**City of [*Name*]**

**Massachusetts**

Financial Policies

Manual

***[city seal]***

**Preface**

The City of [City] is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. In order to ensure the growing and continued financial health of the City, provide the public with confidence that City officials respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the City has thoughtfully prepared for its future, the financial policies outlined below shall guide the City.

This manual of financial policies provides guidance for local planning and decision making. The policies are intended to outline objectives, provide direction, and define authority to help ensure sound fiscal stewardship and management practices. These policies are a living tool and shall be reviewed by the [CEO], [CFO], and designated staff on an annual basis and updated as necessary.

With these policies, the City of [City], through its Council, [CEO], [CFO], and employees, commits to the following objectives:

* Sustaining a consistent level of service and value for residents and businesses
* Evaluating the City’s financial capacity to meet present and future needs
* Safeguarding financial integrity and minimizing risk through a system of internal controls
* Promoting credible and sound financial management by providing accurate and timely information on the City’s financial condition to elected officials, staff, the public and external interests
* Ensuring the quality and maintenance of capital assets so that current and future capital needs are addressed in a comprehensive and financially sound manner
* Conforming to general law, uniform professional standards, and municipal best practices
* [Protecting/Enhancing] the City’s bond rating

**Table of Contents**

[Financial Planning 1](#_Toc205470767)

[**Annual Budget Process** 3](#_Toc205470768)

[**Appropriation Transfers & Supplements** 7](#_Toc205470769)

[**Capital Planning** 10](#_Toc205470770)

[**Debt Management** 15](#_Toc205470771)

[**Financial Reserves** 21](#_Toc205470772)

[**Forecasting** 27](#_Toc205470773)

[**Indirect Cost Allocation** 30](#_Toc205470774)

[**Investments** 34](#_Toc205470775)

[**Other Postemployment Benefits Liability** 40](#_Toc205470776)

[**Overlay** 43](#_Toc205470777)

[**Special Purpose Appropriations** 45](#_Toc205470778)

[Financial Operation 49](#_Toc205470779)

[**Antifraud** 51](#_Toc205470780)

[**Disbursements** 56](#_Toc205470781)

[**Financial Management Team** 59](#_Toc205470782)

[**Gifts of Funds** 61](#_Toc205470783)

[**Grants Management** 64](#_Toc205470784)

[**Procurement - Conflict of Interest** 68](#_Toc205470785)

[**Reconciliations** 71](#_Toc205470786)

[**Revenue Turnover** 76](#_Toc205470787)

[**Tailings** 81](#_Toc205470788)

[**Tax Recapitulation** 84](#_Toc205470789)

[**Year-End Closing** 88](#_Toc205470790)

[Policy Log 93](#_Toc205470791)

[Appendix 95](#_Toc205470792)

Financial Planning

Policies

## **Annual Budget Process**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO], [CFO], School Committee budget decision-making roles * [CFO] and Board of Assessors job duties * All department heads, boards, and committees that have spending authority and budget planning duties |
| **Scope:** | Coordination, development, and adoption processes for the annual omnibus budget, encompassing the operating, enterprise fund, and capital budgets |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To promote transparency, procedural consistency, and fiscal sustainability, this policy establishes guidelines for developing, documenting, proposing, adopting, monitoring, and reporting the City’s annual budget. As the City’s central policy document, the budget prioritizes annual and longer-range objectives and is the means for turning strategic plans into fiscal reality. It constitutes a contract between the City and its residents, explaining how funds are to be raised and allocated for the delivery of services.

**POLICY**

In May of each year, the [CEO] will present for the City Council’s vote a balanced budget proposal for the fiscal year that begins on July 1. City Council has the sole authority to approve all budget appropriations, excluding any expenditures where appropriation is not required by statute (such as grants, gifts, and offset receipts). The City Council also has the sole authority to approve any amendments to previously approved appropriations, subsequent to recommendation by the [CEO].

Pursuant to the [CEO]’s vision, goals, and strategic plans, the [CFO] is responsible for creating an annual budget proposal for the [CEO]’s approval followed by the City Council’s adoption. The budget’s creation will be guided by and reflect all the other financial planning policies adopted by the City and contained in its policy manual.

All parties applicable under this policy are expected to comply with the milestone deadlines in the annual budget calendar when they are set each year. As part of this, department heads will timely provide the [CFO]with all the information needed for the creation of an informative budget proposal document for submission to City Council by mid-May each year.

1. Budget Goals

The goal of the [CEO] is to create an efficient, effective, and fiscally responsible budget process that meets the planned needs and goals of the City, maintains reserves for emergencies, and is accountable to the taxpayer. At minimum each year, the City’s budget goals will include the following:

**General fund** – The goals for the general fund budget include preserving core services, fulfilling required mandates, and maintaining or enhancing the local quality of life, while also ensuring reserve levels that will allow flexibility to respond to changes in the economy and other unanticipated issues that could potentially affect the City’s fiscal health.

**Capital investment** — To pay for items in the capital plan, the City will strive to achieve and maintain the annual capital funding levels spelled out in the Capital Planning and Debt Management policies. Additionally, the City will plan to regularly fund, within departmental operating budgets, the maintenance costs for equipment, facilities, infrastructure, and other capital assets to maximize their useful lifespans.

**Enterprise funds** – For the budgets of the [enterprise fund(s)] operations, the City will attempt to set user fees and charges sufficient to cover all of their associated direct and indirect costs so as to avoid or minimize any general fund subsidies. The City’s general fund purposely supports a substantial amount of the annual [enterprise fund(s)] budget. Each year, the [CFO] will reanalyze the factors related to the subsidy and recommend to the [CEO] a subsidy amount for the forthcoming year. The City’s PEG (public, educational and government) cable channel is funded by a cable franchise fee, rather than through user fees, and is self-supporting.

1. Principles for Balanced, Sustainable Budgets

Under the [CEO]’s direction, the [CFO] will prepare the annual budget proposal. Once the [CEO] has reviewed and finalized the proposal, it will be presented to the City Council to vote on adopting it.

To assure the creation of a budget that is both balanced and sustainable for future years, the following principles will apply:

1. Recurring revenues (e.g., property taxes, vehicle excises, service fees and charges, state aid) will be sufficient to support recurring expenditures (e.g., employee wages and benefits, materials, supplies, contracted costs, debt service).
2. The City will avoid using any one-time revenue source to fund ongoing services unless necessitated by exceptional circumstances, and any such usage will require the [CFO] to document a plan to replace this source in future years.
3. All departmental budgets will be prepared to reflect the full costs of providing the services and list the proposed and prior-year actual allocations of full-time-equivalent employees.
4. The City will not use budgetary procedures that balance the budget at the expense of future years, such aspostponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to avoid making principal payments.
5. The [CFO] will review fee schedules every year, in conjunction with the associated department heads, and propose increases when necessary to ensure coverage of service costs.
6. The [CFO] will evaluate all contractual obligations, requests, and strategic priories to determine annual pay increases for employees who are not covered by collective bargaining agreements.
7. The [CEO]’s final budget proposal will not underfund any fixed, recurring costs in the annual operating budget with the expectation that budget supplements will be available during the year but will instead fund them at the realistic amounts necessary to complete the year.
8. When a forecast predicts annual revenues to exceed annual expenditures, the following options should be considered for the excess revenue:

* Building up reserve fund target levels
* Reducing debt
* Advancing deferred capital expenditures
* Funding the other postemployment benefits liability
* Accelerating payments on other long-term obligations
* Restoring services reduced from prior years
* Considering new initiatives
* Exploring tax relief

1. The Board of Assessors will vote to authorize a contribution to the overlay account to offset the City’s liability for unpaid property taxes caused by abatements and exemptions. This amount shall be based on:

* Current balance in the overlay account
* Three-year average of granted abatements and exemptions
* Cases pending before, or on appeal from, the Appellate Tax Board
* Timing of the next five-year certification review by the Division of Local Services (DLS)

1. Budget Calendar

The [CFO] will coordinate a budget process that enables early identification and review of major policy issues and analysis of options. The [CFO] will create and distribute to the [CEO], City Council, all policy boards, and department heads an annual budget calendar that, at minimum, will include:

* Revenue projections and financial forecast completion, distribution, and updates
* Departmental appropriation guidelines, submissions, and review
* Capital improvement plan guidelines, submission, and review
* Public hearings, reviews, and approvals at different levels
* Working budget document compilation and distribution
* Final budget proposal

The [CEO] will deliver the budget proposal by mid-May, and the City Council will vote to adopt the fiscal year budget within 45 days of receipt from the [CEO], with a target date by mid-June.

1. Budget Document

The [CFO] will produce a transparent and reader-friendly budget document that presents the City’s proposed expenditures for current operations and capital projects during the ensuing year, detailed by department, purpose, and project. It will contain the [CFO]‘s budget message detailing short- and long-term strategic objectives and explains its fiscal challenges. The outlook will include economic trends that will affect the City, as well as anticipated major capital investments. The budget message will also highlight important features of the budget, explain any major variations in current year revenue, expenditures, or policies, and summarize the City's debt position.

As a model for the budget document, the [CFO] will use standards established by the Government Finance Officers Association (GFOA) in its [Distinguished Budget Presentation](https://www.gfoa.org/budget-award). In addition to presenting the annual goals and objectives of City departments, it will include analyses of revenues, expenses, and outstanding debt; graphical information about available finances; and estimations of tax bill affordability, such as the average single-family tax bill relative to local per capita income. It will also include a summary of the City's five-year capital plan.

1. Budget Monitoring

The City Auditor will continually monitor the budget and provide regular formal reports to the [CEO], [CFO], and City Council. The City will take immediate corrective actions if at any time during the fiscal year expenditure or revenue estimates indicate a projected operating deficit by year-end. Corrective actions can include, but are not limited to, hiring freezes, expenditure reductions, layoffs, or use of contingency funds.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Capital Planning, Debt Management, Financial Management Team, Financial Reserves, Forecasting, Indirect Cost Allocation, OPEB Liability, Overlay, Year-End Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 40 § 5A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section5A)

[M.G.L. c. 41, § 3](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section3)

[M.G.L. c. 41, § 15A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section15A)

[M.G.L. c. 41, § 52](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section52)

[M.G.L. c. 41, § 60](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section60)

[M.G.L. c. 44, § 31](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section31)

[M.G.L. c. 44, § 32](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section32)

[M.G.L. c. 44, § 33](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33)

[M.G.L. c. 44, § 33A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33a)

[M.G.L. c. 44, § 33B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33B)

[M.G.L. c. 44 § 53F½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53F1~2)

[M.G.L. c. 58, § 25](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter58/Section25)

[M.G.L. c. 58, § 25A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter58/Section25A)

[M.G.L. c. 59, § 21C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section21c)

[M.G.L. c. 70](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter70)

[M.G.L. c. 71, § 16B](https://malegislature.gov/laws/generallaws/parti/titlexii/chapter71/section16b)

[M.G.L. c. 71, § 16B½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter71/Section16B1~2)

Division of Local Services (DLS) Informational Guideline Release 2017-23: [*Overlay and Overlay Surplus*](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwj8vM6vjKeHAxUqFVkFHTwfACQQFnoECBAQAQ&url=https%3A%2F%2Fwww.mass.gov%2Fdoc%2Figr-17-23-overlay-and-overlay-surplus%2Fdownload&usg=AOvVaw3KRPGkc2Y4taK_kIK5f80T&opi=89978449)

DLS Frequently Asked Questions: [*City Budget Process*](https://www.mass.gov/doc/city-budget-process-faqs/download)

Government Finance Officers Association Best Practices:[*Achieving a Structurally Balanced Budget*](https://www.gfoa.org/materials/achieving-a-structurally-balanced-budget), [*Working Capital Targets for Enterprise Funds*](https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds)and[*Distinguished Budget Presentation Criteria*](https://gfoaorg.cdn.prismic.io/gfoaorg/234798d8-f7d3-45c2-8767-d705a53595c3_BudgetCriteriaGuide2021orlater.pdf)

## **Appropriation Transfers & Supplements**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO]’s budget proposal authority and general oversight of the Citywide budget * City Auditor in monitoring and accounting for the Citywide budget * School Committee in its School budget authority * All department heads in managing their departmental budgets |
| **Scope:** | * Requests, approvals, and tracking of:   + Intra-departmental transfers (transfers from one line item to another within the same department)   + Inter-departmental transfers (transfers from one department to another department)   + Supplemental appropriations to adopted departmental budgets * Not in scope: Transfers from the City Council’s reserve fund, which should be guided by a separate policy adopted by the City Council |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To help ensure the City can properly amend its annual omnibus budget when necessary to cover any appropriation deficit or other cause for adjustment, this policy sets guidelines for transferring budget appropriations and for supplementing them with available funds.

**POLICY**

The City Council has sole authority for approving all budget appropriations, subsequent to proposals by the [CEO]. Likewise, to revise or supplement any adopted appropriation requires a recommendation from the [CEO] and a City Council order. Any revision that would transfer money away from the School or Light Department(s) or must also be approved by the School Committee or Light Board.

In accordance with the Annual Budget Process policy, appropriations in the [CEO]’s annual budget proposal will be set at amounts realistically projected to provide adequate coverage for the fiscal year’s expenditures. Department heads must carefully manage their budgets to guard against potential deficits and should have no expectations of supplements during the year. However, deficits may result from unexpected negative events, or there may be unanticipated, time-delimited, beneficial opportunities that would justify budget supplements as well. Any supplementation of an appropriation through a transfer from reserves should comply with the City’s [Financial Reserves policy](#_Financial_Reserves), or the [CEO] should provide an explanation for the policy deviation when making the recommendation to City Council.

Departmental budget appropriations are adopted in broad line-item classifications, such as personnel and expenses. Any transfer of funds between these broad line-item classifications requires approval by the [CEO] only.

