



Fiscally Ready Communities Best Practices

Fiscally Ready Communities Best Practices

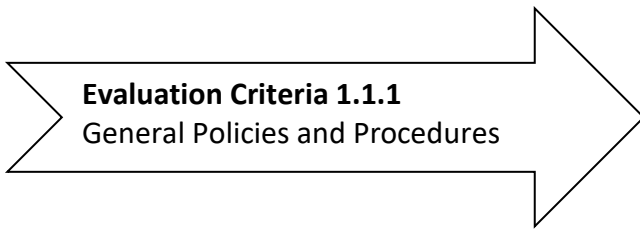
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1.1 Policies and Procedures

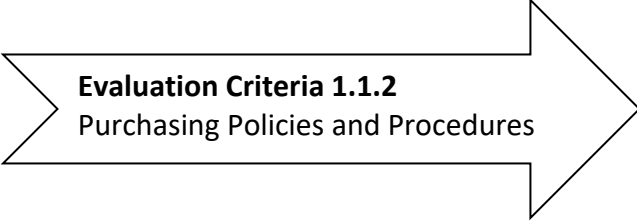
Best Practice 1.1 assesses a community’s financial structure by evaluating the policies and procedures that have been set in place. These policies and procedures help to reduce the risk of inefficiencies and fraud. Having clear purchasing, investment, and receipting policies ensures uniformity across departments, simplifying accounting procedures. Additionally, it is important for the local unit to review their financial position regularly to address changing circumstances as they occur. For example, it is important to note the differences between the budgeted and actual expenses and evaluate whether the budget needs to be amended. Sound budgeting is important because any activity that exceeds budgeted expenditures is a violation of Public Act 2 of 1968, as amended.



Expectations:

- The local unit has set in place strong [cash controls](#).
- The local unit has a [Capital Improvements Plan \(CIP\)](#).
- Every local unit shall adopt an ethics policy.
- Organization charts should be developed, and job descriptions should be maintained.
- The local unit shall have a [grants policy](#).
- Every local unit shall have a technology policy.
- Every local unit shall have a vehicle use policy.
- The local unit shall ensure that all financial transactions are recorded in the accounting records and can be substantiated with evidence (Department of Treasury, 2007).

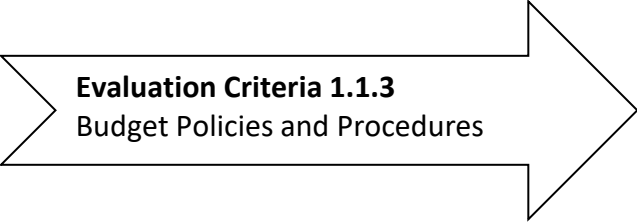
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Evaluation Criteria 1.1.2
Purchasing Policies and Procedures

Expectations:

- The local unit shall set in place strong [purchasing policies and procedures](#).
- The local unit shall establish a comprehensive written investment policy, which should be adopted by the governing body.
- The local unit shall adopt a credit card policy (Department of Treasury, 2007).
- The local unit shall have an electronic payments policy and limit ACH authorization.
- Wire transfers should be limited.
- Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.



Evaluation Criteria 1.1.3
Budget Policies and Procedures

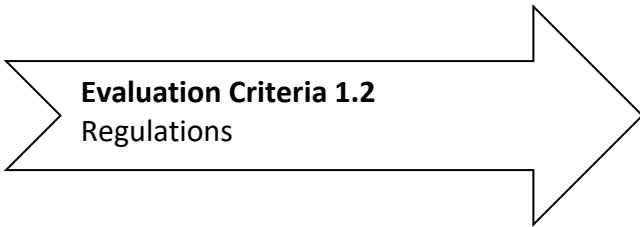
Expectations:

- The local unit shall monitor their [debt](#) and prioritize debt payments.
- The local unit shall complete a [comprehensive formal budget](#), as required by PA 2 of 1968, as amended.
- The local unit shall create a 5-year budget forecast.
- The local unit shall create a budget-to-actual report and present the report to its governing body on a quarterly basis (Department of Treasury, 2007)
- The local unit shall have a plan in place for managing costs related to retiree healthcare and/or OPEB.
- The local unit shall establish a formal policy on the level of unrestricted fund balance that should be maintained in the General fund.
 - Treasury recommends that the local unit has an unrestricted fund balance of no less than 2 months of regular General fund revenues or expenditures after it considers its own circumstances.

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1.2 Regulations

Best Practice 1.2 assesses how well a community complies with federal, state, and local laws. Local units of government should be familiar with the laws and know where to find additional information, such as Public Act 2 of 1968. Local units of government must abide by Michigan Department of Treasury standards, creating uniform reporting across similar local units.

