

WORKSHOP 26

Friday September 12, 2008

11:00 AM to 11:50 AM

The purpose of this workshop is to answer questions that elected officials have about the budget, the budget building process, the financial reporting purposes and perspectives, and elected officials responsibility for financial reporting and particularly the audited annual financial report. As much as possible, we will make this a forum and address specific questions of attendees. I have a discussion planed that will more than fill the time allotted. However, my highest priority is to answer question you may have, so please ask questions. It is my hope, that as we precede with my planned discussion, it will spawn questions from you. We will discuss the financial cycle (planning – budgeting-reporting-and evaluation). This discussion will build upon the premise that it is our responsibility to carefully use and account for public funds, manage public funds wisely and plan adequate funding of services desired by our citizens. Another premise we will build upon is government’s obligation to be accountable.

WHO IS RESPONSIBLE

The State Auditors uniform accounting manual states “The overall fiscal responsibility and accountability of a city rests with its governing body. Even though specific fiscal responsibilities are given by law to specific elected or appointed city officials, the governing body, through their powers to appoint, review and prescribe rules and regulations, are responsible for the overall fiscal affairs of the city”

APPLICATION IN YOUR CITIES

You can tell by looking at me that I have been around for ever. I started my career as an auditor and became specialized in government simply because I just kept getting those assignments. I have audited very large governments and very small governments. I have served as a government finance officer in large and small government. I have interacted with finance officers all over the US in teaching classes and setting accounting standards. One thing I have learned is how much I don’t know and how many different ways there are for implementing laws principals and standards. Each government must find its own way to meet legal requirements and implement principals of planning, budgeting, reporting and evaluating that will work for them, and given the time and resources they the can devote to this process. It is my hope that during this session you may get an idea or concept that you can take home and apply and that the idea or concept will improve the process in your city. I am certainly not saying there is only one right way of performing these financial management tasks.

WHY DOES THE CITY HAVE A BUDGET?

To plan for the orderly expenditure of public funds

Because it's required by law

What does the law require?

Budget Officer Prepare a budget for:

- Governmental Funds (tax supported activities)
- Requires a legally approved appropriation

Content:

- Complete financial plan for each fund for the year compared to the current year and prior year.
- Each department head must be heard
- Estimate the revenue available from all other sources
- Estimate the amount required from property tax and lowest tax rate required
- Work programs and other supporting data and capital projects
- Budget message describe the budget plan and significant changes in revenue and expenditures
- Outline proposed financial policies

Timing

- Tentative Budget on or before the first regular meeting in May and upon adoption must set the date and place for public hearing on the adoption of the final budget. Must be on display for at least 10 days.
- Adoption of final budget before June 22 unless the budget calls for a tax increase then it is delayed and must be before August 17.

Balanced Budget (many business have a strong net income but no cash in the bank)

- Appropriations cannot exceed estimated expendable revenue (GAAP defines expendable)
- What is **expendable revenue**? Measurable and available (60 days to one year)
- What is available depends on the kind of transition that generated the revenue
- Exchange transitions (when the underlying event takes place net of uncollectible amount)
- Derived tax revenues (sales tax, income tax)
- Imposed non exchange revenue (property tax)
- Revenue recognized when there is an enforceable legal claim and the claim does not precede the period with which the revenue is associated
- Debt proceeds, proceeds from sale of property are revenue (other financing source)

Amendment

- Transfer from appropriation to another within the department – with budget officers approval
- Transfer from one department to another – with council approval
- To increase total appropriated expenditure – with council approval after notice and a public hearing

Plan effective use of the public's money

- We measure effectiveness by the degree to which we are successful in achieving our goals and objectives.
- This means we must develop clearly stated goals and objectives before we can develop an effective budget--- This is the most difficult part of budget development.
- Mission Statement
- Long term goals—Envision where we want our city to be and what we want it to look like 5 or 10 years from now
- Short term goals---What steps must we take to day to accomplish our long term goals

Plan efficient use of the public's money

- Plan strategies or work plans to accomplish the agreed upon goals
- Select the strategies that get the best results using the least resources
- Avoid the temptation of continuing to do the same thing in the same way even though that strategy may not be accomplishing our goal or is not the most efficient way to accomplish our goal

There are other reasons that we develop a budget.

- The budget is a great communication device. During its development process it provides a great form to discuss citizen issues and develop those into goals and strategies and document this development for all to read
- The budget is a device for guiding and controlling operations. If it is not in the budget it does not happen.

THE BUDGET PROCESS

“The quality of decisions resulting from the budget process and the level of their of their acceptance depends on the budget process that is used” (National Advisory Council on State and Local Budgeting 1998)

Definition of the Budget Process: The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

Mission of the Budget Process: To help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.