Any department head faced with an account deficit that may be rectified through a line-item transfer or otherwise requesting a budget supplement must complete the Supplemental & Budget Transfer Form, include with it a letter to [CEO] providing an explanation for the submittal, and direct the package to the [Finance Department]. This form must be used to manage the flow of information, record required approvals, and serve as part of the necessary back-up documentation for subsequent general ledger updates. The City Auditor will coordinate the response to these submissions with the other applicable parties and update the department head with the result.

Any transfers of funds among the School Department’s line items only require the approval of a majority of School Committee members. The School [Business Manager] must submit a School Budget Transfer Form to the [Finance Department], however, so that the relevant changes can be made in the general ledger.

**POLICY SUMMARY**

| **Appropriation Transfers** | |  | |
| --- | --- | --- | --- |
| **Objective** | **Required Approvals** | | **Required Documents** |
| **At any time non-school:**  Transfer funds from one line item to another line item within the same dept’s budget appropriations (Intra-departmental) | * [CEO] recommendation * Council order by majority vote | | * Letter to [CEO] explaining the need for transfer * Supplemental & Budget Transfer Form |
| **At any time all departments:**  Transfer funds from one dept’s budget to that of another dept (Inter-departmental) | * [CEO] recommendation * Council order by 2/3rds vote * Written permission of the dept head of the transferring-out dept * Majority vote of School Committee or Light Board if School or Light is the transferring-out dept | |
| **Between the dates of May 1 and July 15 (for the FY just ending/ended):**  Transfer funds from any non-school or light dept to that of another dept | * [CEO] recommendation * Council order by majority vote | |
| **At any time school:**  Within the School Dept budget, transfer funds between the department’s line item appropriations | * Majority vote of School Committee | | * School Budget Transfer Form |

| **Supplemental Appropriations** | | |
| --- | --- | --- |
| **Objective** | **Required Approvals** | **Required Documents / Prerequisites** |
| Supplement a dept budget with a levy appropriation or transfer from a special revenue fund or free cash (or retained earnings for enterprise funds only) | * [CEO] recommendation * Council order by majority vote | * Letter to [CEO] explaining the need for transfer * Supplemental & Budget Transfer Form * If using reserve funds, the spending purpose must align with the Financial Reserves policy, or the [CEO] specifies a justification for deviation |
| Supplement a dept budget with a stabilization fund transfer | * [CEO] recommendation * Council order by 2/3rds vote |

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Financial Reserves, Reconciliations, Year-end Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 33B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33B)

[M.G.L. c. 71, § 34](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter71/Section34)

Division of Local Services Informational Guideline Release 2017-13: [*Appropriation Transfers*](https://www.mass.gov/files/documents/2017/09/11/igr17-13.pdf)

## **Capital Planning**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO], [CFO], and Capital Planning [Manager] when developing the annual capital budget proposal and updating the capital improvement plan * [Capital Working Group] in assembling and updating the capital asset inventory and prioritizing capital projects * All department heads in planning for and requesting capital projects |
| **Scope:** | * All current and proposed capital projects for assets owned by the City * Included are projects for which the City may seek Community Preservation Act (CPA) financing. However, this policy does not govern the procedures and decision making of the CPA Committee, which has sole budget-making authority for CPA funds. |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To assure the City can cost-effectively acquire, expand, or enhance the capital assets necessary to achieve its service provision goals, this policy outlines guidance for planning, reviewing, and coordinating capital improvements.

**POLICY**

To acquire or extend the useful life of the equipment and infrastructure needed to achieve the highest possible levels of public services and quality of life affordable with available financial resources, the City will maintain an annually updated, five-year [Capital Improvement Plan (CIP)]. To protect the City’s existing capital assets, the annual budget will include appropriate funding for capital maintenance costs by department. The City will emphasize preventive maintenance as a cost-effective approach to capital investment and replace exhausted goods as necessary.

The [CFO] is responsible for developing the City’s annual capital budget and [CIP] in accordance with the [CEO]’s directives. To assist and advise the [CFO] is the [Capital Working Group], chaired by the [CFO] and including the Capital Planning [Manager], Police Chief, Fire Chief, School Superintendent or designee, City Planner or designee, Facilities Manager, and Public Services Director.[[1]](#footnote-1)

*Define responsibilities for:*

* *Overseeing a comprehensive capital improvement program*
* *Adding to, maintaining, and updating the CIP*
* *Maintaining a capital asset inventory*
* *Prioritizing projects*
* *Analyzing funding*

*If the city has a capital working group:*

* *Define membership and appointing authority*
* *Include any nonvoting members*

**POLICY SUMMARY**

|  |  |
| --- | --- |
| **Capital Process Component** | **Policy Guidance** |
| Capital Project definition | * Costs [$25,000] or more, and * Has (or extends) useful life of [five years] |
| Annual capital budget | * Developed by [CFO], with assistance of Capital Planning [Manager] based on departmental submissions * Finalized by [CEO] for proposal to City Council |
| Multiyear capital improvement plan (CIP) | * First year is the capital budget proposed for the next fiscal year * Four subsequent years of capital project projections * Updated and maintained by [CFO] * Finalized by [CEO] for acceptance vote by City Council |
| Capital asset inventory | * Assembled and updated annually * Responsibility of the [Capital Working Group] |

|  |  |
| --- | --- |
| **Capital Financing** | **Policy Guidance** |
| Funding targets[[2]](#footnote-2) | * Overall capital spending: [range %] of the total operating revenue   + Non-debt, “cash capital” spending: [range %] of GF revenue   + Annual within levy capital debt service: [range %] of GF revenue |
| Cash capital | Appropriate funding sources: levy, free cash, general stabilization fund, capital (or other) stabilization funds, revolving funds, overlay surplus, certain receipts reserved funds, grants |
| Debt usage | * Short-term debt: Useful life < 10 years * Long-term debt: Useful life > 10 years and cost > $100,000 |

1. Definition of a Capital Improvement

A capital improvement is a tangible asset or project estimated to cost over [$25,000] and to have or to extend [five] or more years of useful life. These include:

* Real property acquisitions, construction, and long-life capital equipment
* Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
* Major improvements to physical infrastructure, such as streets and stormwater drains
* Planning, feasibility studies, and designs for potential capital projects, such as new buildings or major additions to existing buildings
* Equipment acquisition, replacement, or refurbishment, including but not limited to vehicles, furnishings, technology hardware and software, or other items that, when combined together make it a capital project
* Items obtained under long-term capital leases
* Bulk purchases of similar items, like software, furniture, or radios with an expected useful life of [five] or more years that, when aggregated, have total costs exceeding [$25,000]

1. Capital Asset Inventory

To support a systematic acquisition and replacement schedule, the [Capital Working Group] will catalog and annually update a detailed inventory of all capital assets. The inventory shall include dates built, acquired or last improved; original costs; current conditions; expectedand remaining useful lifespans; depreciated values; extent of use; and any scheduled replacement or expansion dates.

The [CFO] will verify the assets identified in the inventory are properly reflected in the City’s annual property insurance policy.

1. Submitting and Evaluating Capital Project Proposals

As part of the annual budget process, the [CFO] will solicit capital project requests from department heads which will include priority level, estimated project cost, and useful life. In addition to responding with any new project requests, department heads will also assess their current and prior capital projects and requests and submit recommendations to add, withdraw, and/or adjust the projected costs of capital projects based on updated anticipated needs. The [CFO] will assemble the responses and meet with department heads to discuss the requests. When evaluating and deciding on project proposals, the [Capital Working Group] will prioritize them using the criteria below:

Department heads will assign priorities using the criteria below:

1. Urgent/Legally Required – Completing this project will address an imminent risk to the safety of the public or municipal personnel, and/or it will prevent the imminent destruction or collapse of public infrastructure and loss of assets. Alternatively, this project is required to bring the community into compliance with federal or state safety, environmental, accessibility, or other regulations and legal requirements.
2. Maintain Service – Completing this project is necessary to ensure level service for the planned fiscal year. This priority type may include projects that replace old or worn-out equipment, dramatically rehabilitate aging facilities, or facilitate a department’s ability to meet increased service demands.
3. Enhancement – Completing this project will provide a benefit to the community over and above the existing service level, or it will result in cost savings or other efficiencies.
4. Multiyear Capital Improvement Plan

The [CFO] will provide the [CEO] with a report of recommendations for the forthcoming year’s capital budget and for updates to the [CIP]. The [CIP] will include the capital budget for the upcoming fiscal year and a four-year projection of capital needs and expenditures, detailing their estimated costs, descriptions, and anticipated funding sources. The [CEO] may make changes to the [CIP] before presenting the finalized capital budget and [CIP] to the City Council for a vote.

*Or:*

By [Month], the [CEO] will annually update and propose to the City council a five-year CIP while taking the following into consideration:

* Relationship of project submittal to financial and governing policies, plans, and studies
* Input from major stakeholders and the general public
* Operating budget impacts resulting from capital projects
* Analytical evaluations of potential projects (e.g., net present value, payback period, cost-benefit analysis, lifecycle costing, cash flow modeling)

Incorporated in the CIP shall be the proposed capital budget for the forthcoming fiscal year, a four-year projections of capital needs and expenditures, and a long-term capital outlook for up to an additional 15-year period. It shall detail the projects’ estimated costs, descriptions, and anticipated funding sources.

1. Capital Financing

Annually, the City will strive to maintain [range %] of the general fund revenue on capital investment with overall capital spending within [range %] of the total revenue. The CIP shall be prepared and financed in accordance with the following principles:

* Short-term debt may be used to fully finance purchases with useful lifespans under 10 years.
* In accordance with the Debt Management policy, the City will restrict long-term debt funding to projects with lifespans greater than 10 years and costs exceeding [$100,000].
* Before any long-term, bonded capital project is recommended, the project’s annual operating costs and debt service costs shall be identified.
* Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.
* The [CFO] will proactively work with the CPA Committee on strategies to finance projects that may be eligible for funding under the CPA statute.
* Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.
* To the extent feasible, all capital projects associated with enterprise funds shall be financed from user fees.

Other capital financing considerations include:

* Scope and timing of projects
* Estimates of all major components required to implement a project, such as land acquisition, design, construction, contingency, and post-construction costs
* Identification of the most appropriate approaches, including outside assistance, when estimating project costs and potential revenues
* Adjustments of cost projections based on anticipated inflation
* Recognition of a project’s nonfinancial (e.g., environmental) impacts on the community



**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process,Debt Management, Financial Reserves, Forecasting, Special Purpose Appropriations

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 53J](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53j)

[M.G.L. c. 80](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIII/Chapter80)

[M.G.L c.83](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIV/Chapter83)

Division of Local Services (DLS) Best Practice: [*Presenting and Funding Major Capital Projects*](https://www.mass.gov/doc/presenting-and-funding-major-capital-projects/download)

DLS Guidance: [*Capital Improvement Planning Manual*](https://www.mass.gov/files/documents/2017/09/08/Capital%20Planning%20Manual%20Forms%20and%20Instructions_0.pdf)and [*Capital Improvement Planning Guide*](https://www.mass.gov/doc/captital-improvement-planning-guide/download), and [*Betterments & Special Assessments – Assessment and Collection Procedures*](https://www.mass.gov/doc/betterments-and-special-assessments-assessment-and-collection-procedures/download)

DLS Information Guideline Release 2021-1: [*Betterments and Special Assessment, Assessment, and Collection Procedures*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/750)

Government Finance Officers Association Best Practice: [*Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies*](https://www.gfoa.org/materials/strategies-for-establishing-capital-asset-renewal-and)

## **Debt Management**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] and [CFO] in their budget assessment and decision making roles * [Treasurer]’s debt-management responsibilities |
| **Scope:** | All short- and long-term debt obligations as permitted to be issued under state law, including general obligation bonds, revenue bonds, bond anticipation notes (BANs), revenue anticipation notes (RANs), grant anticipation notes (GANs), and lease/purchase agreements |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the City to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing costs, and sustain capital investment capacity. It can also help the City to maintain or enhance a favorable bond rating so as to achieve long-term interest savings.

**POLICY**

Under the requirements of federal and state laws, the City may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to meet short-term cash flow needs. The City may also refinance existing debt. For any given, highly expensive capital project, a debt issuance may present the most appropriate financing strategy. Not only does it provide funds not otherwise available upfront, but the amortizing of the debt over multiple years equitably distributes the project’s cost among the taxpayers, who may settle in or move out of City over time.

The City will issue and manage debt obligations so as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. The City will not issue debt obligations to construct, reconstruct, or purchase capital assets that can be acquired with current revenues.

The City may issue short-term debt (by BAN, RAN or GAN) when needed to fund immediate cash requirements, as bridge financing in advance of receiving the anticipated funding. Short-term debt also makes sense when it allows the City to take advantage of a lower interest rate, when savings are to be had from aggregating issuances, or when market conditions are such that postponing the issuance of long-term debt for the greater portion of a project’s cost may be a prudent option.

