\$4,527,214	\$4,957,678	\$4,946,556	\$5,028,135	\$5,060,875	\$5,023,041
Community Center Liability	1,984,310	1,984,310	1,984,310	1,984,310	1,984,310	1,984,310	1,984,310
Projected Cash Reserves	\$14,110,615	\$14,388,718	\$14,843,755	\$8,524,535	\$1,953,264	(\$2,220,521)	(\$5,600,823)

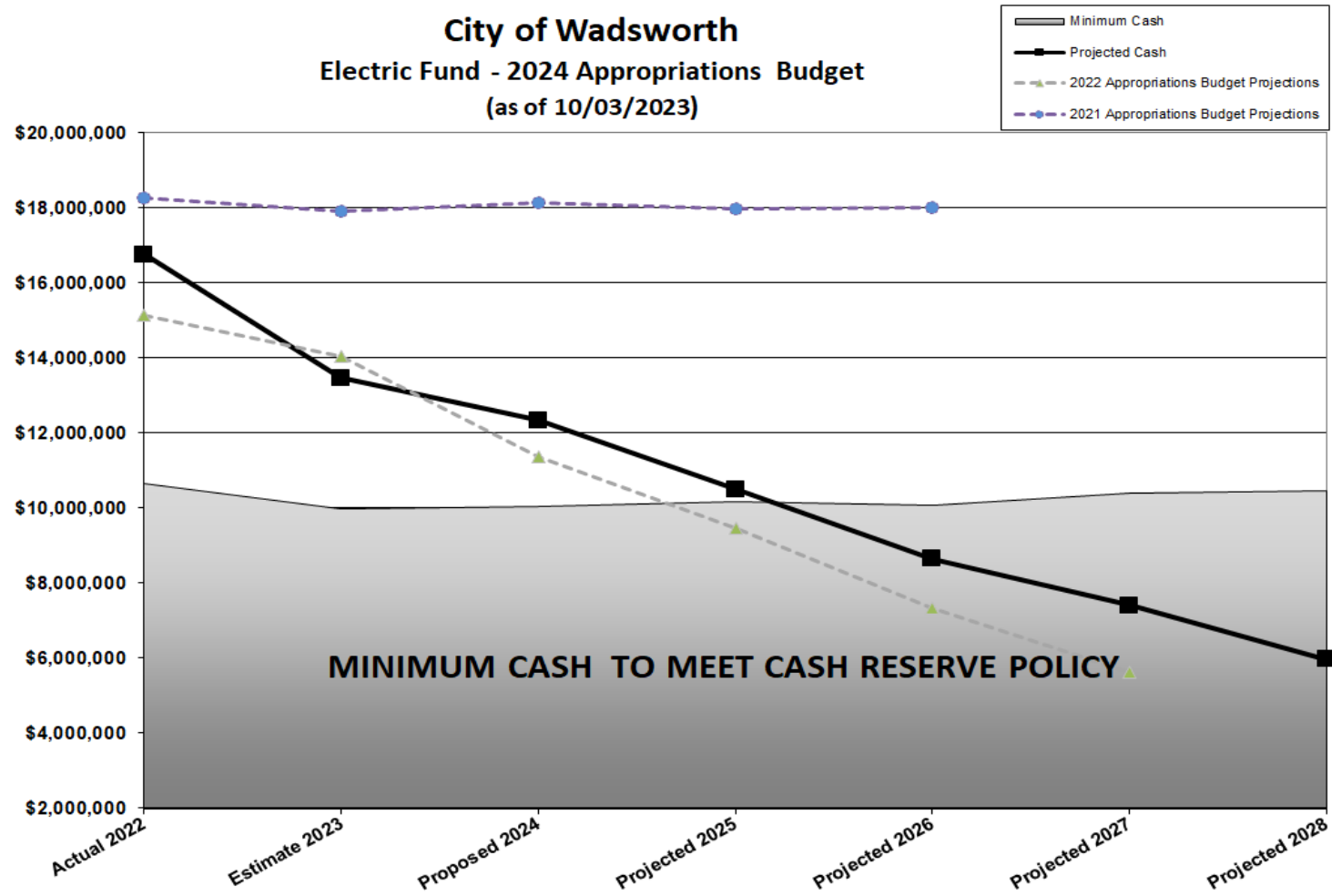
General Fund / Other Fund Reserves



General Fund / Other Fund Reserves

2024 Appropriations Budget as of 10/03/2023							
CITY OF WADSWORTH							
Electric Department							
Cash Reserve Policy							
	Actual 2022	Estimate 2023	Proposed 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028
Operation & Maintenance Less Depreciation	\$ 8,932,745	\$ 8,903,503	\$ 10,101,539	\$ 9,971,448	\$ 10,224,331	\$ 10,598,322	\$ 10,852,449
Purchase Power	22,780,144	21,500,000	19,869,480	21,189,783	21,744,975	23,955,702	24,081,863
Historical Rate Base	55,419,514	56,990,648	57,803,342	58,392,695	58,969,190	59,533,107	60,084,720
Debt Included in Purchase Power	2,519,342	2,701,788	2,717,570	2,718,533	2,467,199	2,440,596	2,436,705
Next Year's Debt Service	1,153,289	98,403	96,230	93,688	90,774	74,115	71,229
Next Year's Capital Improvements	2,780,261	2,056,100	1,850,490	1,850,490	1,850,490	1,850,490	1,850,490
Five Year Capital Improvements	10,387,831	9,458,060	9,252,450	9,252,450	9,252,450	9,252,450	9,252,450
Operation & Maintenance Less Depreciation	25%	25%	25%	25%	25%	25%	25%
Purchase Power	11%	11%	11%	11%	11%	11%	11%
Historical Rate Base	1%	2%	2%	2%	2%	2%	2%
Debt Included in Purchase Power	100%	100%	100%	100%	100%	100%	100%
Current Portion of Debt Service Reserve	100%	100%	100%	100%	100%	100%	100%
Next Year's Capital Improvements	15%	15%	15%	15%	15%	15%	15%
Five Year Capital Improvements	15%	15%	15%	15%	15%	15%	15%
Minimum Cash Reserve Levels for:	Actual 2022	Estimate 2023	Proposed 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028
Operation & Maintenance Less Depreciation	\$ 2,233,186	\$ 2,225,876	\$ 2,525,385	\$ 2,492,862	\$ 2,556,083	\$ 2,649,581	\$ 2,713,112