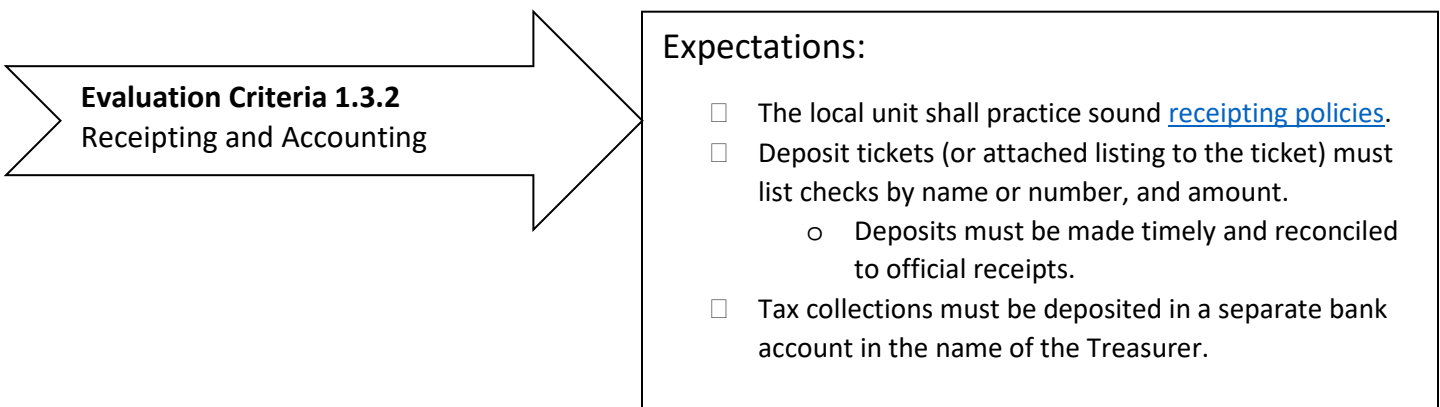
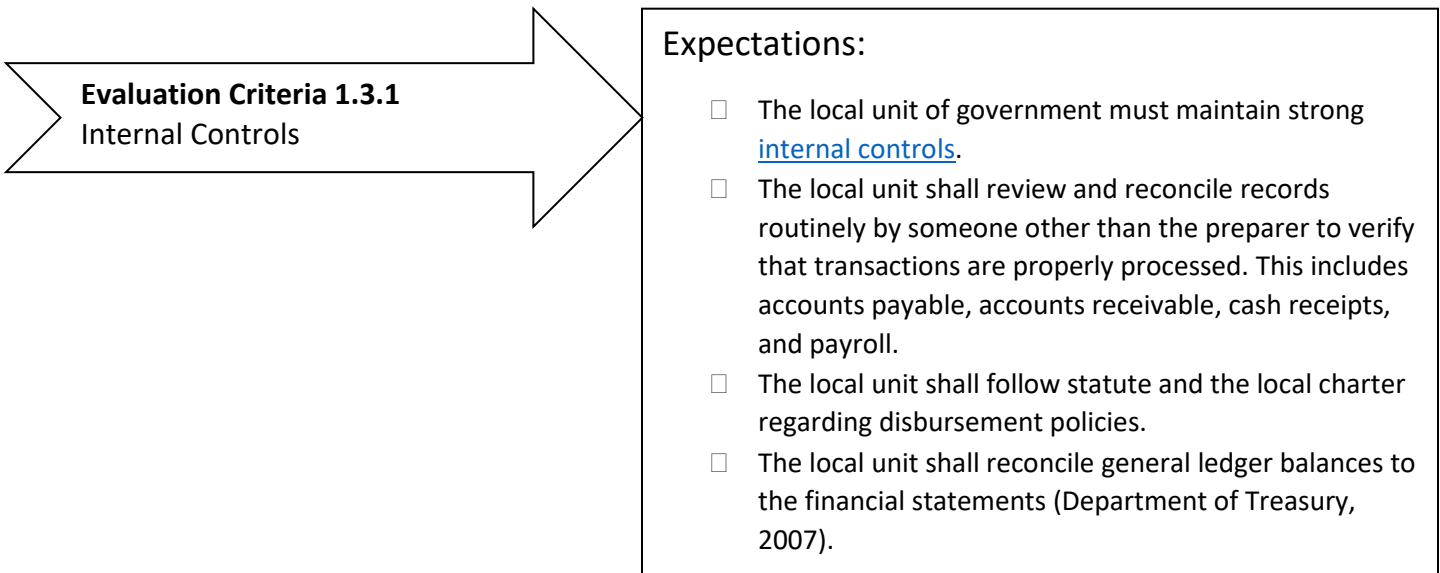


- Expectations:**
- The local unit of government must maintain the following:
 - The uniform chart of accounts
 - Controlled numbered official receipts
 - Controlled numbered official checks
 - Detailed receipt journal
 - Detailed disbursement journal
 - General ledger
 - The local unit shall follow all federal, state, and local laws.
 - The local unit shall follow all Michigan Department of Treasury standards.
 - The local unit shall follow the Governmental Accounting Standards Board (GASB) accounting standards.
 - The local unit shall complete and submit a timely annual audited financial statement (audit) (Department of Treasury, 2007).
 - The local unit shall complete and submit a timely Annual Local unit Fiscal Report (F65) (Department of Treasury, 2007).
 - The local unit shall complete and submit a timely deficit elimination plan, if applicable (Department of Treasury, 2007).
 - The local unit shall complete and submit a timely Qualifying Statement (Department of Treasury, 2007).
 - Cities, villages, and road commissions shall complete and submit a timely Act 51 Road and Street Financial Report (Department of Treasury, 2007).

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1.3 Operational Policies and Procedures