**POLICY SUMMARY**

|  |  |
| --- | --- |
| **Long-term debt criteria** | * For purposes allowed by statute ([M.G.L. c. 44, § 7](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section7) and [M.G.L. c. 44, § 8](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section8A)) and are tax-exempt * Nonrecurring purposes only * Cost $100,000+ and have 10+ years of useful life * Financing sources have been identified |
| **Lessen impact on general fund** | Options include:   * Revenue bonds, special assessment, and other self-supporting bonds * Special assessments and betterments |
| **Debt service targets** | * Total debt limited to 5% of City’s total equalized valuation * Total debt service limited to [range %] of the total revenue * Maintain year-to-year debt service funding within levy at [range %] of general fund revenues * Maintain debt capacity by replacing retiring debt with new issuance(s) or appropriating an amount equivalent to the retiring debt service to the capital stabilization fund each year until new debt is issued |
| **Debt structure & terms** | * Retire at least 50% of the principal within 10 years * Debt schedule not to exceed the asset’s useful life * Limit bond maturities to 10 years, except for major buildings, land, and other purposes detailed by DLS in its guidelines for useful life borrowing limits * Any debt authorization vote will also authorize reducing the borrowed amount by the amount of the net premium and accrued interest * Pursue net direct debt service schedules with annual principal and interest payments (net of any reimbursements or dedicated revenue sources) that are sustainable using recurring revenues * Avoid arbitrage by spending borrowed funds according to federally required time frames |

1. Debt Financing

In financing with debt, the City will:

1. Issue long-term debt only for purposes that are authorized by state law and qualify for tax-exempt bonds and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital projects that cost at least $100,000 and have at least 10 years of useful life or whose useful lifespans will be prolonged by at least 10 years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.
5. Consider using revenue bonds, betterments, or other types of self-supporting bonds instead of issuing general obligation bonds whenever possible.
6. Use special assessments, betterment assessments, and similar dedicated revenues to fund long-term debt.
7. Retire any debt obtained through a BAN no later than six months after the date that its associated capital project is completed. If there is a financial advantage to deferring the issuance of permanent debt, the City will make annual reductions to the outstanding principal as if the permanent debt had been issued. This will prevent the City from carrying any BAN beyond the period in which it is necessary, reduce the interest rate risk the City will face, and help ensure the timely close out of capital projects.
8. Debt Limits

The City will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10% of total operating revenues, with a target balance of [range %].
2. The City will seek to replace maturing, non-excluded debt obligations with new issuances, so that year-to-year debt service expenditures are maintained at a target level representing [range %] of general fund revenues. If the City does not replace the rolled-off debt service with a new issuance(s), the amount of the service on the matured debt should be appropriated to the [capital] stabilization fund annually until a new issuance with an equivalent amount of debt service occurs.
3. As dictated by [M.G.L. c. 44, § 10](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section10), the City’s debt limit shall be 5% of its most recent equalized valuation[[3]](#footnote-3).

Debt limits table

1. Structure and Term of Debt

The following shall be the City’s guidelines on debt terms and structure:

1. The City will attempt to maintain a long-term debt schedule such that at least 50% of outstanding principal will be paid within 10 years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The City will limit bond maturities to no more than 10 years, except for major buildings, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium (bonds) and accrued interest (notes).
5. For new long-term debt, the City will pursue net direct debt service schedules with annual principal and interest payments (net of any reimbursements or dedicated revenue sources) that are sustainable using recurring revenues.
6. The [Treasurer] and [CFO] will work closely with the City’s financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines, and penalties to the federal government, and jeopardizing any debt issuance’s tax-exempt status.
7. The City will comply with the following required spending of borrowed funds time frames to avoid having to pay a rebate to the federal government on investment income earned on the funds.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Construction Debt** | **Capital Debt for Non-Construction Projects** | **All Other Municipal Debt** |
| First six months | 10% | 15% | 100% |
| First year | 45% | 60% |  |
| 18 months | 75% | 100% |  |
| Two years | 100% |  |  |

1. Bond Refunding

To achieve potential debt service savings on long-term, tax-exempt debt through bond refunding, the City will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the City’s financial advisor to determine the optimal time and structure for bond refunding.
5. Debt Affordability Analysis

To help mitigate any risks to long-term fiscal health and stability from new debt issuances, the City’s decision makers require contextual analysis on debt affordability. Therefore, whenever a capital improvement greater than [amount] is under consideration, the [CFO] will report the [CEO] certain ratios that are estimated to result from debt service projections. To do this, the [CFO] will combine the proposed project’s total estimated principal and interest costs (i.e., its projected annual debt service) with existing annual debt service obligations and then calculate that total relative to the following:

* Percentage of annual City revenue
* Percentage of total assessed property value
* Amount per capita population
* Percentage of per capita personal income

1. Disposition of Surplus Bond Proceeds

Whenever a completed or discontinued project has a surplus balance from bond proceeds, the [Treasurer] will make a report of the information to the [CFO] and [CEO] with a recommendation(s) on how the money should be repurposed. When the balance for a completed project is less than $50,000, the [CEO] will approve transferring the funds to an outstanding debt service obligation(s). If another circumstance applies, the [CEO] will submit a proposal to the City Council to vote an appropriation(s) in accordance with the following statutory provisions:

* For a completed project with a balance of $50,000 or greater: Vote to appropriate the balance for another purpose(s).
* For a project that was discontinued regardless of the surplus amount: Vote to abandon the project (by a two-thirds majority) and to appropriate the balance for a new purpose(s).

In the latter two circumstances above, the expenditure being offset by the surplus must have a purpose for which the City may authorize a loan for an equal or longer period of time than that for which the original loan was issued.

1. Protection of Bond Rating

To obtain and maintain a favorable bond rating, the City will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.
3. Reporting
4. The [Treasurer] will report to the City Council, [CEO], and [CFO] on the City’s debt status at least [semiannually].
5. The [CFO], with the City’s financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Capital Planning, Forecasting

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 4](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section4)

[M.G.L. c. 44, § 6](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section6)

[M.G.L. c. 44, § 6A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section6A)

[M.G.L. c. 44, § 7](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section7)

[M.G.L. c. 44, § 8A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section8a)

[M.G.L. c. 44, § 8](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section8A)

[M.G.L. c. 44, § 17](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section17)

[M.G.L. c. 44, § 19](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section19)

[M.G.L. c. 44, § 20](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section20)

[M.G.L. c. 44, § 21A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section21A)

[M.G.L. c. 44, § 21C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section21A)

[M.G.L. c. 44, § 53J](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53j)

[M.G.L. c. 80](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIII/Chapter80)

[M.G.L c.83](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXIV/Chapter83)

[26 USC § 148](https://www.law.cornell.edu/uscode/text/26/148)

Division of Local Services (DLS) Best Practice: [*Understanding Municipal Debt*](https://www.mass.gov/doc/understanding-municipal-debt/download)

DLS Borrowing Guidelines: [*[Asset Useful Life Schedules and Maximum Borrowing Terms](http://mass.gov/files/documents/2017/09/22/dlsassetusefullifeschedules-maximumborrowingterm.pdf)*](http://mass.gov/files/documents/2017/09/22/dlsassetusefullifeschedules-maximumborrowingterm.pdf)

DLS Informational Guideline Releases2022-01: [*Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/774)and 2022-02: [*Borrowing*](https://www.mass.gov/files/documents/2017/09/11/igr17-21.pdf)

Government Finance Officers Association Best Practice: [*Refunding Municipal Bonds*](http://www.gfoa.org/refunding-municipal-bonds)

Internal Revenue Service Guidance: [*Arbitrage Guidance for Tax-Exempt Bonds*](https://www.federalregister.gov/documents/2016/07/18/2016-16558/arbitrage-guidance-for-tax-exempt-bonds)

## **Financial Reserves**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] and [CFO] budget decision-making roles * Board of Assessors job duties * [Enterprise operation officials] in rate setting analysis |
| **Scope:** | Goals for and appropriate use of general fund reserves, including free cash, stabilization funds, and overlay surplus |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To help the City stabilize finances for maintaining operations during difficult economic periods and to save funds for capital investment, this policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, the City can use its reserves to finance emergencies and other unforeseen needs, to hold money for future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the City’s credit rating and consequently its long-term borrowing costs.

**POLICY**

The City is committed to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. Adherence to this policy will help the City withstand periods of decreased revenues and control spending during periods of increased revenues. In total for the general fund reserves under this policy, the City will strive to maintain a minimum funding level of [range %] of its prior year general fund budget.[[4]](#footnote-4) For each of the enterprise operations, the City will endeavor to maintain a minimum reserve amount of [target %] of the operation’s current year budget.

**POLICY SUMMARY**

|  |  |  |
| --- | --- | --- |
| **General Fund**  **Reserve Name** | **Funding Target** | **Appropriate Usage** |
| Free cash | [range %] Prior year general fund budget | * One-time costs only, including cash capital * Replace reductions in state aid * Build stabilization funds to achieve target levels * Pay down the OPEB liability |
| General Stabilization Fund | [range %] Current year GF budget | * Emergencies and unexpected events * Usage generally limited to times when:   + State aid decreases more than avg, and/or   + Recurring local receipts increase < 3% |
| Capital Stabilization Fund | [range %] Current year GF budget | * Cash capital expenditures * Funding source for debt service |
| Other Special Stabilization or Reserve Fund(s) |  |  |
| Overlay | Based on annual analysis of levy shortfall risk and the cumulative balance from prior years | * Any legal purpose |
| **Enterprise Fund** | **Retained Earnings Minimum Target**  **(% prior year budget)** | **Appropriate Usage** |
| Enterprise Fund | [target %] | * Rate Stabilization * Capital improvements |

1. Free Cash

The Division of Local Services (DLS) defines free cash as “the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year.” DLS must certify free cash before the City can appropriate it.

The City will strive to realize year-to-year free cash certifications equal to [range %] of the prior year’s annual general fund budget. To achieve this, the [CEO] will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. As much as practicable, the City will limit its use of free cash to building reserves, funding nonrecurring costs (i.e., one-time expenditures, such as capital projects and emergencies), and offsetting the City’s unfunded liabilities.

The City will appropriate the remaining free cash as follows:

*[Designated Free Cash Appropriations]*

* *Apply at least [20%] but no more than [30%]to the cash capital budget.*
* *Use the lesser of [10%] or [$250,000] for noncapital special articles (e.g., snow and ice deficit, building maintenance, etc.).*
* *Appropriate at least [10%] to the capital stabilization fund and [15%] to the City’s general stabilization to achieve this policy’s target balances, with the total appropriations to the stabilization funds capped at [10%] of the previous year’s tax levy.*
* *Appropriate up to [10%] to the City’s other postemployment benefits (OPEB) trust fund as defined the OPEB Liability policy.*
* *Leave at least [25%] of the certified free cash amount unappropriated to provide a starting balance for next year’s free cash certification.*

*[Alternate/supplemental]*

Any free cash available after funding the above may be used to build up trust funds related to fringe benefits and unfunded liabilities related to employee benefits, Workers' Compensation Fund, unemployment fund, and any health benefits payable through Police and Fire operating budgets (111F settlements). Remaining available free cash may also be used to augment general fund appropriations for expenses that increased due to extraordinary and/or unforeseen events as detailed by the department head with the affected budget.

appropriations table

1. Stabilization Funds

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. The City currently has [number] stabilization funds as detailed below.

**General Stabilization**: The City will endeavor to achieve and maintain a minimum balance of [range %] of current year budget in its general stabilization fund. The general stabilization fund should only be used in the following circumstances:

* To pay expenditures related to a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations.
* When net state aid (receipts less assessments) is reduced by an amount that is less than the average of the prior two years.
* When local receipts (excluding nonrecurring receipts) are projected to be below a three percent (3%) increase of the prior two years’ actual receipts, as reported on Page 3 of the Tax Rate Recapitulation Sheet submitted to the Division of Local Services (DLS).

When possible, withdrawals of funds should be limited to the amount available above the [range %] minimum target. Further, the [CFO] will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

data table

***Special Purpose Stabilization Funds****:*

*Define purpose of each fund as approved by City Council (for example):*

*Capital:*

* *Pay for engineering and design, renovation, reconstruction or construction of City facilities*
* *To support the Capital Investment Plan (CIP)*
* *Promote sound financial planning practices*

*Define target and possible sources for this fund (for example):*

* *The City will appropriate annually to the fund so that over time it achieves a minimum target balance in the range of [range %] of the City’s current year general fund budget.*
* *By sustaining funding in this reserve, the City can balance debt with pay-as-you-go and cash capital funding costs consistent with the Capital Planning policy.*
* *Appropriation or transfer from any general fund source, including taxation and free cash*
* *Transfers of unexpended funds from previously approved capital projects (‘capital close outs’) at the close of each project*
* *Other designated revenue(s)*

*Define acceptable uses (for example):*

* *Providing for general fund “pay-as-you-go” capital appropriations*
* *Additional funding to support the City’s CIP for previously approved projects*
* *Unanticipated capital projects resulting from a catastrophic or emergency event if the financial burden of the event is in excess of an amount which the City Council Reserve Fund can cover*
* *The City’s share of matching grants*
* *Support of critical capital expenses if revenue, from whatever source, including free cash, is less than forecasted in the five-year CIP*

**acceptable use table**

1. Overlay Surplus

The purpose of the overlay reserve is to offset unrealized tax revenue resulting from abatements and exemptions. It can be used for other purposes only after it is determined to have a surplus. Therefore, unlike the other previous two categories of reserves, this policy does not set a funding target for it. Rather, each year as part of the budget process, the Board of Assessors will vote to raise an overlay amount on the annual tax recapitulation sheet based on the analytical factors outlined in the Annual Budget Process policy.

At the conclusion of each fiscal year, the Board of Assessors will submit to the [CEO] and [CFO] an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, potential costs of current and future ATB cases, and any transfers to surplus. If the overlay balance exceeds the amount of potential liabilities, the [CEO] may request that the Board of Assessors vote to declare it as surplus and available for use in the City’s capital improvement plan or for any other one-time expense.

1. Retained Earnings[[5]](#footnote-5)

The finances of the [enterprise fund(s)] is/are managed under individual enterprise funds, separately from the general fund, which allows the City to effectively identify each operation’s true costs—direct, indirect, and capital—and set user fees at levels sufficient to recover them. Under this accounting, the City may reserve each enterprise fund’s generated surplus (referred to as retained earnings) rather than closing the surplus to the general fund at year-end.

The City will endeavor to maintain a minimum reserve amount of [target %] of the/each operation’s prior year budget, which represents [number] months’ worth of expenditures. This reserve shall be used to fund major capital projects and provide rate stabilization in case of any emergencies. To maintain the target reserve level for each enterprise fund, the [Enterprise operation officials] must annually review, and when necessary, propose rate adjustments to the [CFO] for incorporation in the annual budget proposal. When the City Council approves [enterprise] fee increases in the budget, it must also approve updates to the City ordinances to reflect the new amount.