Purchase Power	\$ 2,228,688	\$ 2,067,803	\$ 1,886,710	\$ 2,031,838	\$ 2,120,555	\$ 2,366,662	\$ 2,380,967
Historical Rate Base	\$ 554,195	\$ 1,139,813	\$ 1,156,067	\$ 1,167,854	\$ 1,179,384	\$ 1,190,662	\$ 1,201,694
Debt Included in Purchase Power	\$ 2,519,342	\$ 2,701,788	\$ 2,717,570	\$ 2,718,533	\$ 2,467,199	\$ 2,440,596	\$ 2,436,705
Next Year's Debt Service	\$ 1,153,289	\$ 98,403	\$ 96,230	\$ 93,688	\$ 90,774	\$ 74,115	\$ 71,229
Next Year's Capital Improvements	\$ 417,039	\$ 308,415	\$ 277,574	\$ 277,574	\$ 277,574	\$ 277,574	\$ 277,574
Five Year Capital Improvements	\$ 1,558,175	\$ 1,418,709	\$ 1,387,868	\$ 1,387,868	\$ 1,387,868	\$ 1,387,868	\$ 1,387,868
Recommended Minimum Cash Reserve	\$ 10,663,914	\$ 9,960,807	\$ 10,047,403	\$ 10,170,215	\$ 10,079,436	\$ 10,387,056	\$ 10,469,149
Projected Cash Reserves	\$ 16,754,981	\$ 13,463,970	\$ 12,340,956	\$ 10,495,677	\$ 8,647,529	\$ 7,402,617	\$ 5,966,158

General Fund / Other Fund Reserves



Long-Term Financial Planning

- Achieve organizational alignment
- Forecast long-term revenues & expenses
- Helps set utility rates
- Determines long-term debt capacity
- Analysis of the external economic & fiscal environment
- Helps to determine long-term impact of priorities and goals
- Should be for at least 5 years
- Reviewed annually or if major assumptions change

Capital Policies

- Address maintenance, replacement, and proper accounting
- Lead to the development of a capital plan
- Guidelines for coordinating capital projects
- Need to consider all capital needs as a whole

Capital Planning Policies Should:

- Establish committee and identify members
- Level of public participation
- Structure for prioritization
- Assessment of the government's fiscal capacity
- Procedure to accumulate capital reserves
- Link funding strategies with useful lives
- Require multi-year capital improvement plan
- Process for funding
- Include capital maintenance
- Monitoring and oversight