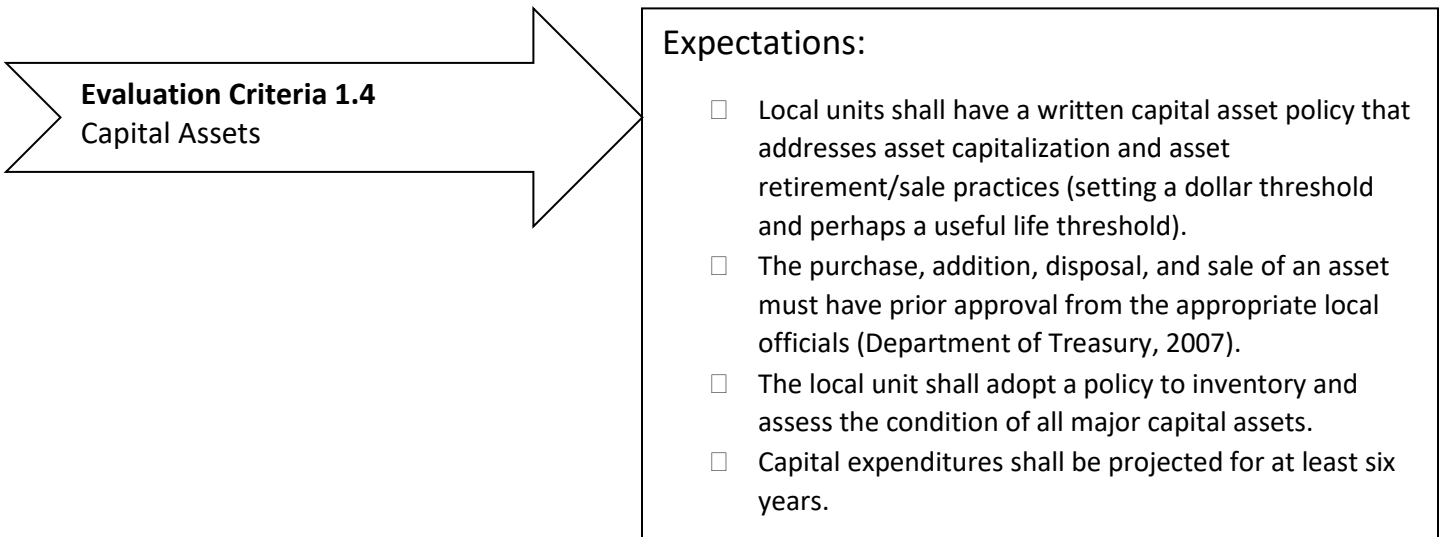
Best Practice 1.3 assesses a community’s internal controls, record keeping, and accounting. Internal controls are necessary to protect the community from waste, misappropriation of assets, and operating inefficiencies. They also ensure accuracy, timeliness, and reliability in accounting and operating data. Having strict receipting policies, deposit ticket policies, and tax collection policies, for example, leads to more effective monetary tracking.



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1.4 Capital Assets

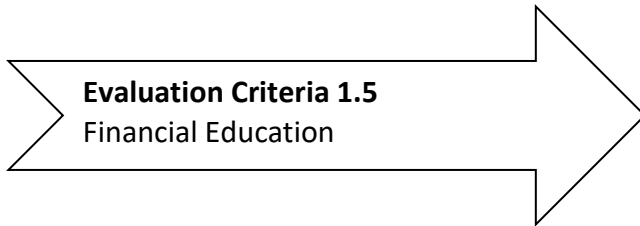
Best Practice 1.4 assesses a community's capital assets and the policies implemented to protect, sell, or purchase capital assets. Each local unit shall have a written capital asset policy that addresses asset capitalization and retirement. A six-year plan for capital expenditures is necessary to properly budget for expenses. All capital expenditures must be approved by the local unit governing body.



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1.5 Financial Education

Best Practice 1.5 assesses how well a community's staff are properly trained. The community shall provide training, resources, and guidance for staff to successfully complete their duties. This includes ensuring staff members have the proper certifications for their positions and are continuing to take training courses when necessary or applicable. Providing training allows employees to grow in their positions, leading to improved employee engagement.



Expectations:

- The local unit shall provide employees with the appropriate training, guidance, and resources necessary to carry out their duties and effectively supervise staff members. This could include a formal policy.
- The governing body of the local unit shall have appropriate training, guidance, and resources necessary to carry out their duties.
- New hires shall have the proper qualifications prior to employment. For example, assessors should have the appropriate certifications; accountants have accounting degrees or applicable training or experience; treasurer has been trained in receipting).
- The local unit shall provide opportunities for continuing education and professional development (e.g. MGFOA, Treasury, MICPA).

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Conclusion

The Fiscally Ready Communities program was created to assist communities who want to establish, measure, and maintain policies to increase operational and financial effectiveness and safeguards. This document and the supplemental guides were created as tools to discuss the recommended process and provide examples. Every community is unique, so the process and documentation should reflect the different needs and capacities of the community.

The Fiscally Ready Communities program provides assistance to Michigan Communities who are dedicated to ensuring their fiscal health through strong financial policies and protections. Local residents can continue to watch their community improve and thrive, knowing that staff members are trained and ready for success.

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Budget Policy Guide

The Fiscally Ready Communities Budget policy guide supplements the local government's process of establishing a budget. A detailed budget ensures that a local unit can maintain public services, while planning for their future, creating fiscal responsibility.

Fiscally Ready Communities Budget Policy Recommendations

- It is recommended that the local unit adopt a 2-year budget annually in addition to your 5-year forecast.
 - This helps a local unit evaluate their revenue and expenditures as they plan for the long term.
 - This is especially important for local units with low fund balances that put them at significant risk of unexpected changes in revenues and expenditures.
- It is recommended that the local unit of government approve a budget for all major enterprise funds.
 - This is especially important for local units with low net positions or deficits within enterprise funds that put them at significant risk of unexpected changes in revenues and expenditures.
 - Enterprise fund budgets must include budget depreciation.
- It is recommended that the local unit is fiscally conservative in the budgeting process.
 - This includes overestimating expenditures and underestimating revenue to prepare for unforeseen circumstances.
 - This is important because any activity which exceeds budgeted expenditures is a violation of Public Act 2 of 1968, as amended.
- It is recommended that department heads participate during the internal budget process and are prepared to answer questions during the budget presentation to the governing body.

