CML Effective Governance Workshop
Municipal Finance

Understanding the basics of the Audit Process, Budgets and other financial issues for Municipal Governments

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Outline

- General Audit/Budget/Finance timeline and the elected official's role.
- What is the Audit all about?
  - Who/What is the OSA?
  - What is the Local Government Audit Law?
  - How do you select an auditor?
  - How do you pick an auditor?
  - What is an audit opinion really?
- What is the Budget all about?
  - What is it and what is required?
  - Where does the money come from – and where does it go?
  - How does the budget process work?
  - What is the timeframe?
  - What might policy makers want to think about for budgets?

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Why should Local Leaders Know About Finance?

- Local government officials "steer the ship", so having knowledge as a board of the general structures and services, understanding what resources are available, and prioritizing to achieve desired outcomes is essential to a well functioning government.
- The decisions local elected officials make are all inherently financial decisions that will impact the organization and the community in profound ways and can have a legacy that spans decades.
- "Public finance can be daunting and arcane – and it's never been more important for officials to understand it." – *Governing, Feb '14*

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How much should the decision makers know?

- Local government boards are made up of different individuals with different experiences. When it comes to finances some members may be budget and finance pros, while others may be novices. These various perspectives provide value by allowing for thoughtful deliberation, but they may also provide grounds for difficulty and in some cases conflict.
- It is important to know what is going on in a budget, but also important to understand the board should be making policy decisions and staying out of detailed aspects of different activities (in other words – trusting staff to do their jobs).
- When there are questions, ask! There are no "dumb" questions and with understanding being essential to decision making, it is imperative to involve staff to help explain activities how budgets present information, keeping them from being defensive and opaque.

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Local Government Financial Timeframe

| Audit Year | Current Year | Budget Year |

- All local governments are working in three years at once (at least). Looking back at the closed books and audit process, managing the current budget in the current year, and looking forward to plan for the future year's budget.

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Office of the State Auditor

- Non-partisan agency within Colorado's Legislative Branch
- Three types of audits
  - Financial Audits
  - Performance Audits
  - IT Audits
- Authority to audit all departments, institutions, and agencies of state government, including educational institutions, and the Judicial and Legislative Branches

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Local Government Audit Division

- Tracks compliance with the Local Government Audit Law
- Local governments must submit an annual independent financial audit or an exemption from audit application to the OSA
- School District Fiscal Health Analysis
- Fiscal Health Analysis Tool for Municipalities

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Local Government Audit Law

- Section 29-1-601, et seq., C.R.S.
- Duties of the State Auditor
  - Examine reports & report deficiencies to the governing board
- Requirements for local government audits
  - Audits or application for exemption

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Audit Law Deadlines

- December 31 year-end
  - Audit shall be completed by June 30th
    - Submit to the OSA within 30 days of receipt of audit report
  - July 31st – Deadline to file an extension
    - Extension may be granted for 60 days
      - September 30

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Audit Law Consequences

- If audit not received by the deadline:
  - Notice sent to county treasurer to hold all taxes collected on behalf of the local government
  - Cause an audit

- Duty of the governing body to make provision for payment of an audit

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Audit Law

- Financial statements in conformity with generally accepted accounting principles (GAAP)
- Comparison of budget to actual
- Audit opinion
- Full disclosure by the auditor of violations of state or local law which come to his/her attention

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Selecting an Auditor

- RFP Process
  - Define the entity to be audited
  - Federal grants received
  - Request recent peer review

- GFOA.org
- CGFOA.org

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Selecting an Auditor

- Interview process

- Check references

- Other references

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Oversight of Auditors

- Licensed Certified Public Accountant

- Colorado Board of Accountancy
  – http://www.dora.state.co.us/registrations/Verification.htm

- Mandatory Peer Review – 3 years

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Audit Opinion

- Report on the Financial Statements
- Management's Responsibility
- Auditor's Responsibility
- Opinions
- Other Matters
- Other Reporting Required

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Audit Opinion

- Report on the Financial Statements
  – We have audited…

- Management's Responsibility
  – Preparation of the financial statement
  – Design, implementation, maintenance of internal control
  – Free from material misstatement

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Audit Opinion

- Auditor responsibility
  – Express opinions based on audit

  – In accordance with professional standards
    - plan and perform the audit
    - obtain reasonable assurance
    - financial statements free of material misstatement…"

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Audit Opinion

- An audit involves…
  - Procedures to obtain audit evidence
  - Risk assessments
  - Not express opinion on internal controls
  - Evaluate accounting policies…
  - significant accounting estimates…
  - overall statement presentation
- "We believe our audit provides a reasonable basis for our opinions"

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Audit Opinion

"In our opinion…"
- Unmodified
  - "Clean"
- Modified
  - "Except for…"
- Disclaimer
  - Cannot give an opinion
- Adverse
  - "Financial statements <u>do not</u> present fairly.."