It may be necessary to revise the minimum targets upward whenever any major infrastructure improvement is being planned for the [specific enterprise operation].

retained earnings table

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process,Capital Planning, Debt Management, Forecasting, OPEB Liability, Overlay, Year-End Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 40 § 5B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section5B)

[M.G.L. c. 40 § 13E](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section13E)

[M.G.L. c. 44 § 53F½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53F%201~2)

[M.G.L. c. 59 § 25](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section25)

DLS Informational Guideline Releases 2024-12: [*Stabilization Funds*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/811), 2017-23: [*Overlay and Overlay Surplus*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/713)*,* and2022-16: [*Enterprise Funds*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/789)

DLS Best Practice:[*Free Cash*](https://www.mass.gov/doc/free-cash/download)

Government Finance Officers Association (GFOA) Best Practices: [*Fund Balance Guidelines for the General Fund*](https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund)*,* [*Working Capital Targets for Enterprise Funds*](https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds)**,** and[*Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies*](https://www.gfoa.org/materials/strategies-for-establishing-capital-asset-renewal-and)

## **Forecasting**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] in their budget analysis and decision-making responsibilities * [CFO], City Auditor, and [Assessor] job duties * [Enterprise operation officials] |
| **Scope:** | * Creation, revision, and year-to-year conversion of a multiyear forecast of revenues and expenditures as part of the annual budget process * Guidelines for formulating the assumptions that form the basis for forecast projections |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To assess the range of choices available to budget decision makers when determining how to allocate resources, this policy establishes guidelines for creating projections of revenues and expenditures as part of the annual budget process and multiyear fiscal planning. By presenting the future implications of current budget scenarios, forecasting helps local officials to make strategic plans for lasting fiscal sustainability and future investment.

**POLICY**

To determine the City's operating capacity for future fiscal years, the [CFO] will annually create a detailed forecast with five-year projections of revenues and expenditures. The [CEO] will use the forecast to support their decision making for the upcoming year’s operating and capital budgets and for the City’s long-range capital improvement plan.

To guard against potential deficits, as a general rule, the [CFO] will create conservative forecasts. In basic terms, this entails reviewing historical revenue and expenditure trends, anticipating factors that may impact those trends going forward, analytically developing assumptions, and then formulating reasonable revenue and realistic expenditure projections. Overly optimistic estimates can increase the risk of a revenue deficit, which would necessitate a reduction to the subsequent year’s revenue to offset it. Conversely, underestimated projections may result in excess revenue that is unavailable to benefit the public in the same year as accrued and can be perceived as over taxation.

Early in the annual budget process, the [CFO] will present the initial forecast to the [CEO]. Throughout the budget development, the [CFO] will update the forecast whenever there are changes in circumstances that would materially impact forecast projections and provide the [CEO] with these updates.

With each new budget year, the [CFO] will review the performance accuracy of prior-year forecasts and any evolving factors related to the underlying assumptions to consider how projections in the new forecast may need to be adjusted. Factors to consider include changes in laws, regulations, inflation rate, interest rate, City goals, and policy decisions.

1. Guidelines for Revenue Assumptions

The following principles shall guide the formulation of revenue assumptions:

* Projections of the property tax levy will be confined by the limits of Proposition 2½ (absent any overrides) and take into consideration consensus decisions regarding the City’s level of excess levy capacity.
* New growth projections will consider the City’s three-, five- and 10-year averages by property class and advice from the [Assessor].
* The levy limit’s relationship to the levy ceiling (which is 2.5% of the City’s real and personal property total value) will be annually assessed to identify potential override capacity and guard against the levy limit approaching or hitting the ceiling, which would impact future levy growth.
* Local aid projections will correspond with economic cycles, while Chapter 70 educational aid will reflect trends in school choice, enrollments, tuition, and charter assessments.
* Estimates for local receipts (e.g., motor vehicle excise, inspection fees, etc.) will not exceed 90% of the prior year’s actual collections without firm evidence that higher revenues are achievable.
* No one-time revenues will be applied in the projections to support recurring operating expenditures. This means that projections of funds available to support operating budget expenditures in future years will be constrained to those revenues anticipated to be brought in within the given years, as opposed to any usage of residual funds available from the prior year(s), such as free cash or overlay.
* Revenues from grant programs will be reviewed annually to determine their sustainability.
* The City will build and maintain reserves in compliance with its [Financial Reserves](#_Financial_Reserves) policy.
* Each Enterprise Fund will be reviewed annually by the responsible board, commission, or department head to project revenues and expenditures for the next fiscal year and generate estimates of the current fiscal year and the projections for future years sufficient to cover each enterprise fund’s direct, indirect, and capital costs and thereby minimize any subsidies by the general fund.

1. Guidelines for Expenditure Assumptions

Annually, the [CEO], with the [CFO]’s analytical advice, will determine a particular approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

The following principles shall guide the formulation of expenditure assumptions:

* The City’s current level of services will provide the baseline for projections.
* Historical trends in the growth of operating expenses and employee benefits will prevail.
* Trends in enrollment, including vocational and technical schools, and school choice, tuition, and charter assessments will be factored.
* The City will annually meet or exceed the state’s net school spending requirements.
* Only currently known increases in employee compensation plans will be factored into the projections, leaving any potential, future cost-of-living adjustments to be calculated independently of the forecast.
* The City will pay its annual pension contributions and make appropriations to amortize its other postemployment benefits (OPEB) liability.
* The forecast will integrate projected capital expenditure data contained in the City’s multiyear capital improvement plan.
* The City will pay all existing debt service obligations and adhere to its [Capital Planning](#_Capital_Planning_1) and [Debt Management](#_Debt_Management) policies.
* Enterprise funds will reimburse the general fund for indirect costs.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process,Capital Planning, Debt Management, Financial Reserves, Grants Management, Indirect Cost Allocation, OPEB Liability

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 20](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section20)

[M.G.L. c. 44, § 53A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53A)

[M.G.L. c. 44, § 53A½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53A%201~2)

[M.G.L. c. 44 § 53F½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53F%201~2)

[M.G.L. c. 44, § 63](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section63)

[M.G.L. c. 44, § 63A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section63A)

DLS Best Practice: [*Revenue and Expenditure Forecasting*](https://www.mass.gov/files/documents/2017/09/09/forecastrevenuesandexpenditures.pdf)

Government Finance Officers Association article: [*Financial Forecasting in the Budget Preparation Process*](https://www.gfoa.org/materials/financial-forecasting-in-the-budget-preparation-process)

## **Indirect Cost Allocation**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] and [CFO] in their budget decision-making responsibilities * [CFO], City Auditor, and [[Enterprise operation officials] job duties |
| **Scope:** | Analysis, calculation, and accounting of indirect costs attributable to the enterprise funds and shared services |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To reimburse the general fund for all expenditures incurred on behalf of the City’s enterprise funds and shared services, this policy provides guidelines for equitably calculating and allocating those indirect costs.

**BACKGROUND**

The City has [number] enterprise funds for: [list enterprises], and government access cable channels (PEG). Under authority established in [M.G.L. c. 44 § 53F½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53F%201~2), the accounting transactions for these enterprise funds are recorded and managed separately from the general fund. Their revenues and expenses are not commingled with those of any other governmental activity and have financial statements separate from that of the general fund. Consolidating each of the enterprise fund’s direct and indirect costs, debt service, and capital expenditures into its own distinct, segregated fund allows the City to demonstrate to the public the true, total cost of providing the service.

**POLICY**

As part of the annual budget process, the [CFO] will calculate the indirect costs of the general fund for each enterprise operation or shared service and review them individually with each associated department head and then collectively with the [CEO]. The [CEO], [CFO], and the department heads will agree in writing to the indirect cost allocation methods and amounts prior to finalizing the annual budget proposal. Indirect costs will be determined using the most up-to-date expense information available to the [CFO] at that time. Based on the results, the City Auditor will record transfers between the relevant funds at least quarterly. The City Auditor will maintain written procedures detailing the costs and their calculation methodologies.

1. Cost Categories

The indirect cost calculation will account for the following operation-related expenditures budgeted in the general fund for each service:

* Enterprise department or shared service **personnel costs** for active and retired employees, including pensions, insurances, Medicare taxes, unemployment, and workers’ compensation
* **Administrative services** performed on behalf of the service by other City departments, such as:
  + Annual budget development, vendor/payroll warrant, general ledger maintenance, warrants payable processing, and financial reporting services provided by the Budget and/or Accounting Divisions of the Finance Department
  + Banking, investment, tax title, benefits, and payroll services provided by the Treasury Division of the Finance Department
  + Collections services provided by the Collections Division of the Finance Department
  + Personnel administration and insurance benefit processing services provided by the Human Resource Department
  + Network, cybersecurity, hardware and software services provided by the Information Technology Department
* The following **expenses**:
  + Information technology costs
  + Vehicle and property insurances
  + Legal services
  + Independent audit services
  + Actuarial services related to other postemployment benefits (OPEB)
  + Other costs that may be agreed to and documented

The City Auditor will calculate indirect costs based on the current fiscal year’s appropriations and using either the actual, proportional, estimated support, or transactional methodology (described in Section B below) as appropriate for the particular cost category.

1. Explanation of Calculation Methodologies
   * + 1. **Actual cost** involves identifying the specific costs attributable to the service based on documented schedules or bills payable, including debt service and insurance premiums.
       2. The **proportional** method is a straightforward calculation of the service’s net-of-debt budget as a percentage of the total combined net-of-debt budget of the service and the general fund. The resulting percentage is then applied against the total budget (including employee benefits) of each City department that provides support to the service or against the total cost of the specific type of expenditure.
       3. A department or official may be able to provide a reasonable **estimate of support** (i.e., an estimate of the work hours spent supporting the service). For example, the City Auditor estimates an average of two hours weekly, on service-related activities (e.g., creating warrants, bookkeeping). These hours annualized, divided by the total hours worked per year, would be multiplied by the City Auditor’s salary and benefits, including health and life insurance, Medicare, retirement, and any workers’ compensation.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Hours worked on service-related activities per year by individual(s) | X | Salary and benefits of individual(s) working on service-related activities | = | Indirect Departmental Salaries |
| Total hours worked per year by individual(s) |

1. The transaction-based method is calculated based on the number of transactions attributed to a service as a percentage of the whole. An example would be the total water bill collections processed by the Collector’s Office as a percentage of the total number of bill collections processed by that office. This percentage is applied against the Collector’s total budget, including health and life insurance, Medicare, retirement, and any workers’ compensation attributable to the non-service department.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Number of service-related transactions | X | Total budget plus benefits of the department processing the service transactions | = | Indirect Departmental Salaries |
| Total number of all like  transactions processed by the  non-service department |

1. Calculations by Cost Category

*The text in this section provides sample calculations for discussion purposes. Before adopting this policy, Section C should be reviewed and updated as necessary, and it should be expanded for any other costs that may be agreed to, such as information technology, legal services, etc.*

* + - 1. **Health and Life Insurances**

Costs for health and life insurances will be calculated using the actual cost method by adding up the actual amounts paid by the City for the participating service department employees during the current fiscal year.

* + - 1. **Medicare**

The City’s Medicare cost represents the employer match of the Medicare tax charged to employees hired after April 1, 1986.Using the actual cost method and based on employee W-2s, the costs will be calculated as 1.45% of the total gross wages paid by the City on behalf of eligible service employees during the preceding calendar year.

* + - 1. **Retirement**

Indirect pension costs will be calculated using the proportional method. The City’s total annual contributory retirement assessment is multiplied by the respective proportion of the total service department employee’s compensation to the total employee compensation as reported to the Public Employee Retirement Administration Commission.

* + - 1. **Independent Audit**

Independent audit costs will be based on the proportional method. Each service department shall pay the proportion of the cost of the City’s annual independent audit based effort of the City’s independent auditor.

* + - 1. **Administrative Services**

The indirect costs for service-related administrative services performed by the Finance Departments and [CEO] Office will be calculated using the estimate of support method based on each division’s annual estimate of the time required to perform the services for the service department.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Forecasting

**EXTERNAL REFERENCES**

[M.G.L. c. 44 § 53F½](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53F%201~2)

Division of Local Services Informational Guideline Release 2022-16: [*Enterprise Funds*](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/IgrMaintenance/Index/789)

Government Finance Officers Association Best Practices: [*Indirect Cost Allocation*](https://www.gfoa.org/materials/indirect-cost-allocation) and [Evaluating Service Delivery Alternatives](https://www.gfoa.org/materials/evaluating-service-delivery-alternatives)

## **Investments**

|  |  |
| --- | --- |
| **Applies to:** | * [Treasurer]’s statutory duty to invest City funds, under the [CFO]’s oversight * Trust Fund Committee/Commission investment duties * Any investment advisor(s) with whom the City contracts |
| **Scope:** | * Goals, objectives, and allowable practices related to all of the City’s short-term operating funds and its long-term reserve, investment, and trust funds * Excluded are City funds invested by the [City] Retirement Board |
| **Effective:** | * Adopted by City Council on [Date] |

**PURPOSE**

To ensure the City’s public funds achieve the highest possible rates of return that are reasonably available while following prudent standards associated with safety, liquidity and yield, this policy establishes investment guidelines and responsibilities. In addition, the policy has been designed to comply with the Governmental Accounting Standards Board’s requirement that every community define and disclose its investment risk management strategy.

**POLICY**

The [Treasurer] will invest funds in a manner that meets the City’s daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to prudent investment standards. The [Treasurer] will manage all investments so as to achieve a fair market average rate of return within the context of all relevant statutory, safety, and liquidity constraints.

1. Investment Objectives

In priority order, the [Treasurer]’s investment objectives shall be:

* **Safety:** Safety of principal is foremost, and the [Treasurer] will adhere to this policy’s risk mitigation strategies for the purpose of preserving capital in the overall portfolio.
* **Liquidity**: The investment portfolio must remain sufficiently liquid to enable itto meet all reasonably anticipated operating requirements.
* **Yield:** The investment portfolio will be designed with the objective of attaining a fair market average rate of return throughout budgetary and economic cycles, in accordance with the City’s investment risk constraints and the portfolio’s cash flow characteristics.