Fiscally Ready Communities Budget Policies

The local unit shall have the following policies set in place:

- The local unit shall complete a 5-year financial plan, which includes an annual update.
 - The detailed financial plan includes the following information:
 - Department level revenues and expenditures.
 - Revenue projections that are based on actual revenue received in recent years and future assumptions that are justifiable.
 - All debt service must be accounted for in the financial plan.
 - The local unit shall not fail to pay principal of or interest on any municipal securities when due or payable.
- The local unit shall project a balanced budget for the current and succeeding four fiscal years.
 - The budget must not lead to a fund deficit and shall be in accordance with Public Act 2 of 1968, as amended.
- The budget should articulate priorities and issues for the budget cycle – this should describe significant changes in priorities.

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- The local unit should have procedures in place for amending the budget after it is adopted.
- The budget should explain long range financial plans and its effect upon the budget and budget process (National Advisory Council on State and Local Budgeting, 1998).
- The budget should include the financial policies and goals of the local unit, including the local unit's definition of a balanced budget (National Advisory Council on State and Local Budgeting, 1998).
- The budget should explain the effects of existing debt levels on current operations.
- The budget should include goals and objectives of organizational units and departments. The unit goals should be linked to the overall goals of the entity.
 - This should also include when the goals and objectives are expected to be accomplished.
- The budget should include funding the local unit's pension and OPEB plans following Public Act 202 of 2017, when applicable.
 - Each pension system should be at least 60% funded or have an approved corrective action plan for each underfunded system.
 - Each retirement healthcare system should be at least 40% funded or have an approved corrective action plan for each underfunded system.
 - The local unit shall report its defined benefit funding ratios using the uniform assumptions established by the state Treasurer.
- The local unit shall review [the Budget Manual](#) created by Treasury on a regular basis because the key to sound fiscal health of governmental units is proper accounting, budgeting, and auditing of the local unit.
- The budget must be passed prior to the ensuing fiscal year.
- The local unit shall review [GFOA's recommended budget practices](#).
- The local unit shall review [GFOA's Detailed Criteria Location Guide](#).
- The local unit shall review the [Distinguished Budget Presentation Award](#), to compare their budgets with other similar local governments.

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Budget Policy Guide Review Table

Please use the table below to consider whether your budget policy guide needs an overhaul or a refresh. This document has been built so you can track where you are in the process.

Number	Budget Policy	Yes	No	Explanation
1	The local unit annually updates a 5-year forecast.			
2	The local unit shall project a balanced budget for the current and succeeding four fiscal years.			
3	The budget articulates priorities and issues for the budget cycle, such as significant changes in priorities.			
4	The local unit has procedures in place for amending the budget after it is adopted.			
5	The budget explains long range financial plans and its effect upon the budget and budget process.			
6	The budget contains the financial policies and goals of the local unit, including the unit's definition of a balanced budget.			
7	The budget explains the effects of existing debt levels on current operations.			
8	The budget includes goals and objectives of organizational units, departments, and the local unit as a whole.			
9	The budget includes funding the local unit's pension and OPEB plans following Public Act 202 of 2017 and the uniform assumptions established by the state Treasurer.			
10	Treasury's Budget Manual is reviewed on a on a regular basis.			
11	The budget was passed prior to the next fiscal year.			
12	GFOA's recommended budget practices is reviewed on a regular basis.			
13	Review GFOA's Detailed Criteria Location Guide on a regular basis.			

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Capital Improvements Guide

The Fiscally Ready Communities Capital Improvements policy guide supplements the local government's process of developing a Capital Improvements Plan.

Fiscally Ready Communities Capital Improvements

A Capital Improvements Plan (CIP) is required by the [Michigan Planning Enabling Act](#) (PA 33 of 2008) for all cities, villages and some townships. A CIP must be adopted annually and show public structures and improvements in the order of their priority for the next six years. The recommendations outlined in the CIP should be based upon goals and recommendations contained with the community master plan.

PA 33 of 2008 requires the local planning commission (unless locally exempted) to develop the CIP. If the planning commission is exempted, then the legislative body or their designee must develop the CIP. If a township owns (or jointly owns) a water supply or sewage disposal system, it must have a CIP.

Michigan State University Extension has a useful [checklist](#) for the adoption of a capital improvements plan. Additional resources about a capital improvements plan can be found at [MEDC's Redevelopment Ready Communities Capital Improvements guide](#) (Michigan Economic Development Corporation, n.d.).

Recommended Capital Improvements Policies

- A policy stating that a CIP be developed and approved prior to adoption of the annual budget so recommendations in the CIP may be prioritized for funding.
- A policy stating that the local planning commission and the legislative body must approve the CIP.

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Flow Chart



Fiscally Ready Communities Best Practices

Cash Controls Policy Guide

The Fiscally Ready Communities Cash Controls policy guide supplements the local government's process of developing cash controls. Cash Controls are essential to reduce the risk of inefficiencies and fraud.

Fiscally Ready Communities Recommended Cash Control Policies:

- The local government should perform ongoing cash flow analysis to ensure that they have sufficient cash liquidity to meet disbursement requirements and limit idle cash.
 - This can help governments recognize issues that might have a negative impact on their cash position.
 - Cash flow analysis is an essential tool for making informed management decisions.
 - Local units of government should consider historical information and projected financial activity, compare actual cash flow results with projections, make conservative assumptions about cash receipts and disbursements, and monitor cash position daily.
 - Common inflows include tax receipts, bond proceeds, utility payments, grants, other revenue from fees and penalties, and maturities of all securities held in investments that will mature during the forecast time frame.
 - Outflows represent anticipated payments such as debt service, employee payroll or benefits, and payments to vendors for goods and services anticipated during the forecast time frame.
 - Governments should also consider and accommodate non-repetitive payments such as capital expenditures or expected legal settlements, using reasonable assumptions.
 - The accuracy of the cash flow forecast should be evaluated and updated at least quarterly.
 - A simple forecast often works best, while maintaining the reliability and accuracy of information needed for making appropriate management decisions.
- The local government should compare actual cash flow results with projections and determine the reasons for those differences in the analysis. The cash flow analysis depends on the government's size and complexity.
 - This will impact its cash liquidity position, ensuring future cash flows are more accurate.