Audit Opinion

- Other Matters
  - Required supplementary information
  - Other Information
    - Supplementary information
    - Combining fund statements
    - Statistical section
- Other Reporting Required by Government Auditing Standards
  - Single audit
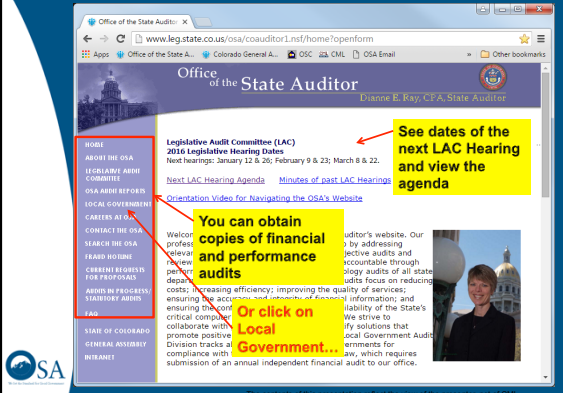
Management Letter

- Required communications

- Auditor's recommendations
  - Deficiency in internal control
  - Significant deficiency
  - Material weakness (most serious)

What is a Budget and Why do we do them?

- Broadly budgets are the financing plan on what each local government intends to get done within the year.
- Budgets are:
  - Financial Plans
  - Communication Documents
  - Reflections of Priorities
  - Tools for Accountability
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Where does the money come from?

- Across Colorado there are some common types of revenue similar types of local governments tend to collect
- At the same time, there are also other uncommon, one-off, and illegal types of revenue local governments can't collect)
- A very important part of the budget process is the development of revenue projections and the evaluation of those projections on a reoccurring timeframe.

(so you can see how projections hold up)

Property Taxes
Sales Tax   Other Taxes
Charges for Service
Real Estate Transfer Tax
Income Taxes
Intergovernmental Revenue

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Where does the money go?

Operating Budget

The operating portion is developed to provide for ongoing operations of your municipality.
- Salaries
- Maintenance
- Supplies
- Other

Capital Budget

The capital budget is for large, long term projects that are not regular expenses.
- Large Projects
- Land Acquisition
- Facilities/Buildings
- Large Equipment Purchase

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What did municipal budgets look like in 2013?
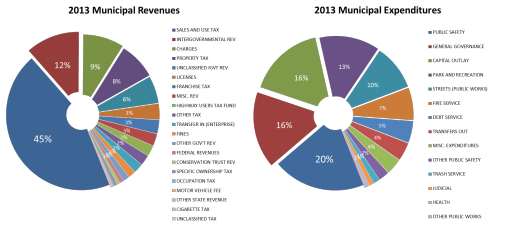
2013 Municipal Revenues

- SALES AND USE TAX
- INTERGOVERNMENTAL REV
- CHARGES
- PROPERTY TAX
- UNCLASSIFIED GVT REV
- LICENSES
- FRANCHISE TAX
- MISC. REV
- HIGHWAY USERS TAX FUND
- OTHER TAX
- TRANSFER IN (ENTERPRISE)
- FINES
- OTHER GOV'T REV
- FEDERAL REVENUES
- CONSERVATION TRUST REV
- SPECIFIC OWNERSHIP TAX
- OCCUPATION TAX
- MOTOR VEHICLE FEE
- OTHER STATE REVENUE
- CIGARETTE TAX
- UNCLASSIFIED TAX

45% 12% 9% 8% 6%

2013 Municipal Expenditures

- PUBLIC SAFETY
- GENERAL GOVERNANCE
- CAPITAL OUTLAY
- PARK AND RECREATION
- STREETS (PUBLIC WORKS)
- FIRE SERVICE
- DEBT SERVICE
- TRANSFERS OUT
- MISC. EXPENDITURES
- OTHER PUBLIC SAFETY
- TRASH SERVICE
- JUDICIAL
- HEALTH
- OTHER PUBLIC WORKS

16% 13% 10% 7% 5% 4% 16% 20%
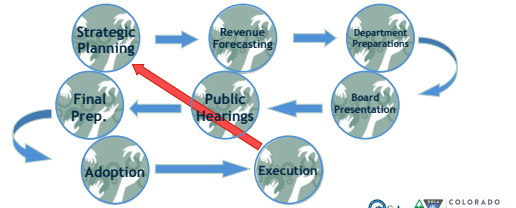
The 268 Municipal general government funds in Colorado in 2013 took in revenues of $4,287,491,064 and had expenditures of $3,678,687,619.

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The Basic Budget Process

- Regardless of place, most local budget processes follow some common steps.

Strategic Planning → Revenue Forecasting → Department Preparations
Final Prep. ← Public Hearings ← Board Presentation
Adoption → Execution

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The Budget Timeframe

- All local governments are required to operate on a calendar year (Jan 1 – Dec 31).
- Some important dates include:
  - October 15th
  - December 15th
  - December 31st
  - January 31st
- Each local government may create their own budget calendar to allow management of the process, work with departments and to ensure all the required information is collected at the right time.

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

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Leaders may want to consider Budget and Financial Policies

- Establishing budget and other financial policies codify expected practices within your local government.
- The National Advisory Council on State and Local Budget (NACSLB) has developed recommended practices to follow:
  - Establish Broad Goals to guide Decision Making
  - Develop Approaches to Achieve Goals
  - Develop a Budget consistent with Approaches
  - Evaluate Performance and Make Adjustments
- Some Common Types of Policies include:

  - Balanced Budget Policy
  - Fund Balance Policy
  - Fee and Charge Policy
  - One-time Revenue Policy
  - Fund Transfer Policy

  - Unpredictable Revenue Policy
  - Debt Issuance Policy
  - Operation vs. Capital Expenditure Policy

GOVERNING

10 Policies and Practices that Promote Financial Health

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Questions?

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