The [Treasurer] will ensure that all **short-term operating funds**, such as general funds, special revenue funds, bond proceeds, and capital project funds remain sufficiently liquid to pay all reasonably anticipated operating requirements and debt service.

For **trusts and other long-term funds** (e.g., stabilization funds, cemetery perpetual care, and any similar funds set aside for long-term use), liquidity is less important than growth. The [Treasurer] will pool any individual funds that are invested in the same institution while also maintaining each fund in its own account to allow for the proper proportioning of interest and any realized and unrealized gains or losses. All trust funds are under the [Treasurer]’s control unless otherwise directed by their particular donor(s).

1. Standards of Care

By accepting [M.G.L. c. 44, § 54](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section54) subsection (b)(1), the [Treasurer] is authorized to pool and invest trust funds (and only trust funds) in accordance with the standards of care outlined in the Prudent Investor Act ([M.G.L. c. 203C](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter203C)). If the (b)(1) subsection is not locally accepted, all investments by the [Treasurer] must comply with the more restrictive provisions found in [M.G.L. c. 44, § 54](https://mass.us11.list-manage.com/track/click?u=0e9e2209abd5f7062568d9a19&id=f9de6f7662&e=9d9e555198), [55](https://mass.us11.list-manage.com/track/click?u=0e9e2209abd5f7062568d9a19&id=97689f5185&e=9d9e555198), [55A](https://mass.us11.list-manage.com/track/click?u=0e9e2209abd5f7062568d9a19&id=ccc3b9e7a0&e=9d9e555198) and [55B](https://mass.us11.list-manage.com/track/click?u=0e9e2209abd5f7062568d9a19&id=0e964eb76f&e=9d9e555198) and outlined in the table in Section D below.

The [Treasurer] shall be relieved of personal responsibility for any individual security's credit risk or market price changes, provided that its purchase and sale agreement had been executed in accordance with the applicable statutes and the provisions of this policy.

1. Conflict of Interest

The [Treasurer] is prohibited from making a deposit in any bank, trust company, or banking company for which he or she is or has been an officer or employee at any time in the last three years. The [Treasurer] will refrain from any personal activity that may conflict with the proper execution of the investment program or that could impair or appear to impair the ability to make impartial investment decisions. The [Treasurer] will disclose to the [CEO] and [CFO] any large personal financial investment positions or loans that could be related to the performance of the City's investments. Further, when contracting for any investment services, the [Treasurer] will adhere to requirements under [M.G.L. c. 30B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30B) and the City’s [Procurement - Conflict of Interest](#_Procurement_-_Conflict) policy.

1. Investment Instruments

Unless the City has accepted [M.G.L. c. 44, § 54](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section54)’s subsection (b)(1) for the investment of trust funds, all short- and long-term investments by the [Treasurer] must adhere to the guidelines and allowable investment instruments outlined below.

| **Instrument Type** | **Short-Term Funds** | **Long-Term Funds** |
| --- | --- | --- |
| Depository accounts in Massachusetts state-chartered banks, including savings, checking and NOW accounts, and money market deposit accounts | No limitations | No limitations |
| Certificates of deposit (CDs) in Massachusetts state-chartered banks only | Unlimited amounts and maturity up to three years | No limits on amounts or maturity dates |
| The [Massachusetts Municipal Depository Trust](http://www.mymmdt.com/MMDT/home.do) (MMDT), the State Treasurer’s investment pool for public entities | No limitations and the pool is liquid | No limitations |
| U.S. Treasury or other U.S. government agency obligations | Unlimited amounts and up to one year from date of maturity | No limitations |
| Bank-issued repurchase agreements (“repos”) secured by U.S. Treasury or other U.S. government agency | Maximum maturity of 90 days | Repos are by their nature short-term and therefore not appropriate for the growth objective of long-term funds. |
| Money market mutual funds | * Must be registered with the Securities and Exchange Commission (SEC) * Must have the highest possible rating from at least one rating organization * These are liquid investments, so maturity term is not applicable | * Must be registered with the SEC * Must have the highest possible rating from at least one rating organization |
| Common and preferred stock, investment funds, and any other type of investment instrument specified in the List of Legal Investments | Not allowed | * The City’s aggregate amount of long-term funds must exceed $250,000 to invest in these. * Investment in mortgages, collateral loans, and international obligations is prohibited. * Cannot invest more than 1.5% of a particular fund in the stock of any single banking or insurance company * Cannot invest more than 15% of total aggregated funds in banking or insurance company stocks |

**Note**: This policy confines the allowed depository accounts only to those offered by Massachusetts state-charted banks, a provision that is more restrictive than state statutes and the Massachusetts Collectors & Treasurers Association’s sample investment policy statement. The reason is that the MA-chartered banks’ depository accounts are fully insured through a combination of the Federal Deposit Insurance Corporation and the state’s Depositors Insurance Fund. However, funds placed in these banks’ mutual funds or annuity products are not covered by either insurance, and the [Treasurer] must manage those and any other type of investments in accordance with other applicable provisions of this policy.

1. Risk Tolerance Guidelines

The [Treasurer] will employ the following strategies to mitigate the range of investment risks:

| **Type of Risk** | **Mitigation Strategy** |
| --- | --- |
| **Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. | * Investments in any of the following are safe from credit risk: state-chartered banks’ depository accounts (including CDs), obligations backed by the U.S. Treasury or other U.S. government agency, and the MMDT. * For any other investments, the [Treasurer] will only purchase investment grade securities highly concentrated in those rated A or better. |
| **Concentration of credit risk** is the risk arising from all funds being invested in a single issuer. | The [Treasurer] will diversify the portfolio among multiple issuers/institutions (see Section F). |
| **Custodial risk for deposits** is the risk that, in the event of the failure of a depository financial institution, the City would not be able to recover deposits or to recover collateral securities in the possession of an outside party. | The [Treasurer] will negate this risk by only making deposits at MA-chartered banks. |
| **Custodial risk for investments** is the risk that, in the event of a failure of the counterparty to a transaction, the City would not be able to recover the value of an investment or to recover collateral securities in the possession of an outside party. | * The [Treasurer] will review the financial institution’s financial statements and its advisor’s background to ensure it has proven financial strength, capital adequacy, and an overall positive reputation in the municipal investment industry (see Section G). * If a security is to be held by a third-party custodian, the [Treasurer] must approve that party and verify that the security is held in the City’s name and tax ID number, as evidenced by its CUSIP (Committee on Uniform Security Identification Procedures) code. |
| **Interest rate risk** is the risk that interest rate changes will adversely affect an investment’s fair market value. | The [Treasurer] will negotiate for competitive interest rates that are locked in for long terms. |
| **Foreign currency risk** is the risk that an investment will lose value as the result of an unfavorable exchange rate. | The [Treasurer] will negate this risk by not investing in any instruments with foreign currency exposures. |

1. Diversification

The [Treasurer] will invest in a diverse portfolio to prevent overconcentration in any institution, issuer, or maturity type. Apart from money placed in the [MMDT](https://www.mymmdt.com/mmdt/home.do) or obligations backed by U.S. government agencies, the [Treasurer] will invest no more than 25% the City's long-term funds with a single financial institution.

1. Selection of and Relationship with Financial Institutions

When selecting from among MA-chartered banks to hold short-term funds, the [Treasurer] will consider their fee structure, service efficiencies, and account management control features. For investing long-term funds, the [Treasurer] will also assess the soundness, stability and reputation of prospective financial institutions and dealers/brokers. Brokers must be recognized, reputable dealers and members of the Financial Industry Regulatory Authority. The [Treasurer] will require any brokerage houses and brokers/dealers wishing to do business with the City to provide the following:

* Audited financial statements
* [Form ADV Part 2](https://www.sec.gov/file/form-adv-part2) showing the broker/dealer to be actively registered with both the SEC and Massachusetts Secretary of State’s Office and providing information on the types of services offered, fee schedule, disciplinary information, conflicts of interest, and the educational and business background of management and key advisory personnel
* Statement that the broker/dealer has read and will comply with this policy

The [Treasurer] will also consult the [Veribanc](https://www.veribanc.com/) rating service to select and monitor financial institutions. The [Treasurer] may invest in institutions rated green by Veribanc and will continue to review their ratings quarterly. If a bank’s rating turns yellow, the [Treasurer] will request the bank provide a written explanation with an expected timetable for changing back to green. If the rating remains yellow for a second quarter, the [Treasurer] will consider liquidating all funds that are uninsured or uncollateralized. If any rating becomes red, the [Treasurer] will remove the money from the banking institution.

The [Treasurer] will review all banking and financial services at least annually to ensure their quality and the competitiveness of their fee structure and interest rates. On an annual basis, the [Treasurer] will also send letters to banks in the local region requesting them to report all usage of the City’s tax identification number as a means to ensure the number is used only by the [Treasurer] and no outside entities.

To ensure that any investment advisor contracted by the City complies with this policy, the [Treasurer] will do the following:

* Meet with the investment manager at least semiannually to monitor the performance of the investment fund and compliance with the City’s policies.
* Monitor fund performance by comparing the investment manager’s results to a blended benchmark to be determined in conjunction with the investment manager.
* Rebalance the portfolios at least annually or more frequently if appropriate.

1. Reporting Requirements

The [Treasurer] will assess investment activity and keep the [CEO] and [CFO] apprised of any major changes by providing a report of investment activity annually or more often as needed. The investment activity report shall incorporate all of the City’s investment funds and include the following information at minimum:

* List of all the individual accounts and securities held at the end of the period
* List of short-term investment portfolios by security type and maturity to ensure compliance with the diversification and maturity guidelines
* Summary of income earned on monthly and year-to-date bases
* Disclosure of the fees associated with managing each fund
* Brief statement of general market and economic conditions and other factors that may affect the City's cash position
* Statements on the degree of compliance with the provisions of this policy

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Antifraud,OPEB Liability, Procurement Conflict of Interest

**EXTERNAL REFERENCES**

[M.G.L. c. 30B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30B)

[M.G.L. c. 29, § 38A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter29/Section38A)

[M.G.L. c. 44, § 54](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section54)

[M.G.L. c. 44, § 55](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section55)

[M.G.L. c. 44, § 55A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section55A)

[M.G.L. c. 44, § 55B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section55B)

[M.G.L. c. 110A, § 201](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXV/Chapter110A/Section201)

[M.G.L. c. 167, § 15A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXII/Chapter167/Section15A)

[M.G.L. c. 203C](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter203C)

Massachusetts Collectors & Treasurers Association: *[Treasurer’s Manual](https://masscta.com/resource/resmgr/treasurersmanualrev062317.pdf)*

MA Division of Banks[*List of Legal Investments*](https://www.mass.gov/info-details/list-of-legal-investments) *and database of* [*MA-chartered banks*](https://services.oca.state.ma.us/LicenseeLookup/in-choose.asp)

Massachusetts Depositors Insurance Fund [FAQs](http://www.difxs.com/dif/diffaqs.aspx)

MA Secretary of State webpage, [Massachusetts Securities Division](https://www.sec.state.ma.us/divisions/securities/securities.htm)

Governmental Accounting Standards Board Statement 40: *[Deposit and Investment Risk Disclosures](https://gasb.org/page/pronouncement?pageId=/standards-and-guidance/pronouncements/summary-statement-no-40.html&isStaticPage=true)*

U.S. Securities and Exchange Commission webpage [Form ADV Information](https://www.sec.gov/fast-answers/answersformadvhtm.html)

## **Other Postemployment Benefits Liability**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] and [CFO] budget decision-making duties * [Treasurer] and [Human Resource Director] job duties |
| **Scope** | * Budget decisions related to the City’s OPEB liability * Liability mitigation |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure fiscal sustainability, this policy sets guidelines for a responsible plan to meet the City’s obligation to provide other postemployment benefits (OPEB) for eligible current and future retirees. It is designed to achieve generational equity among those called upon to fund this liability and thereby avoid transferring costs into the future.

**BACKGROUND**

In addition to salaries, the City compensates employees with benefits earned during years of service to be received upon retirement. One such benefit is a pension, and another is a set of retirement insurance plans for health, dental, and life, which are collectively referred to as other postemployment benefits, or OPEBs. OPEBs represent a significant liability for the City that must be properly measured, reported, and planned for financially.

**POLICY**

The City is committed to funding the long-term cost of the benefits promised its employees, with the goal to reach a fully funded status by [Year]. To do so, the City will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. After achieving fully funded status, the City will continue to supplement the OPEB Trust Fund after any annual OPEB payments to maintain a fully funded status as actuarially determined.

The City will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers, as well as conducting periodic audits of the City’s insurance rolls.

1. Accounting for and Reporting the OPEB Liability

The [CFO] will obtain actuarial analyses of the City’s OPEB liability every two years and will annually report the City’s OPEB obligations in the financial statements that comply with the current guidelines of the Governmental Accounting Standards Board (GASB). The [CFO] will ensure that the City’s independent audit firm reviews compliance with the accounting and reporting provisions of this policy as part of its annual audit and reports on these to the [CEO].

1. Trust Management and Investment

The City established an OPEB Trust Fund pursuant to [M.G.L. c. 32B, § 20](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32B/Section20) and designated the [Treasurer] as its custodian and trustee. The OPEB Trust Fund [is fully invested in the [State Retiree Benefits Trust Fund](https://www.mass.gov/orgs/state-retiree-benefits-trust-fund) (SRBTF)[[6]](#footnote-6)].