Fiscally Ready Communities Cash Controls Policies:

Key cash controls include:

- Bank reconciliations must be performed monthly (Department of Treasury, 2007).
 - The accountant or bookkeeper shall reconcile the cash and investments recorded in the general ledger to either the treasurer's reconciliation (if it is adequately reconciled to the bank statements) or to the bank statements directly.
- The local unit shall make conservative assumptions about both the cash receipts and disbursement portions of the analysis, and update these assumptions regularly, as well after any major changes in operations (e.g., a new debt issuance at the beginning of a fiscal year).

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- The local unit shall monitor cash position daily to ensure sufficient liquidity.
- Cash should be physically secured and compared with control records. (Department of Treasury, 2007)
- The local unit shall attempt to segregate duties of custody via segregation policies. This will aid in decreasing the probability of fraud or misappropriations of monies.
 - For example, cash collection and depositing should be performed by an employee who is independent from the recordkeeping and bank reconciliation process. (Department of Treasury, 2007)

Cash Controls Policy Review Table

Please use the table below to consider whether your cash control needs an overhaul or a refresh. This document has been built so you can track where you are in the process.

Number	Cash Control	Yes	No	Explanation
1	Perform bank reconciliations monthly.			
2	Make conservative assumptions about both the cash receipts and disbursement portions of the analysis, and update these assumptions regularly, as well after any major changes in operations.			
3	Monitor cash position daily to ensure sufficient liquidity.			
4	The local unit shall attempt to segregate duties of custody via segregation policies.			
5	Cash should be physically secured and compared with control records.			

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Debt Policy Guide

The Fiscally Ready Communities debt policy guide supplements the local government's process of monitoring their debt. Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of local governments. A debt management policy should follow state, federal, and local laws and improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, prioritize debt payments, and demonstrate a commitment to long-term capital and financial planning.

When a community adheres to their debt management policy, it shows rating agencies and the capital markets that they are well managed and therefore are likely to meet their debt obligations in a timely manner. Debt management policies should be written to meet the local community's needs. Debt management policies should be approved by the local unit's governing body to provide credibility, transparency and to ensure that there is a common understanding among elected officials and staff regarding the local unit's approach to debt financing. This policy should be reviewed on a regular basis to ensure it is adhered to and updated when necessary.

Fiscally Ready Communities Debt Policies

At a minimum the debt policy should include the following:

- The local unit shall establish debt limits for each specific issuance or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons (Government Finance Officers Association, 2012).
 - Legal restrictions may be determined by:
 - State constitution or law.
 - Local charter.
 - By-laws.
 - Resolution or ordinance.
 - Covenant.
 - Bond referenda approved by voters.
 - Debt policies shall address the internal standards and considerations within a government. This may include:
 - Purposes for which debt proceeds may be used or prohibited.
 - Types of debt that may be issued or prohibited.
 - Relationship to and integration with the Capital Improvement Program (CIP).
 - Policy goals related to economic development, including use of tax increment financing and public-private partnerships.
 - Prioritizing debt payments.
 - Financial limits often are expressed as ratios customarily used by credit analysts.
 - Different financial limits are used for different types of debt. Examples of debt include:
 - Direct Debt (including general obligation bonds) is subject to legal requirements and may be able to be measured or limited by the following ratios:

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- Debt per capita.
- Debt to personal income.
- Debt to taxable property value.
- Debt service payments as a percentage of general fund revenues or expenditures.
- Revenue Debt levels often are limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service), additional bond provisions contained in bond covenants, and potential credit rating impacts.
- Conduit Debt limitations may reflect the right of the issuing government to approve the borrower's creditworthiness, including a minimum credit rating, and the purpose of the borrowing issue.
- Short-Term Debt Issuance should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.
- Variable Rate Debt should include information about when using non-fixed rate debt is acceptable to the entity either due to the term of the project, market conditions, or debt portfolio structuring purposes.
- The local unit shall establish debt structuring practices. The debt policy should include specific guidelines regarding the debt structuring practices for each type of bond, including:
 - Maximum term (often stated based on the useful life of the asset(s) or in absolute terms).
 - Average maturity.
 - Debt service pattern such as equal payments or equal principal amortization.
 - Other structuring practices should be considered, such as capitalizing interest during the construction of the project and deferral of principal, and/or other internal credit support, including general obligation pledges.
- The local unit shall establish debt issuance practices. The debt policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:
 - Selection and use of professional service providers, including an independent financial advisor and a bond attorney, to assist with determining the method of sale and the selection of other financing team members.
 - Criteria for determining the sale method (competitive, negotiated, private placement) and investment of proceeds.
 - Use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results.
 - Criteria for issuance of advance refunding and current refunding bonds.
 - Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services.
- The local unit shall establish debt management practices. The debt policy should provide guidance for ongoing administrative activities including:
 - Investment of bond proceeds.

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- Primary and secondary market disclosure practices, including annual certifications as required.
- Arbitrage rebate monitoring and filing.
- Federal and state law compliance practices.
- Ongoing market and investor relations efforts.
- The local unit shall establish a policy for the use of derivatives. The Debt Management Policy should clearly state whether or not the entity can or should use derivatives. If the policy allows for the use of derivatives, a separate and comprehensive derivatives policy should be developed (Government Finance Officers Association, 2015).
 - For additional information see the following:
 - [GFOA’s Advisory.](#)
 - [GFOA’s Developing a Derivatives Policy.](#)
 - [GFOA’s Derivatives Checklist.](#)

Debt Policy Review Table

Please use the table below to consider whether your debt policy needs an overhaul or refresh. This document has been built so you can track where you are in the process.

