NEW HAMPSHIRE
MUNICIPAL ASSOCIATION

Financial Policies

The adoption of financial policies provides a number of benefits to municipalities large and small. The adoption of financial policies helps to provide consistency, stability, and continuity in the financial operations of the town. Written policies provide a framework to guide and educate both newly elected officials in carrying out their fiduciary responsibilities and newly appointed staff in the conduct of their financial duties. The ability to rely on well-defined financial policies helps to resolve conflicts and avoid allegations of bias or favoritism. Additionally, the adoption of financial policies is just a good, sound business practice that fosters confidence in the fiscal operations of the municipality.

The NHMA's publication, *Basic Financial Policies: A Guide for New Hampshire Cities and Towns*, provides detailed explanations of the basic financial policies that municipalities should consider adopting. The guide includes sample policies, an internal control checklist, and other information helpful in formulating comprehensive financial policies.

The following sections provide general information regarding various types of financial policies.

Cash Receipts Policies

The primary focus of a cash receipts policy is to establish proper management practices over cash, checks and other receipts. Strong internal controls over revenues are necessary to instill public confidence in municipal operations, and to provide accurate, reliable and timely information upon which financial decisions can be made. Budgeting, revenue forecasting, account reconciliations, analytic reviews and financial reporting all rely upon the efficient collection and accurate recording of revenue.

Policies should address:

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

Credit Card and Purchasing Card Policies

Municipalities institute credit card and purchasing card (P-card) programs for the acquisition of small-dollar, high-volume repetitive purchases. These programs serve as an alternative to the traditional low-value purchasing methods, and are generally used for items previously purchased via blanket purchase orders, check requests or petty cash. The advantages, particularly with a P-card program, are the convenience and expediency of the transactions; the expansion of the list of merchants from whom purchases can be made; simplification of the purchasing process; and reduction in labor costs associated with paperwork processing. Vendors also benefit from the reduced paperwork and expedited payment process.

Policies should address:

- 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

Debt Policies

The issuance of debt creates a long-term commitment requiring a municipality to make payments of interest and principal for up to 30 years. Such a long-term commitment obligates funds that would otherwise be available to respond to changes during that period, such as citizen demands for new or additional services, revenue shortfalls or unanticipated expenditure increases. The primary purpose of a debt policy is to provide written guidelines that establish the parameters regarding the amount and type of debt that a municipality may issue. Having such a policy in place ensures that long-term financial commitments, those funded through the issuance of bonds or notes, will be considered consistently within a fiscally prudent framework.

Policies should address:

- Debt limits
- Qualifying uses of debt
- Other debt management provisions

Fraud Policies

One of the primary factors contributing to fraud is an inadequate system of internal controls. Weak internal controls not only open the door of opportunity for fraud to occur, but actually promote that opportunity. Establishing good internal controls is one way to minimize the opportunity for fraud. Another way to minimize the opportunity is to adopt a fraud policy outlining what is expected of all employees in terms of their personal conduct as well as their role and responsibility in reporting suspected inappropriate actions by others.

Policies should address:

- 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

Fund Balance Policies

A policy on the use of fund balance or, described in the reverse, a policy on the level of fund balance retainage, is one of the more difficult policies for a governing body to adopt and consistently implement. This is due to several factors. First, the volatile nature of revenues and expenditures may result in fluctuation of fund balance amounts from year to year. Also, various elected officials as well as citizens may define what constitutes an “adequate amount” of fund balance very differently. While some may maintain that a minimum amount of fund balance is sufficient in order to keep the tax burden as low as possible, others may consider higher levels of fund balance necessary to address contingencies and unexpected emergencies.

There is much flexibility in calculating the amount of unreserved fund balance to retain. The policy adopted should reflect each municipality’s own unique circumstances in terms of cash flow needs, contingencies, availability of funds to mitigate revenue shortfalls or unexpected emergency expenditures, credit rating implications and taxpayer acceptance when determining the appropriate level of fund balance to retain.

Policies should address:

- Desired level of unreserved fund balance
- Use of excess unreserved fund balance

Investment Policies

There are three primary purposes for adopting an investment policy. The first is to establish the investment philosophy, addressing such issues as the level of risk the municipality is willing to tolerate in exchange for a return on its investments, and whether or not funds should be invested with local, statewide or national financial institutions. The second is to provide guidelines and directives to the municipal official statutorily responsible for investment activities, which is usually the treasurer. The third purpose is to ensure compliance with statutory requirements regarding the annual review and adoption of an investment policy. From an operational perspective, a well-constructed investment policy will ensure that funds are invested conservatively to provide additional income, while at the same time ensuring that liquidity needs are met, meaning that cash is available to meet all financial obligations as necessary.

Policies should address:

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

Purchasing Policies

New officials are often surprised to learn that there is no state law requiring competitive bidding for town contracts and purchases (with the exception of a public official involved as one of the sellers or contractors). However, unlike their counterparts in the private sector, government-purchasing officials are often required to publicly disclose prices paid, as well as the reasoning and justification for choosing a particular vendor or contractor. The use of taxpayer dollars—along with citizens' demands for maximum value, fair and ethical selection criteria, and efficient and timely delivery of goods and services—spotlights the public procurement process. The primary objective for adopting a purchasing policy is to promote public confidence in the municipal procurement process by addressing these accountability demands.

Policies should address:

- Definitions
- Purchasing methods – field purchase order, oral/written quotes, competitive bidding
- Dollar thresholds
- Assignment of approval authority
- Exceptions

- Special provisions for emergencies, professional services, public works projects, sole-source contracts
- Preference provisions
- Ethics/conflict of interest statement

User Fee Policies

When establishing charges and user fees, the primary policy issue to consider is the desired level of cost recovery for the services being provided. Some rates are established to recover 100 percent of the costs, whereas other rates may recover less than the full cost of providing the services. As stated in the Government Finance Officers Association recommended practice, factors to consider include "the need to regulate demand, the desire to subsidize a certain product, administrative concerns such as the cost of collection, and the promotion of other goals."

Policies should address:

- Reference to statutory authority
- User fee recovery levels
- Schedule for periodic review of user fees

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