Multi-Year Capital Planning

- Clearly identify capital needs, funding options, and operating budget impacts
- Identify needs – capital asset life cycle
- Determine financial impacts
- Prioritize capital requests
- Develop a comprehensive financial plan
- Integrate environment, social and governance (ESG) considerations in planning

Capitalization Thresholds

- Should avoid the cost of capitalizing immaterial items
- Minimum should be \$5,000
- Have different dollar thresholds for different classes of capital assets
- Best applied to individual items rather than groups
- Perform a periodic review of thresholds and useful lives
- Capital assets acquired with Federal money may have different requirements
- Exercise control over non-capital assets

Capital Useful Lives

- Useful life should be at least 2 years
- Best source is own experience
 - Other governments, private sector, or professional standards
- Consider quality, application, & environment
- Maintenance & replacement policy
- Periodically review and update

Economic Development & Capital Planning

- Require coordinated long-term capital planning
- Align the organization-wide goals and objectives
- Evaluate potential impacts and benefits
- Coordinate economic development strategies with other initiatives and government entities
- Optimize the time element of capital planning

Economic Development & Capital Planning

- Recognize the value of public infrastructure as an economic development strategy
- Estimate the impact of development on existing assets and ongoing maintenance
- Estimate full lifecycle costs of new capital assets
- Identify appropriate opportunities for developers to fund capital assets

Economic Development Policy

- Include the Goals and Objective
 - Creates a context and accountability
- Financial Incentive Tools and Limitations
 - Maximum dollar amount
 - Time Limits
 - Types of eligible projects
 - Identify the funding sources

Economic Development Policy

- Evaluation Process
 - Aligns with goals and objectives
 - Compare cost of incentive against the benefits of the project
 - Impact on tax base and revenue
 - City incentive effects revenue to school
 - Impact on existing businesses
 - Would project proceed without incentive?

Economic Development Policy

- Performance Standards
 - Quantitative or objective assessments
 - Outline remedies, if not met
 - "claw back" provision
- Monitoring and Compliance
 - Define roles and responsibilities of each department
 - Identify when the governing board will receive status updates

Economic Development Policy

- Finance's responsibility
 - Monitor project performance
 - Compare targets to actuals
 - Unfavorable results need to be remedied
 - Communicate results to Council and public

Budgeting Policy

- ORC 5705 has most of the requirements
 - Annual Tax Budget
 - Certificate of Estimated Resources
 - Annual Appropriations Ordinance
 - Amendments
- Define "Structurally Balanced Budget"
 - Recurring vs non-recurring
 - Reserves
- Define Legal Level of Control
- Define Operating vs Capital

Budgeting Policy

- Establish Budget Calendar
- Define Allocations, Transfers, and Advances
- Define Budget Method(s)
- Include any required Fund Balances
- Define Methods of Prioritization
- Define what will be presented to Council
- Describe Public Involvement

Investment Policy

- Should be formally approved by Council
- Recommended Best Practice by AOS and GFOA
- Demonstrates care of public funds – **Safety, Liquidity and Yield**
- Liked by rating agencies
- Defines legal and permitted activities
- Establishes measurement and reporting of results

Investment Policy

- Components:
 - Scope and investment objectives
 - Roles and responsibilities
 - Suitable/Authorized Investments
 - Safekeeping, Custody and Internal Controls
 - Reporting/Disclosure standards

Revenue Policies

- Use of One-Time Revenues
- Internal Controls on the Collection of Revenues
 - Timely Deposits
- Forecasting in the Budget Preparation Process
- Use of Unpredictable Revenues
- Establishing Charges and Fees

Debt Management Policy

- Establishes debt limits
 - Voted = 10.5% of AV
 - Unvoted = 5.5% of AV
- Debt Structuring Practices
 - Maximum Term
 - Repayment Structure
 - Optional Redemption Features
 - Use of variable, fixed-rate, or short-term – when can these be used
 - Use of debt service reserve funds and bond insurance
 - Deferral of principal

Debt Management Policy

- Debt Issuance Practices
 - Selection of municipal advisor, bond counsel, etc.
 - Criteria for determining the method of sale
 - Criteria for the issuance of taxable bonds
 - Minimum Bond Rating
- Debt Management Practices
 - Investment of Bond Proceeds
 - Budgeting and Making Debt Service Payments
 - Tax Law Compliance
 - Federal and State Law Compliance
 - Refunding Opportunities

Debt Management Policy

- Use of Derivatives – NOT!
- Can be basic or comprehensive
- [GFOA's Debt Management Policy Best Practices](#)
- CITY OF WADSWORTH'S
 - When % of internal notes to cash reaches 15%
 - no longer issue terms > 10 years
 - maximum note amount limited to \$750,000
 - Maximum note term 20 years or useful life of the asset, whichever is shorter