Number	Debt Policy	Yes	No	Explanation
1	Establish debt limits for each specific issuance or acceptable ranges for each type of debt.			
2	Debt policies shall include the internal standards and considerations within a government (such as types of debt, purposes, relationships with the capital improvements plans, and policy goals).			
3	The debt policy should include specific guidelines regarding the debt structuring practices for each type of bond.			
4	Establish debt issuance practices that provide guidance regarding the issuance process, which may differ for each type of debt.			
5	Establish debt management practices to provide guidance for ongoing administrative activities.			
6	Establish a policy for the use of derivatives to clearly state whether or not the entity can or should use derivatives.			

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Grants Policy Guide

The Fiscally Ready Communities grants policy guide supplements the local government's process of developing grants policies. Grants are a great way to increase funding for municipal projects and programs; however, they often come with strict requirements. Failure to meet the requirements can have negative consequences such as losing the funding and eligibility for additional grants. Therefore, Fiscally Ready Communities recommends creating grants policies. These policies are essential to ensure the local government can properly oversee grants and meet all the grant requirements.

Fiscally Ready Communities Grant Recommended Policies:

- The local unit should establish a grants administration committee to ensure there is proper administrative and operational support.
 - A grants policy should also include a requirement that the government obtains a detailed understanding of the terms and conditions and how the grant will be monitored.
 - Examples of what should be required include establishment of procedures related to (Government Finance Officers Association, 2013):
 - The development of a project plan that would include how new programs or activities funded by the grant would be implemented and who would be responsible for implementation.
 - The provision of training for those responsible for the grant, so they can effectively carry out their roles.
 - Terms and conditions for grant-funded personnel, such as severance and unemployment costs related to employees who are terminated upon expiration of the grant or operating and maintenance costs for assets that are acquired.
 - The system/process that will be used to charge expenses against the grant and to obtain reimbursement.
 - Identify the individual/department responsible for carrying out the grant and ensure that proper resources are available to support that grant.
- The local unit should promote your grant on your website and social media, if applicable.

Fiscally Ready Communities Grant Policies

Key grant policies include:

- A policy on identifying, applying, approving, and monitoring to grants.
 - A grants policy should require that the department or agency seeking a grant provide advance notice to the appropriate authority, such as finance and/or the local board, so that the effects on the government can be reviewed and understood beforehand (Government Finance Officers Association, 2013).
 - Grants could affect the budget, cash flow, procurement requirements, financial reporting, compliance requirements, or legal requirements (Government Finance Officers Association, 2013).

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- Grant development opportunities may include, but are not limited to, partnerships with foundations; corporate philanthropy; and state, federal and local agencies.
- A policy on ensuring grants align with the strategic goals of the municipality (Government Finance Officers Association, 2013).
 - A grants policy should include a requirement for assessing the extent to which a grant is consistent with the government's mission, strategic priorities, and/or adopted plans (Government Finance Officers Association, 2013).
 - Accepting a grant that is not consistent with the overall strategic direction of a government creates the risk that the government will spend its own funds to support a grant inconsistent with overall strategic direction or commit the government to own-source spending beyond the grant period (Government Finance Officers Association, 2013).
- A policy on conducting a funding analysis (Government Finance Officers Association, 2013).
 - The grants policy should require a multi-year cost/benefit analysis prior to application or acceptance (Government Finance Officers Association, 2013).
 - The analysis should include (Government Finance Officers Association, 2013):
 - matching funds (and whether or not they will need to be set aside) and any other direct costs associated with a grant, the extent to which overhead costs will be covered.
 - in-kind contributions.
 - audit and close-out costs.
 - and potential costs that might need to be incurred by the government beyond the grant period.
 - The analysis should also explore whether a grant requires that general revenues or a line of credit or grant anticipation notes be used to cover the gap between cash being expended and the reimbursement that is received by the government.
- Prior to renewal or grant continuation, the grant should be evaluated.
 - The grants policy should require an evaluation of the impacts of the grant-funded program or asset prior to deciding whether to continue a grant at the end of the initial grant period (Government Finance Officers Association, 2013).
 - Creating outcome measures before receiving a grant will help the government to determine the extent to which the grant program or asset has produced desired benefits (Government Finance Officers Association, 2013).
 - Such an analysis should also include a review of actual costs and the potential benefits of using general revenues associated with the grant for other purposes (Government Finance Officers Association, 2013).
- The local unit shall establish a way to monitor grant progress and ensure that all reporting deadlines are met (Government Finance Officers Association, 2015).
 - Based on the grant period, there should be multiple reviews of the budget, progress, and goals of the grant. These could occur monthly, weekly, etc.

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- The local unit shall establish clear lines of communication for all parties involved in the grant.
 - Develop ongoing communication and knowledge of grantors, and grant partners.
 - Develop an ongoing dialogue with financial statement, single audit, and program auditors concerning grant reporting and compliance.
 - Develop processes to ensure that quality, supportable information is utilized in grant decision making.
- Review GFOA's [Internal Controls for Grants](#).

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Grants Policy Review Table

Please use the table below to consider whether your grants policy needs an overhaul or refresh. This document has been built so you can track where you are in the process.