To ensure the City’s investment in the [SRBTF] conforms with its adopted Investments policy, the [CFO]and [Treasurer] will do the following:

To ensure the investment in the [SRBTF or OPEB Trust Fund] is in conformance with the City’s investment policy and the state’s prudent investor laws, the [CFO] and [Treasurer] will do the following:

* Meet with a member of the [SRBTF client service group or investment manager] at least semiannually to monitor the performance of the fund and the compliance with the City’s policies.
* Monitor the fund’s performance by analyzing [PRIM or investment manager’s] performance reports against the relevant industry and policy benchmarks.
* Rebalance the portfolios at least annually or more frequently if appropriate.
* Review the OPEB policy every year to ensure it remains in compliance with governing regulations.

1. Mitigation

On an ongoing basis, the City will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The [CFO] and [Human Resource Director] will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts. The [Human Resource Director] and [Treasurer] will regularly audit the group insurance and retiree rolls and terminate any participants found to be ineligible based on work hours, active Medicare status, or other factors.

1. OPEB Funding Strategies

To address the OPEB liability, decision makers will analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation. The City will derive funding for the OPEB Trust Fund from taxation, free cash, and any other legal form.

To ensure that the City’s enterprise operations remain self-supporting, the [Enterprise officials] will factor their respective operation’s OPEB contributions into the setting of user fees.

Achieving full funding of the liability requires the City to commit to funding its actuarially determined contribution (ADC) each year. Among strategies to consider for funding the ADC:

* In accordance with the [Financial Reserves](#_Financial_Reserves) policy, appropriate an annual portion of the certified free cash amount.
* Appropriate annually increasing dollar amounts or percentages of yearly revenues for the general fund and enterprise fund operations.
* Transfer unexpended funds from insurance line items to the OPEB Trust Fund.
* Appropriate amounts equal to the City’s Medicare Part D reimbursements.
* Once the pension system is fully funded, on a subsequent annual basis, appropriate to the OPEB Trust Fund the amount equivalent to the former pension-funding payment or the ADC, whichever is less.

OPEB table

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Financial Reserves, Investments

**EXTERNAL REFERENCE****S**

[M.G.L. c. 32B, § 20](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32B/Section20)

[M.G.L. c. 32B, § 20A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32B/Section20A)

[M.G.L. c. 44, § 54](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section54)

[M.G.L. c. 44, § 55](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section55)

[M.G.L. c. 203C](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter203C)

Division of Local Services (DLS) Information Guideline Release 2019-10 [*Other Postemployment Benefits Liability Trust Fund*](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjHm5-KlP-GAxULEVkFHTb-BnQQFnoECB0QAQ&url=https%3A%2F%2Fwww.mass.gov%2Fdoc%2Figr-2019-10-other-post-employment-benefits-liability-trust-fund%2Fdownload&usg=AOvVaw0YpfEzkZyjCUX3DMu8wnaT&opi=89978449)

DLS FAQS: [OPEB Trust Fund FAQs](https://dlsgateway.dor.state.ma.us/gateway/DLSPublic/FAQMaintenance/Index/82)

Massachusetts [Pension Reserves Investment Management](https://www.mapension.com/)

Government Finance Officers Association Best Practice: *[Ensuring Other Postemployment Benefits (OPEB) Sustainability](https://www.gfoa.org/materials/ensuring-other-postemployment-benefits-opeb-sustainability)*

GASB Statements 75: [*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*](https://www.gasb.org/page/document?pdf=gasbs75_final_cropped.pdf&title=GASB%20Statement%20No.%2075,%20Accounting%20and%20Financial%20Reporting%20for%20Postemployment%20Benefits%20Other%20Than%20Pensions) and 74: [*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*](https://gasb.org/page/document?pdf=gasbs74_final_cropped.pdf&title=GASB%20STATEMENT%20NO.%2074,%20FINANCIAL%20REPORTING%20FOR%20POSTEMPLOYMENT%20BENEFIT%20PLANS%20OTHER%20THAN%20PENSION%20PLANS)

## **Overlay**

|  |  |
| --- | --- |
| **Applies to:** | * Board of Assessors, [Assessor], and City Auditor job duties * [CFO] in budget analysis and decision-making responsibilities |
| **Scope:** | Funding and maintaining the account for abatements and exemptions (overlay) |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure the City can adequately offset all unrealized tax levy revenues, this policy sets guidelines for determining the annual overlay amount in the City’s budget and for deciding whether any overlay balance can be certified as surplus.

**BACKGROUND**

The allowance for abatements and exemptions, commonly referred to as the overlay, is an account to offset anticipated abatements and exemptions of committed real and personal property taxes, as well as any tax receivables deemed to be uncollectable. State statute allows overlay to be maintained in a single account, so that any levy deficit for a particular year need not be subsequently raised on the tax recapitulation sheet, provided that the total overlay account balance is greater than zero.

**POLICY**

The Board of Assessors is responsible for proposing an annual overlay amount for the City budget sufficient to offset potentially unrealized revenue from that year’s tax levy. The [CEO] may propose for appropriation by the legislative body any overlay surplus subsequently determined by the Board of Assessors, for purposes consistent with the City’s [Financial Reserves](#_Financial_Reserves) policy.

Although Sections A - C below refer to the overlay as a single account, to better record historical information and facilitate reconciliations, the City Auditor will maintain overlay balances by levy year in subsidiary ledgers of the general ledger.

1. Annual Overlay

Each year, the Board of Assessors will vote in an open meeting to authorize a contribution to the overlay account as part of the budget process and to raise it without appropriation on the City’s tax recapitulation sheet. The [Assessor] will determine and propose to the Board the amount to be added to the overlay account based on the following:

* Current balance in the overlay account
* Three-year average of granted abatements and exemptions
* Potential abatement liability in cases pending before, or on appeal from, the Appellate Tax Board (ATB)
* Timing of the next certification review by the Division of Local Services (scheduled every five years)

The Board of Assessors shall notify the [CEO] and [CFO] of the amount of overlay voted.

1. Excess Overlay

Annually, the [Assessor] and City Auditor will conduct an analysis to see if there is any excess in the overlay account balance by factoring the following:

* Current balance in the overlay account after reconciling with the City Auditor’s records
* Balance of the property tax receivables, which represents the total real and personal property taxes still outstanding for all levy years
* Estimated total of potential abatements, including any cases subject to ATB hearings or other litigation

Upon determining any excess in the overlay account, the [Assessor] will present the analysis to the Board of Assessors for its review and notify the City Auditor.

1. Overlay Surplus

If there is an excess balance in the overlay account, the Board of Assessors will formally vote in an open meeting to certify an amount to transfer to overlay surplus and notify the [CEO] and [CFO] in writing of its vote. If the [CEO] makes a written request for a determination of overlay surplus, the Board of Assessors will vote on the matter within the next 10 days and notify the [CEO], and [CFO] of the result in writing.

After being certified, City Council may appropriate overlay surplus for any lawful purpose until the end of the fiscal year. The appropriation should be as prescribed in the [Financial Reserves](#_Financial_Reserves) policy. Overlay surplus not appropriated by year-end will close to the general fund’s undesignated fund balance.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Financial Reserves, Forecasting

**EXTERNAL REFERENCES**

[M.G.L. c. 59, §25](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section25)

Division of Local Services Informational Guideline Release 2017-23: [*Overlay and Overlay Surplus*](https://dls-gw.dor.state.ma.us/gateway/dlspublic/igrmaintenance/index/713)

## **Special Purpose Appropriations**

|  |  |
| --- | --- |
| **Applies to:** | * [CFO] in budget decision making role * City Auditor job duties * Job duties of all department heads, boards, and committees with expenditure authority for special articles (all referred to here as department heads) |
| **Scope:** | Monitoring, reporting, continuing, and closing special purpose appropriations |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To maximize the City’s resources through the efficient identification of unused appropriated funds, this policy lays out protocols for continuing, reporting on, and closing special purpose appropriations.

**BACKGROUND AND DEFINITIONS**

*Special purpose appropriation* – A budget appropriation having a spending purpose whose time of completion may extend beyond a single fiscal year. In most but not necessarily all cases, special purpose appropriations are for capital projects and are presented to City Council separate from the City-wide budget article.

*Continued appropriation* *account* – A separate general ledger account created for special purpose appropriations, either by fund or segment, that allows the balance to carry over to the next fiscal year.

Because the time frame for expending a special article is open-ended, the City must be proactive in monitoring the expenditure status of each special purpose appropriation account and promptly close it when called for so that any unexpended balance may then be made available for other purposes or potentially become available to augment the City’s free cash certification.

There are two types of special appropriation closures, based on the purchase or project status:

1. Completed: The money was spent for the approved purpose, or the project is completed. There may be a remaining account balance.
2. Canceled: A determination has been made that the spending purpose is no longer necessary, and not all of the appropriation has been spent.

**POLICY**

As a general rule, the City will administratively manage the continuation or closure of special purpose appropriations in accordance with the provisions of this policy without the need for further legislative action by City Council. In addition to the review of special appropriation funds at year-end, this policy calls for ongoing, monthly reviews of these appropriations so that any residual or otherwise static balances may receive timely consideration as a potential funding source for a new purpose or to cover any year-end deficit by line-item transfer.

1. Reporting Appropriation Status Updates

Each month, the City Auditor will make expenditure reports available to all department heads. Department heads will notify the City Auditor if any special appropriation account’s purpose under their responsibility was either accomplished or cancelled during the month.

If the completed or canceled appropriation reported by the department head has an account balance of less than $5,000, the City Auditor will close it in the general ledger, as described in Section C below. For an appropriation with a balance above $5,000, the City Auditor will take no further immediate action but will report it in a running list of all special purpose appropriation accounts with residual balances accompanying the next monthly expenditure report sent to the [CFO].

Department heads will also respond to the City Auditor’s year-end closing memo with a detailed status report of any special appropriation(s) that require continuing appropriation(s) for the forthcoming year. The report will include a project update indicating funding position and expected completion date.

1. Repurposing Unexpended Funds

The City Auditor will maintain a detailed spreadsheet of the completed and canceled special purpose appropriations. The [CFO] will use it to provide prioritized funding sources when developing annual budgets and when reviewing the status of the city-wide budget at year-end for potentially necessary line-item transfers.

When proposing a new use for the surplus funds of a special purpose appropriation, the [CFO] will be guided by provisions in the City’s adopted financial planning policies. However, the first priority for the [CFO] in year-end transfer actions will be the prevention of budget deficits. Note also that the Community Preservation Committee has sole authority for making decisions about any proposed new uses of community preservation funds. Any new use of surplus funds that derived from a restricted reserve must conform to the restrictions of said reserve.

In the event that the [CFO] proposes to reappropriate a surplus balance in a special purpose appropriation account to a new purpose, the [CEO] will make a recommendation for a City Council majority vote. The exception to this relates to surplus proceeds of bond-funded projects (see Section F of the [Debt Management](#_Debt_Management) policy).

As part of the year-end closing each year, the City Auditor along with the [CFO] will determine which account balances will not be appropriated for new purposes and will close to their originating funding sources.

1. Accounting Guidelines for Administrative Closeouts

When closing out an account, the City Auditor’s transfers of surplus funds will comply with the following guidelines based on their funding sources:

* Tax levy or free cash: Transfer to general fund undesignated fund balance.
* Restricted reserve (e.g., stabilization, reserve for appropriation, etc.): Transfer back to the reserve of origin.
* Bond-funded projects: See Section F of the Debt Management policy.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Annual Budget Process, Appropriation Transfers & Supplements, Capital Planning, Debt Management, Forecasting, Reconciliation, Year-End Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 33B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33B)

Division of Local Services Informational Guideline Release 2017-13: [*Appropriation Transfers*](https://www.mass.gov/files/documents/2017/09/11/igr17-13.pdf)

Financial Operation

Policies

## **Antifraud**

|  |  |
| --- | --- |
| **Applies to:** | * All elected and appointed City officials and employees * All other persons acting on behalf of the City[[7]](#footnote-7), such as vendors, contractors, volunteers, casual employees, and grant subrecipients |
| **Scope:** | Any suspected fraud, abuse, or similar irregularity against the City |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To protect the City’s assets and reputation from misappropriation and abuse, this policy provides guidelines to safeguard against fraudulent activities and any appearances thereof. The policy’s objectives include:

* To create an environment in which employees and citizens can report any suspicion of fraud
* To communicate the City’s intent to prevent, report, investigate, and disclose to proper authorities suspected fraud, abuse, and similar irregularities
* To provide management with guidelines and responsibilities regarding appropriate actions in conducting investigations of alleged fraud and similar improprieties

**POLICY**

The City is committed to protecting its revenue, property, information, and other assets from any attempt, either by members of the public, contractors, consultants, vendors, agents, or its own employees, to gain by deceit, financial or other benefits at the expense of taxpayers. City officials, employees and other persons acting on behalf of the City must, always comply with all applicable policies, laws, and regulations.

The City will not condone any violation of law or ethical business practices and will not permit any activity that fails to withstand the closest possible public scrutiny. The City intends to fully, objectively, and impartially investigate any suspected acts of fraud or other similar irregularities regardless of the position, title, length of service, or relationship with the government of any party who may be the subject to such investigation.

1. Actions Constituting Fraud or Abuse

Fraud and abuse can take many forms, all of which are covered by this policy and described in examples below.