Grants

- Requires department seeking grant to notify finance
- States "who" can authorize applying for a grant
- Require analysis of available "matching funds", if required
- Requires inclusion of Finance on Notification and Acceptance of a Grant from agency
- States "who" is responsible for terms and conditions of grant
 - Program = Department
 - Financial = Finance

Grants

- Requires creation of revenue and expense accounts
 - include in budget
- Establishes purchasing guidelines
- Requires Finance to review and approve reimbursement requests
- Defines official records
 - Program = Department records
 - Financial = Accounting system records
- Program Income

Procurement Policy

- **Authorization:**
 - Department Head
 - Competitive bidding (Board of Control)
 - Governing Board
- **Purchase Order:**
 - Approvals
 - Receipt of Goods or Services
- **Accounts Payable:**
 - Approvals
 - Invoice Entry
 - Payment Processing

Procurement Policy

- Payment Methods:
 - Automated Clearing House (ACH)
 - Wire Transfer
 - Procurement Cards (P-Cards)
 - Credit Cards [AOS Bulletin 2018-003](#)
 - ACH Debits
 - Cryptocurrency – Should Not Use
 - Check – Positive Pay

Risk Management & Internal Controls

- Cash Handling
 - Reconciliation
- Information Technology
 - Authorization to use accounting system
 - Disaster recovery plan
 - Password policy
- Public Records/Retention Policy [AOS Bulletin 2019-003](#)
- Covered in Employee Handbook:
 - Ethics
 - Vehicle Usage
 - Cell Phones
 - Travel

What does your auditor focus on?



Investment policy



Fund balances/reserve policy



Debt management policy



Public records policy

Don't forget about the records retention schedule



Credit card policy – must be in line with HB 312


Not applicable to “charter” cities.



What does your auditor focus on?

Other policies:

- Procurement/purchasing policy - competitive bidding.
 - Some entities have a Board of Control that handles this.
- Capital planning
- IT policies
 - Disaster recovery plan
 - Incident response plan
 - Password policy



What does your auditor focus on?

Other items:

- Control narratives – are these policies?
 - No, but why are they important?
 - Consider documenting these policies.
 - Nonpayroll expenditures
 - Payroll expenditures
 - Debt payments
 - Revenue cycles - could be multiple collection points to consider.
 - Grants management
 - Budgeting

What does
your auditor
focus on?



Federal policies:

Uniform Guidance policies – do you have them?

- Allowable cost
- Time and effort
- Cash management
- Procurement
- Subrecipient monitoring

Common citations

No policy over key areas.

- No UG policies remains a common noncompliance finding we issue.

Inconsistent application, or not following your policy.

- Monitor the implementation and educate staff when they misstep.

No governing body approval, when appropriate.

Never update the policy.

No communication of policy changes.

- This leads to inconsistent application. Be sure to “train” employees so they understand the “why.”

Governing body approval – do you need it?

What type of policies should be approved by the governing board?

- High-level policies
 - Fund Balance
 - Investment
 - Employee Handbook
- How involved is the governing body in the implementation of the policy?

But do all policies need to be approved?

- No!
- Intricate, detailed, or complicated policies do not always need approval, such as Cost Allocations.
- Department specific policies.



Benefits of strong policies

- Provides a benchmark for the entity to measure itself over time.
- Clarifies strategic intent.
 - Helps employees understand what is expected of them.
- Increases accountability.
- Assists with turnover.
 - Can be referenced during staff trainings.
- Could **lower** your bond rating.
- Keep local governments compliant with rules and regulations.

Implementation of financial policies

Communication is key!

- Changes must be communicated to the necessary people.
- Trainings may be necessary to ensure everyone understands the changes.

Easily accessible

- Available online or a shared folder.
- Auditor perspective – online is best for board-approved policies because it shows transparency.

Must be monitored

- If policies are designed well but not monitored, then they're pointless.
- Employees must be held accountable for not following policy.

Periodic review

- Look over your policies on an annual basis
- Only make changes if necessary! Frequent, small changes should be avoided.



- Reassess your situation from time to time. The type of policies your organization needs will change as your organization evolves.
- Make sure you get the governing body's involvement and approval, when necessary.
- Communicate and educate! Help folks understand their role in the implementation of your policies.
- Don't recreate the wheel. When creating polices, refer to examples, talk to other entities, or talk to you auditor team.

Key takeaways

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