Number	Grants Policy	Yes	No	Explanation
1	A policy on identifying and applying to grants.			
2	A policy on ensuring grants align with the strategic goals of the municipality.			
3	A policy on conducting a funding analysis of the grant that includes a multi-year cost/benefit analysis.			
4	The grants policy should require an evaluation of the impacts of the grant-funded program or asset prior to deciding whether to continue a grant at the end of the initial grant period.			
5	Establish a way to monitor grant progress and ensure that all reporting deadlines are met.			
6	Establish clear lines of communication for all parties involved in the grant.			
7	Promote your grant if applicable on your website and social media.			

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Internal Controls Policy Guide

The Fiscally Ready Communities internal controls policy guide supplements the local government's process of establishing internal controls. Internal control policies are written guidelines, allowances, and restrictions that aid in ensuring efficient and effective operation of a local government. It is the responsibility of appropriate elected officials to ensure that the managers who report to them fulfill their responsibilities in implementing and maintaining a sound and comprehensive framework of internal control (Government Finance Officers Association, 2008).

Internal Controls protect resources against waste, misappropriation, and inefficiency. Additionally, internal controls enable a local government to sustain and improve their performance by adapting to changing environments, mitigate risk to acceptable levels, and support sound decision making. Moreover, internal controls ensure accuracy, timeliness, and reliability in accounting and operating data.

Fiscally Ready Communities recommended policies

Every local unit of government should evaluate the cost versus benefit of adhering to the policies listed below. At a minimum, it is recommended to have the following policy:

- Attempt to segregate duties of custody via segregation policies (Department of Treasury, 2007).

Fiscally Ready Communities required policies

At a minimum, the internal control policies shall include the following:

- A policy about the job descriptions of all key personnel.
 - For example, the treasurer must do the following:
 - Maintain control of all bank accounts.
 - Keep track of the total cash and investments allocable to each fund.
 - Reconcile these amounts to each month's bank statements in a timely manner.
- A policy that states who is authorized to approve transactions (Department of Treasury, 2007).
 - This includes ensuring transactions are authorized by a person with delegated approval authority.
 - Transactions shall require two signatures on each check, which designates approval for disbursement of funds (Department of Treasury, 2007).
 - The signatures should be the treasurer and clerk or their deputies.
 - If the treasurer and clerk are the same person, then the controller or finance director should be the second signature.
 - If the treasurer, clerk, and finance director are the same person than the CEO or Manager should be the second signature.

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- Some municipalities may also be required to have two signatures on each check by charter.
- A policy that forbids signing blank checks (Department of Treasury, 2007).
- A policy that outlines the appropriate documentation that must be attached to support invoices and disbursements (Department of Treasury, 2007).
 - Original bills should be used for documentation when applicable.
- It is important to have a separate staff member be responsible for the recordkeeping of transactions.
- The governing body should approve all internal control policies and disbursements (Department of Treasury, 2007).
- A policy that ensures checks are not returned to the originating office for distribution (Department of Treasury, 2007).
- The local unit of government shall review the Department of Treasury's [Accounting Procedures Manual](#).
 - Public Act 2 of 1968, as amended, requires each local unit to adhere to the Department of Treasury's Accounting Procedures Manual.
- Samples of Internal Control policies can be found on [GFOA's website](#).

Internal Controls Policy Review Table

Please use the table below to consider whether your internal controls policies needs an overhaul or refresh. This document has been built so you can track where you are in the process.

Number	Internal Controls Policy	Yes	No	Explanation
1	A policy regarding who can authorize transactions.			
2	A policy that states who is authorized to approve transactions.			
3	A policy that forbids signing blank checks.			
4	A policy about transactional recordkeeping.			
5	A policy listing the detailed job description of all elected officials.			
6	A policy on controlling bank accounts, tracking cash and investments, and timeliness of reconciling accounts.			
7	Governing body approval of internal controls and disbursements.			
8	Adhering to the Department of Treasury's Accounting Procedures Manual on Internal Controls.			

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Purchasing and Procurement Policy Guide

The Fiscally Ready Communities purchasing policy guide supplements the local government's process of developing public purchasing guidelines. Purchasing policies are essential to reduce the risk of inefficiencies and fraud. Purchasing policies protect local units of government from paying excessive above market costs for services, conflicts of interest, and inappropriate and illegal transactions.

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At a minimum the purchasing and procurement policy shall include the following:

- A local unit shall adopt, review, or update its purchasing policy, if the local unit does not have one, or it has not been updated in over a year.
 - The purchasing policy should include the date it was updated and that it has been approved for use by the local governing body.
 - The policy should include different procedures based on the total cost of the project (i.e. purchases under \$2,000; purchases between \$2,000-\$9,999; purchases over \$10,000, etc.) (Traverse City, 2016).
 - This should include competitive bidding for purchases over a specific dollar amount.
 - The purchasing policy should include a detailed plan of action if two or more bids are equivalent, including who makes the decision and how (Bay City, n.d.).
- A local unit shall adopt a conflict of interest policy to ensure purchases are responsible and ethical. This includes confirming that all supplies and equipment are purchased with the intent and outcome to ensure best price, quality, and value.
- A local unit shall adopt an equal access and non-discrimination purchasing policy (City of Charlevoix, n.d.).
 - This should include a process for reporting instances of noncompliance and evaluations of those noncompliance items (Boyne City Government, n.d.).
 - This could include group review of reports with the ability to make necessary changes and actions.
- A local unit shall adopt a detailed travel and expense reimbursement policy (Bay County, 2016).
 - This includes updating the mileage reimbursement rates yearly.
 - When employees use their own vehicle and request the full mileage rate, they should document why they did not use the municipality's vehicle, as well as have their supervisor sign and date the document.
 - Communities should have a uniform submission process for all employees to fill out.
 - The travel and expense reimbursement policy should include:
 - Meals broken down by breakfast, lunch, and dinner.
 - Lodging expenses, including maximum reimbursement.
- A local unit shall adopt a section about being exempt from local, state, and federal excise tax and provide the necessary documents to any vendor upon request (Bay County, 2016).