Abuse of authority can occur in financial or nonfinancial settings and refers to, but is not limited to:

* Improper use or misuse of authority
* Improper use or misuse of City property, equipment, materials, records, or other resources
* Waste of public funds

Fraudulent activity includes, but is not limited to, the following:

* Any dishonest or fraudulent act
* Forgery or alteration of any document or account
* Forgery or alteration of a check, bank draft, or any other financial document
* Misappropriation of funds, securities, supplies, or other assets
* Impropriety in the handling or reporting of money or financial transactions
* Profiteering because of insider knowledge of City activities
* Disclosing confidential or proprietary information to outside parties
* Accepting or seeking anything of material value from consultants, contractors, vendors, or persons providing services or materials to the City
* Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
* Any claim for reimbursement of expenses not made for the exclusive benefit of the City
* Any computer-related activity involving the alteration, destruction, forgery, or manipulation of data for fraudulent purposes
* Any omissions and misrepresentations made in bond offering documents, presentations to rating agencies, and annual financial reports

1. Antifraud Responsibilities
2. The City intends to fully investigate any suspected acts of fraud or other similar irregularity. An objective and impartial investigation will be conducted regardless of the position, title, and length of service, or relationship with the government of any party who might be or becomes involved in or becomes/is the subject of such investigation.
3. Each elected official, department head, commissioner and manager is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.
4. The [CFO] has the primary responsibility for the investigation of all activity defined in this policy.
5. To the extent practical, the [CFO] will notify the City’s Independent Auditing Firm and the [CEO] of a reported allegation of fraudulent or irregular conduct upon the commencement of the investigation. Throughout the investigation the [CEO] will be informed of pertinent investigative findings.
6. In all circumstances where there are reasonable grounds to indicate a fraud may have occurred, the [CFO] and/or Independent Auditor, subject to the advice of the [CEO] [and City Solicitor], will contact the Office of the District Attorney and/or the [City] Police.
7. Upon conclusion of the investigation, the results will be reported to the [CEO] and others as determined necessary.
8. The [City Solicitor] will pursue every reasonable effort, including court-ordered restitution, to obtain recovery of the City’s losses from the offender, or other appropriate source.
9. Reporting Suspicion of Fraud
10. All Employees

Any employee who has knowledge of an occurrence of irregular conduct or who has reason to suspect that a fraud has occurred shall immediately notify his/her supervisor. If the employee has reason to believe that their supervisor may be involved or does not feel comfortable reporting the occurrence to their supervisor, the employee shall immediately notify the [CFO]. Employees have a duty to cooperate during an investigation. Employees who knowingly make false allegations will be subject to discipline and possible termination of employment.

1. City Management/Elected Officials/Board Members

Upon notification from an employee of suspected fraud, or if management has reason to suspect that a fraud has occurred, they shall immediately notify the [CFO].

1. Office of the [CEO]

Upon notification or discovery of a suspected fraud, the [CFO] and/or Independent Auditor will promptly investigate the suspected fraud. In all circumstances, where there are reasonable grounds to indicate that a fraud may have occurred, the [CFO] or Independent Auditor will inform the [CEO]. Subject to the advice of the City Solicitor, the [CFO]or Independent Auditor will contact the Office of the District Attorney and/or the [City] Police.

1. Contacts/Protocols

After an initial review and a determination that the suspected fraud warrants additional investigation, the [CFO] or Independent Auditor will notify the [CEO]. The [CFO] or Independent Auditor will coordinate the investigation with the [CEO] and appropriate law enforcement officials.

1. Security of Evidence

Once a suspected fraud is reported, the [CFO] or Independent Auditor, in consultation with the City Solicitor, shall take immediate action to prevent the theft, alteration, or destruction of relevant records. Such actions include, but are not necessarily limited to:

* Relocating the records and placing them in a secure location until the [CFO] or Independent Auditor obtains the records to begin the audit investigation
* Limiting access to the location where the records currently exist
* Preventing the individual suspected of committing the fraud from having access to the records.

1. Confidentiality and Media Relations

All participants involved in a fraud investigation will keep its details and results confidential so as not to violate any individual’s expectation of privacy, and the [CFO] will ensure that all related documents are securely stored. No investigation-related verbal information or documents may be shared with anyone not formally assigned to the investigation.

Any City employee or elected official contacted by the media with respected to an audit investigation shall refer the media to the [CEO]’s Office at [number]. The alleged fraud or audit investigation shall not be discussed with the media by any person other than the through the [CEO]’s Office.

If the [CFO] or Independent Auditor is contacted by the media regarding an alleged fraud or audit investigation, they will consult the [CEO], before responding to a media request. Neither the [CFO] nor Independent Auditor will discuss the details of any ongoing fraud investigation with the media that may compromise the integrity of the investigation.

1. Conclusion of Investigation, Corrective Actions, and Disclosures

At the conclusion of the investigation, the results will be reported to the [CEO] and others as determined necessary. If a suspicion of fraud is substantiated, disciplinary action shall be taken by the [CEO], in consultation with the [Human Resource Director] and the [CFO] or assigned investigator. The report will be forwarded to the Office of the District Attorney and/or the [City] Police.

Additionally, the [CFO], in consultation with the assigned investigator if any, will determine the corrective actions needed to implement new or enhanced internal controls, in the subject department and potentially City-wide, to mitigate the risk of future fraudulent activity. The subject department head(s) will subsequently provide the [CFO] with updates on the status of the corrective action(s) monthly or upon request.

If the City’s investigation concludes that there was a violation of any federal criminal law involving fraud, bribery or gratuity potentially affecting a federal award, the [CFO] will disclose such in writing to the federal awarding agency in compliance with the Office of Management and Budget’s Omni Circular. Similarly, if there are findings of bond offering information falsification, the [CFO] will disclose this in writing to the bondholders.

1. Whistleblower Protection

Under Massachusetts General Law [Chapter 149](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXI/Chapter149), paragraphs 148A, 185 and 187, no employer or person acting on behalf of an employer shall:

* Dismiss or threaten to dismiss an employee
* Discipline or suspend, or threaten to discipline or suspend, an employee
* Impose any penalty upon an employee, or
* Intimidate or coerce an employee

because the employee has acted in accordance with the requirements of this policy. The violation of this section will result in discipline up to and including dismissal in accordance with the applicable federal, state, and local administrative laws.

If an allegation is made in good faith but not confirmed after the investigation concludes, no action will be taken against the originator. Any employee who knowingly makes a false report, provides evidence they know to be false, or provides information without a reasonable belief in its truth and accuracy may be subject to disciplinary action. Evidence of false allegations made with malicious intent will result in disciplinary action, up to and including termination.

1. Ethics Training and Annual Acknowledgments

Annually, the [CFO] will distribute this policy to all employees and officials along with a copy of the state’s conflict of interest law, and each recipient is required to acknowledge receipt. Further, every two years, all City employees must complete the state’s conflict of interest training. Additionally, any City employee responsible for managing a vendor contract will ensure the vendor receives a copy of this policy and returns a signed acknowledgment. The City Clerk or designee will maintain a database to track the status of all acknowledgments and employee trainings and will follow up with those who are noncompliant with either requirement.

**REFERENCES**

**Policies:** Disbursements, Gifts of Funds, Grant Management, Procurement Conflict of Interest, Reconciliations, Revenue Turnover

**EXTERNAL REFERENCES**

[M.G.L. c. 12, § 5A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5A)

[M.G.L. c. 12, § 5B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5B)

[M.G.L. c. 12, § 5C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5C)

[M.G.L. c. 12, § 5D](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5D)

[M.G.L. c. 12, § 5E](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5E)

[M.G.L. c. 12, § 5F](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5F)

[M.G.L. c. 12, § 5J](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter12/Section5J)

[M.G.L. c. 149 § 148A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXI/Chapter149/Section148A)

[M.G.L. c. 149 § 185](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXI/Chapter149/Section185)

[M.G.L. c. 149 § 187](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXI/Chapter149/Section187)

[M.G.L. c. 268A](https://malegislature.gov/laws/generallaws/partiv/titlei/chapter268a)

MA Office of the Inspector General webpage: [What is Fraud?](https://www.mass.gov/info-details/what-is-fraud) and [Fraud Reporting FAQ: What to Know](https://www.mass.gov/info-details/oig-fraud-reporting-faq-what-to-know)

MA Ethics Commission webpage [Summary of the Conflict of Interest Law for Municipal Employees](https://www.mass.gov/service-details/summary-of-the-conflict-of-interest-law-for-municipal-employees)

U.S. Office of Management and Budget, December 2013: [*Omni Circular*](https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards#h-22)

## **Disbursements**

|  |  |
| --- | --- |
| **Applies to:** | * City Auditor and [Treasurer] job duties * [CEO] in approving disbursements in warrants * [Human Resource (HR) Director] in establishing employee database accounts * All department heads and the elected or appointed officials with spending authority (all referred to here as “department heads”) in submitting their requests for expense and payroll disbursements * All employees in recording time and attendance |
| **Scope:** | Guidelines for managing requests for and disbursements of City funds to pay accounts payable liabilities and to compensate employees through payroll. |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To mitigate the risk of fraud and ensure the City disburses cash only for legally valid liabilities, this policy establishes guidelines for the expenditure of City funds.

**POLICY**

No disbursement for any payroll or accounts payable (AP) expense shall occur without the prior review of the City Auditor and approval by the [CEO].

Every AP disbursement must be based on an original invoice (may be electronic) and valid form W-9 for the payee. All invoices must be charged to the proper fiscal year. Payment for any bills payable for a prior fiscal year must be approved by vote of the City Council in accordance with [M.G.L. c. 44, § 64](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section64). As a tax-exempt organization, the City will not pay sales tax on any expense.

Every submission for an individual payroll disbursement must be based on an approved employee time sheet that is retained in the department and accurately summarized in the [payroll system] time and attendance module. Every payroll submission must also be consistent with applicable personal service contracts or classification schedules and the City’s personnel ordinances and policies. No employee may submit overtime hours (i.e., hours exceeding 40 hours in a week) or hours for any special detail work without the supervisor’s prior approval.

To allow for the expedited processing of any checks that may go unclaimed (as permitted under [M.G.L. c. 200A, § 9A](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter200A/Section9A)), printed on the face of every disbursed check will be: “Void if not cashed within one year of issuance.” The [Treasurer] will secure all checks in a safe until distributed.

All disbursement activity is subject to audit by [City]’s independent auditor.

1. Responsibilities Related to Disbursement Processing

| **Role/Position** | **Disbursement-Related Responsibilities** |
| --- | --- |
| [HR Director] | * Create new employee profile/account in [employee/payroll database] * Update employee’s employment status, work hours, or pay rate based on a duly signed [Personnel Action Form] (PAF) |
| Every employee | * Record daily time and attendance (T&A) on a time sheet * Review each paycheck to ensure accuracy of time worked and time accrual balances |
| [Dept payroll clerk City/School] | * Enter T&A for dept employees in [payroll system] [time period]. |
| Department heads | * Complete [payroll software] time entry activities on the timeframe provided by the [payroll official] * Transmit AP disbursement requests timely * Ensure all purchases of goods & services conform to procurement laws * Prepare purchase orders for purchases over [$500] * Monitor the department’s online account purchasing activity and invoice processing * Verify that the dept received the goods/services being submitted for payment * Verify adequate funds exist in dept’s budget for every disbursement request * Attest to the accuracy of each AP submission v by signing invoice coversheet and for payroll submissions by [electronic approval] [hardcopy signature]   *For Remote Entry Processing:*   * Enter AP batches into the [financial software] module only after at the goods have been received or the services have been rendered * Release the batch to Accounting and deliver/attach the supporting documentation (e.g., original invoices, contract) with signed [financial software] batch cover sheet |
| City Auditor | * Review all departmental submissions and approve items for inclusion on the AP or payroll warrant only after validating: * Procurement laws were adhered to. * The submission is legal (i.e., it is consistent with the intent of the appropriation). * Adequate funds exist. * No fraud is evident. * Finalize and sign AP & payroll warrants and provide them to the [CEO] * Update the general ledger with all AP and payroll warrant expenditures |
| Treasurer | * Maintain [payroll software] employee master file by updating leave time balances on [timeframe] and accrual bases * Upon receipt of signed payroll and AP warrants, fund the gross payroll warrant, City’s portion of Medicare tax, and gross vendor warrant in the associated bank accounts * Initiate electronic funds transfers for applicable payees * Ensure every issued check is imprinted with the accurate disbursement data and “Void if not cashed within one year of issuance” on its front * Disburse all AP checks to the vendors and initiate ACH wire transfers   + The [Treasurer] will not give any vendor checks to department heads or other employees to mail * Update the cashbook to document the disbursement activity   *For In-house payroll:*   * Verify all payroll payment tables are consistent with collective bargaining agreements or any other compensation schedules * Process [timeframe] payroll data in [payroll software] |
| [CEO] | * Review each warrant and direct any inquiries to the City Auditor * Approve the warrants by signing them |

1. Off-Cycle Disbursements in Exceptional Circumstances

An emergency or other imperative circumstance may compel an allowable exception to the usual disbursement process. In such rare cases, the City Auditor will process an off-cycle AP warrant for the [Treasurer] to fund and issue a check. Under no circumstances will the [Treasurer] issue a manual AP check outside the [financial software] system. [CEO] signature is required for any disbursement not previously approved.

Additionally, due to error or omission, the City Auditor may authorize a payroll disbursement outside of the normal payroll process. This supplemental process shall follow the same procedure and approval process as a regular payroll process.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Antifraud

**EXTERNAL REFERENCES**

[M.G.L. c. 30B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30B)

[M.G.L. c. 41, § 3](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section3)

[M.G.L. c. 41, § 41](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section41)

[M.G.L. c. 41, § 41A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section41A)

[M.G.L. c. 41, § 41B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section41B)

[M.G.L. c. 41, § 41C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section41C)

[M.G.L. c. 41, § 42](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section42)

[M.G.L. c. 41, § 43](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section43)

[M.G.L. c. 41, § 52](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section52)

[M.G.L. c. 41, § 56](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section56)

[M.G.L. c. 44, § 56](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section56A)A

[M.G.L. c. 44, § 58](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section58)

[M.G.L. c. 44, § 64](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section64)

[M.G.L. c. 200A, § 9A](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter200A/Section9A)

Massachusetts Municipal Auditor’s and Accountants’ Association: [*Accounting Manual*](https://mmaaa.wildapricot.org/resources/Documents/MMAAA%20Manual%2012%202020.pdf)

Massachusetts Collectors & Treasurers Association: *[Treasurer’s Manual](https://masscta.com/resource/resmgr/treasurersmanualrev062317.pdf)*

## **Financial Management Team**

|  |  |
| --- | --- |
| **Applies to:** | * [CFO], City Auditor, [Treasurer], [Collector], and [Assessor] * School Business Office Official(s) as team members * [Other City Officials], and City Clerk as auxiliary members * Department staff as necessary |
| **Scope:** | Coordination of ongoing financial operations through regular meetings of a financial management team |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To maximize the effectiveness of financial practices by optimizing the coordination of interdepartmental activities and long-range plans, this policy establishes a financial management team that will meet regularly to discuss common goals and objectives. A financial management team also fosters institutional continuity during times of turnover in financial offices.