Key Characteristics of the Budget Process: (What the budget process should do)

Incorporate a long-term perspective

- Long-term forecasting and analysis
- Developing strategies to achieve financial sustainability

Be driven by broad organizational goals

Focus budget decisions on results and outcomes (I will talk about performance measures shortly)

Involve and promote effective communication with stakeholders

- The financial plan will impact services and the financial burden placed on the citizens—They need to be involved in this process

Provides incentives to government management and employees

THE BUDGET AND FINANCIAL REPORTS SHOULD INCORPORATE WORKLOAD AND PERFORMANCE MEASUREMENTS

Both budgets and financial reports should include objective measures of progress toward accomplishing the city's goals and objectives.

- Quantifiable measures should be used as much as possible
- Both internal and external benchmarks are useful here
- Effective measures focus on accomplishments and outputs not inputs

Benchmarking

- Cities have been publishing performance measures in their budgets and financial reports for many years, but I believe the state of this art in Utah has a very long way to go before it is really a useful influence in continuous improvement in our cities.
- Benchmarks may be somewhat useful in improving year to year results in the same government.
- I am convinced that these benchmarks/measures are not at all useful in comparisons of one government to the next. The measures being used are not defined clearly enough and the data collected is not controlled enough to be sure we have comparable measures and arrive at fair conclusions.
- Do we know what to measure? For instance, we can measure police calls, police cases, tickets issued, but do we really know what will measure the efficiency of our police department. They say if we measure it, it will automatically get better, we need to be careful that we measure the right things.
- What measures will objectively measure changes in public safety
- There is a lot being done around the country to identify and define the most meaningful measures, and to develop data bases to make meaningful comparisons. There are benchmarking consortiums in several states organized to identify and define the best measures and collect a data base to make meaningful comparisons. We do not have anything similar in this state.

FINANCIAL REPORTING

WHY DOES GOVERNMENT HAVE FINANCIAL REPORTS?

To facilitate the fiduciary responsibilities of elected officials

To insure that financial problems will be discovered in a timely manner

It's required by law

What does the law require?

We need to look at the type of financial report we are talking about

Special reports—May be on any subject and the content and format may be anything that the report preparer or user may want.

Interim Financial Reporting

- Quarterly for first and second class cities format prescribed by State Auditor's Uniform Accounting Manual
- Third, Fourth and Fifth class cities—Monthly summary and quarterly detail financial reports in the accounting manual format.
- The legal requirement for interim financial reports is a little confusing (quarterly for 1st and 2nd class and monthly summary for third through fifth class) but I believe to be sure you are meeting the requirement you should report monthly in the same format as the adopted budget. This is the only way governing bodies and citizens can use the reports to evaluate budget performance and conformance.

Annual Audited Financial Report

- Must be issued within 6 months
- In conformity with GAAP. GAAP is designed to meet the needs of the users of general purpose financial reports i.e. Legislative Bodies, Citizens, Oversight Agencies, Investor Creditor Community
- Must be Audited by an Auditor selected and appointed by the legislative body
- Auditor will report on whether the report presents financial position and results of operations in conformance with GAAP, on budget compliance, on legal compliance, on internal control weakness
- Report is a public document—filed with the state auditors office and is on display for anyone to see. City must advertise that it is available for public inspection.

WHY DO WE HAVE FINANCIAL REPORTING?

To fulfill our duty to be accountable

To report to our citizens on budget compliance

To report to our citizens and oversight agencies on our legal compliance

To provide information to the investor creditor community for use in evaluating our credit

SINCE THE EFFECTIVE DATE OF GASB STATEMENT 34 IN 2001-2004, GOVERNMENTS FINANCES HAVE BEEN REPORTED ON FROM TWO VERY DIFFERENT PERSPECTIVES. (FOR GOVERNMENTS GOVERNMENTAL ACTIVITIES NOT FOR ITS BUSINESS TYPE ACTIVITIES)

1. Focuses on current available expendable financial resources (using funds and our budget measurement)
 - Report by each governmental fund as an entity
 - Report on budget compliance (capital assets an expenditure sale of capital assets revenue, proceeds of debt revenue and debt repayment an expenditure)
 - Used to set tax rates
 - Used to determine compliance in the use of legally restricted funds
 - Report on general legal compliance
 - Report on the short term budget period

Focuses on economic Resources (measures increases and decreases in net assets-the bottom line)

- Report on the entity as a whole
- Is government better off or worse off as a result of the years operations
- Cost of services including amortization of capital cost
- Are resources obtained during the year sufficient to cover cost
- Report on “intergenerational equity”
- Report on Long Term Survival

IS THERE REASON FOR LEGISLATIVE BODIES TO BE CONCERNED ABOUT FINANCIAL REPORTING?

- Whose reports are these
- Who is responsible for errors, misstatements, window dressing, fraud, general integrity of reporting?
 - Careful reading and fully understanding financial reports
 - Audit committees
 - Internal auditors

EVALUATE

1. What has been accomplished?
2. What changes need to be made to our goals, objectives and strategies?