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- A local unit shall ensure that the authorized person who approves each invoice or request for payment has adequate knowledge and responsibility (e.g. educational background and/or professional certifications in purchasing and procurement).
- A local unit shall make contracts and the contracting process publicly available (City of Lansing, n.d.) (Traverse City, 2016).

Good purchasing policy examples can be found on [MML's website](#).

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Purchasing Policy Review Table

Please use the table below to consider whether your purchasing policy needs an overhaul or refresh. This document has been built so you can track where you are in the process.

Number	Purchasing Policy	Yes	No	Explanation
1	A policy regarding the preference for purchasing goods and services from businesses within their jurisdiction.			
2	Different procurement policies based on the total cost of the project.			
3	A detailed plan of action if two or more bids are equivalent, including who makes the decision and how.			
4	A conflict of interest policy.			
5	An equal access and non-discrimination purchasing policy.			
6	A detailed travel and expense reimbursement policy that includes mileage, meals, and lodging.			
7	Tax exemption from local, state, and federal excise tax.			
8	Formal procurement policy.			
9	Policy for requests for proposals (RFPs).			

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Receipting Policy Guide

Fiscally Ready Communities supplements the local government's process of establishing receipting policies. Having a detailed receipting policy ensures that a local unit can accurately account for all existing cash and follow the money trail.

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The local unit should have the following policies set in place:

- There must be a record of each individual cash transaction.
- Receipt books issued to other departments must be accounted for numerically.
- The use of generic or "dime store" receipts is strictly prohibited.
- The method of payment must be indicated on the receipt (cash, check, or credit card).
- The receipt should include the following 10 requirements:
 1. The date of the transaction.
 2. The dollar amount received.
 3. The type of payment (cash, check, credit cards, etc.).
 4. The purpose (garbage, labels, taxes, parcel number, etc.).
 5. The payer.
 6. The department receiving the cash.
 7. The person accepting the cash.
 8. The receipt number if applicable.
 9. Invoice number if applicable.
 10. The account number the cash is being deposited into.
- The receipt must allow for accurate revenue account classification in conformity with the Uniform Chart of Accounts.
- Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.
- Bank signature cards should be kept current and the authorized signers limited (Department of Treasury, 2007).
- When cash is collected, the following policies shall be used:
 - Formal evidence must be created for each collection (such as sequentially numbered cash receipt ticket, cash register receipt, etc.) and provided to payors where applicable.
 - The system must include controls to ensure that every receipt is to be included in the cash receipts journal. This includes the 10 receipt requirements noted above.
 - As general guidance, the cash receipts journal is maintained by the treasurer.
 - Each receipt is posted to the receipt journal in numerical order to the proper bank account, fund, and revenue account.
 - In a manual system, monthly totals by fund are posted from this journal to the general ledger revenue control account, which is the responsibility of the clerk.

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- Each bank deposit (evidenced by a bank deposit slip or other documentation) must be in agreement with the cash receipts and the deposit slip (or other bank deposit support). Total currency collected must be in agreement between these two sources.
- Deposits are required to be deposited in a reasonable timeframe (daily) (Department of Treasury, 2007).
 - In instances where the amount of cash on hand is minimal, deposits may be made less frequently (weekly).
 - Undeposited funds should be secured in a locked place such as a safe or vault.
- Money to be deposited should be counted and reconciled to the summary of cash collections to be sent to the accountant or bookkeeper.
 - If there is a difference, a “cash overage/shortage” account should be used.
 - Never make up the difference from cash in the change drawer.
- The change drawer should never be used to cash personal checks.
- The treasurer must provide the accountant or bookkeeper a record of all money received and the purpose of the amounts received (such as the budgeted revenue account or the receivable account).
 - This may be done in summary form (example: department transmittal advices) or by individual receipt.
- The treasurer is responsible for all cash receipts, unless the authority has been delegated to another official in a home rule city or village.
 - If any employees other than the treasurer (or delegated official) of the local unit receive cash, they must do so with the approval of the treasurer and in accordance with all cash handling policies.
- All financial institutions used as depositories, must be approved by the governing body (Department of Treasury, 2007).

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Receipting Policy Guide Review Table

Please use the table below to consider whether your receipting guide policy needs an overhaul or refresh. This document has been built so you can track where you are in the process.

Number	Receipting Policy	Yes	No	Explanation
1	A policy requiring a record of each individual cash transaction.			
2	A policy requiring numeric receipt books issued to other departments.			
3	A policy prohibiting the use of generic or “dime store” receipts.			
4	Receipts should include the date of the transaction; the dollar amount received; the type of payment (cash, check, credit cards, etc.); the purpose (garbage, labels, taxes, parcel number, etc.); the payer; the department receiving the cash; the person accepting the cash; the receipt number if applicable; invoice number if applicable; and the account number the cash is being deposited into.			
5	The receipt must allow for immediate revenue account classification in conformity with the Uniform Chart of Accounts.			
6	Checks must be restrictively endorsed (stamped for deposit only) at the time of collection.			
7	Formal evidence must be created for each collection and provided to payors where applicable.			
8	The system must include controls to ensure that every receipt is to be included in the cash receipts journal.			
9	The cash receipt is maintained by the appropriate individual.			
10	A policy ensuring deposits are deposited in a reasonable timeframe.			
11	Deposited money should be counted and reconciled to the summary of cash collections to be sent to the accountant or bookkeeper.			
12	A policy to ensure the change drawer should never be used to cash personal check.			
13	Have policies that ensure the treasurer has the appropriate responsibilities for handling cash and financial records.			

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