**POLICY**

The City establishes a financial management team consisting of the [CFO], City Auditor, [Treasurer], [Collector], [Assessor], and School Business Office Official(s). The [CFO], or designee, will schedule meetings of the financial management team will be scheduled at a consistent time each month and more frequently when necessary, and act as meeting chair. The [other City officials], City Clerk, and other responsible department staff may also be called upon to participate in certain meetings during the year when appropriate for the agenda.

The intent of the meetings will be to help the City’s finance officers maintain open lines of communication and reinforce awareness of their interdependence. In this forum, team members can identify critical junctures, consider strategies to deal with anticipated areas of concern, and establish agreement about goals, deadlines, and each individual's role in meeting common objectives.

Appropriate agenda topics include:

* Updating the status of assigned responsibilities and due dates related to cyclical procedures
* Reviewing budget preparation, including financial forecasting and capital funding analysis
* Monitoring monthly revenue and expenditure reports and analyzing cash flow
* Coordinating financial system updates and software enhancements
* Proposing internal audits
* Reviewing the effectiveness of internal controls, including the status of monthly reconciliations
* Developing corrective action plans for citations in the external auditor’s management letters
* Coordinating submissions to the Division of Local Services
* Reviewing and updating the status of special projects assigned by the [CEO] or others
* Pursuing professional development and training opportunities
* Coordinating activities to improve internal collaboration and engaging with the public

**REFERENCES**

**Policies:** Annual Budget Process, Capital Planning, Forecasting, Reconciliations, Tax Recapitulation, and Year-End Closing

**EXTERNAL REFERENCES**

Division of Local Services Best Practice: [*Financial Management Team*](https://www.mass.gov/doc/the-financial-management-team/download)

## **Gifts of Funds**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO], City Council, and School Committee in their responsibilities related to approving the expenditure of gift funds * Department heads[[8]](#footnote-8) in their responsibilities related to accepting and expending gift funds * City Auditor and [Treasurer] in their job duties related to managing, accounting for, and reporting on gift funds |
| **Scope:** | * All receipts of monetary gifts to the City * Managing, expending, and accounting of gift funds * Not in the scope of this policy:   + Monetary gifts to trust funds governed by specific statutes, such as scholarship or cemetery perpetual care funds   + Donations of tangible property   + Federal, state, or private grants[[9]](#footnote-9) |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

The guidance and directives presented in this policy are intended to:

* Enable the receipt of monetary gifts that align with the City’s goals
* Ensure that no gift funds are comingled with any other monies and that they are only expended for the purposes intended by donors
* Mitigate against the potential for any violations of the state’s Ethics Code in relation to gift donations and fundraising

**BACKGROUND**

[M.G.L. c. 44, § 53A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53A) allows any department head or City official to accept monetary gifts for the benefit of municipal services, which funds may be spent without appropriation. However, the statute also requires the expenditure of the gift’s funds be approved by the [CEO] and City Council or the School Committee for school gifts (referred to here as “authorizers”). This approval process allows the applicable authorizers to ensure that the circumstances of the donation do not compromise the City/School in some way and to assess whether or not the particular purpose of the gift aligns with City/School goals without also creating any substantially offsetting financial or administrative burdens. Thus, for practical reasons, this policy calls for departments to obtain authorization from the appropriate parties before the gift may be formally accepted, deposited, and expended.

**POLICY**

Gifts of donated funds make valuable contributions the City’s goals and fiscal well-being, and the offers of such are greatly appreciated by City officials. Gifts to the City must be voluntary and not received from any party in lieu of payments, fees, or services otherwise due to the City. In addition, the City’s acceptance of a gift does not constitute or imply its recommendation or endorsement of any service, product, or business of the donor.

All gift funds shall be treated as one-time revenues, even those that may be offered to the City on a repetitive basis (e.g., from a “Friends” organization). As such, the City shall in no way rely on any gift revenues to support ongoing operational costs.

Whenever a department receives a monetary gift, the department head must submit it for the approval of the appropriate authorizers before the funds may be spent. If a department receives multiple gifts donated for the same purpose (such as from a private fundraising event), they shall be accumulated and submitted as a single amount.

All decisions regarding gift approval shall be based on the gift’s compatibility with City/School Department policies and goals, as well as an assessment of any risks the gift may pose to the City in maintaining its reputation, mission, or values.

Without appropriation, departments may expend the funds from an accepted donation according to the purpose specified by the donor and only after the gift has been approved by the appropriate authorizers.

1. Accepting a Gift

Upon receiving a gift or set of related gifts, regardless of the total amount, the department head will turn over the receipt(s) to the [Treasurer] consistent with the Revenue Turnover policy and include a document from the donor stating the purpose of the gift. The [Treasurer] will secure the funds in a safe pending the completion of the appropriate approval(s).

The City Auditor will coordinate with the [CEO]’s office or School Superintendent to present the appropriate authorizers with the offered gift. Once the gift is approved or rejected, the City Auditor will notify the originating department and [Treasurer]. If a gift is not approved for expenditure, the [Treasurer] will return the funds to the donor. Approved gifts will be processed in accordance with Section B below.

1. Managing and Expending Gift Funds

Upon approved for expenditure, the City Auditor will create a separate general ledger account for each gift purpose and a paper or electronic file containing all donor documentation. The [Treasurer] will deposit it in City’s depository account.

Through the City’s standard payroll and vendor warrant procedures, a department head may, without appropriation, expend the funds of a gift for its designated purpose. Gifts donated without a specific purpose shall be expended in accordance with the overall intent (i.e., for the general operation of the gifted department). The City Auditor shall approve a gift expenditure for inclusion in a warrant in accordance with the [Disbursements policy](#_Disbursements). In verifying the legality of a gift expenditure, the City Auditor must assure that:

1. It is legal, which in this case means:
   1. The gift had received the appropriate approval(s);
   2. The expenditure’s purpose is consistent with the intent of the donor; and
   3. Applicable procurement laws were adhered to.
2. Adequate funds exist in the gift account.
3. No fraud is evident.

When the purpose of the gift no longer exists or if the revenue is not expended by a time specified by the donor, the department head will request to refund the balance of the account to the donor through the accounts payable warrant process. The City Auditor shall follow the procedures in the [Year-End Closing policy](#_Year-End_Closing) for closing expended and inactive accounts.

1. Prohibitions on Fundraising

This policy prohibits any fundraising activities by City employees and officials. An example of prohibited activity would be a department selling items, such as t-shirts or calendars, to raise money. In addition, the Massachusetts Constitution’s Anti-aid Amendment prohibits the use of public funds to assist a private organization's fundraising, even when it would directly benefit the municipality. To further assure compliance with the Amendment, there shall be no City co-sponsorships with any private organizations of any community events or fundraisers.

The City may accept as gifts the funds raised and offered by private entities, including “Friends” organizations. All such entities are entirely separate from the City and therefore not subject to City policies or any form of municipal oversight. Furthermore, the State Conflict of Interest Law bars the use of municipal resources, including staff time, to assist any private sector initiatives. Therefore, no City personnel may participate in the activities of “Friends” and other similar organizations during their work hours.

**REFERENCES**

**Policies:** Antifraud, Disbursements, Reconciliations, Revenue Turnover, Special Purpose Appropriations, Year-End Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 53A](https://malegislature.gov/laws/generallaws/parti/titlevii/chapter44/section53a)

[M.G.L. c. 71, § 37A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter71/Section37A)

[M.G.L. c. 268A](https://malegislature.gov/Laws/GeneralLaws/PartIV/TitleI/Chapter268A)

Division of Local Services *City & Town* article, [Ask DLS: Public Purpose Expenditures](https://www.mass.gov/doc/a-message-from-lt-governor-polito-on-fy22-community-compact-cabinet-programming/download)

State Ethics Commission’s Advisory Opinion on gift solicitation, [EC-COI-12-1](https://www.mass.gov/opinion/ec-coi-12-1)

MA Constitution Anti-Aid Amendment:[Article XVIII, as amended by Articles XLVI and CIII](https://malegislature.gov/Laws/Constitution#amendmentArticleXLVIIIDefinition)

## **Grants Management**

|  |  |
| --- | --- |
| **Applies to:** | * Grant Managers within City departments * [CEO], School Superintendent, School Committee, [CFO], City Auditor, and [Treasurer] in their grant-related responsibilities * Department heads and City officials that accept the grants obtained for their departments, in their budget management and operational oversight roles |
| **Scope:** | * Evaluating the grant opportunities * Tracking grant activity * Processing revenues and expenditures |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To leverage the external revenues attainable through grants that serve the City’s best interests, this policy sets a framework for evaluating grant opportunities, tracking their activities, and processing their revenues and expenditures. Effective grant management helps optimize cash flow through timely reimbursements and guards against year-end account deficits.

**BACKGROUND**

[M.G.L. c. 44, § 53A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53A) allows any department head or City official to accepta grant from a state, federal or other grantor, which funds may then be spent without appropriation. However, the statute also requires that the expenditure of the grant funds be approved by the [CEO] and City Council or the School Committee for school grants (referred to here as “authorizers”). This approval process allows the applicable authorizers to assess whether or not the particulars of the grant program align with City/School goals without also creating any substantially offsetting financial or administrative burdens. Thus, for practical reasons, this policy calls for departments to obtain preapproval(s) before applying for any grants and then obtain expenditure approval once a grant is awarded.

As a legal contract, every grant agreement must be fulfilled in accordance with its prescribed terms and conditions, and all applicable federal, state, and local regulations. Failure in this regard exposes the City to legal and financial liabilities and compromises future grant funding.

**POLICY**

All departments are encouraged to solicit grant funding for projects and programs consistent with the City’s goals. All municipal grant applications and educational applications must receive preapproval by the applicable authorizers. To be eligible for preapproval, there must be sufficient staff available to effectively administer the grant program and perform its required work scope, along with adequate matching requirements (both cash and in‐kind).

No department shall expend grant funds until a fully executed grant agreement has been approved for expenditure by the applicable authorizers. Further, no grant funds shall be used to supplant an existing expense for the purpose of diverting current funds to another use.

Operating departments through their designated grant administrator(s) have primary responsibility for seeking grant opportunities, preparing applications, and managing awarded programs. The [CFO] and City Auditor are responsible for consulting with grant administrators on grant budgetary matters. The City Auditor will monitor grant expenditures for consistency with award requirements, track the timeliness of reimbursement requests, distribute monthly reports of grant expenditures to departments, and maintain a database of all grants and grant activity from inception to closure.

1. Grant Opportunity Assessment

Well in advance of a grant application’s due date, the departmental grant administrator will assess the opportunity in consultation with the [CFO] and City Auditor or with the School Superintendent. Below are the factors to be considered, at minimum.

Programmatic:

* Alignment of the grant’s purpose with the City's and department’s strategic priorities
* Department's capacity to administer the grant through to closeout
* Office space, facilities, supplies, or equipment required
* Ongoing impact of the grant program after it is completed
* Compliance and audit requirements, particularly as they may differ from the City’s

Financial:

* Total anticipated project cost
* Expenditure requirements and anticipated cash flow schedule
* Required cost matching shares and sources, including cash and in-kind
* Staffing requirements, including salary and benefit increases for multiyear grants
* Administration and indirect recapture amounts
* Program income potential

In this stage, the grant administrator will also develop a continuation plan to address the potential future loss of grant funding, which may include alternative funding proposals or plans for reducing or terminating program positions or components after grant closeout.

1. Grant Application and Award Acceptance

Prior to filing any grant application, the grant administrator will submit a meeting agenda item requesting preapproval from the City Council or the School Committee and will also submit a memo to the [CEO] for approval. The submission to these parties should summarize the grant and how it complies with this policy. If the grant proposal meets approval at this stage, the [CEO] will make a determination as to whether any preapproved application should also be submitted to the City Counsel for a legal review. Following this, the grant administrator will submit the grant application to the grantor and forward a copy to the [CFO] and City Auditor.

When a grant administrator receives notice of any grant award, he or she will submit it as a meeting agenda item for the applicable authorizers to formally accept by signatures and thereby approve the expenditure of grant funds. The grant administrator will then send copies of the signed agreement to the grantor. The grant administrator will also send copies of the documents to the City Auditor. Upon receiving the grant documents, the City Auditor will create the appropriate general ledger account to record the grant activity separately from regular expenses. Federal grants will be identified by including Assistance Listings (AL) title and number, Federal award identification number and year, federal agency, and pass-through entity, if any. When notified of any amendment or adjustment by the grantor, the grant administrator will immediately forward the information to the City Auditor, who will make adjustment(s) to the grant’s budget in the general ledger.

1. Grant Financial Management

At the start of a new grant, the City Auditor and grant administrator will discuss its requirements and the timing of reimbursement requests (e.g., at the time of expenditure, monthly or quarterly), when applicable.

The grant administrator will ensure all expenditures made are allowable and consistent with each grant award’s requirements. The grant administrator will submit project invoices to the Finance Office consistent with the City’s [Disbursements policy](#_Disbursements). The grant administrator will ensure the proper payroll account codes for grant-funded employees are reported on the department’s submission as part of the regular payroll process.

Because required retirement system remittances and/or general fund benefit reimbursements vary by grant, the City Auditor will calculate these for each grant and notify grant administrator of the resulting amounts to include on the accounts payable submissions.

To minimize the use of advanced City funds, every grant administrator will request reimbursements as often as the grant’s guidelines allow and always no later than June 15. In doing so, the administrator will prepare all required reports and requests as detailed in the agreement and submit these to the grantor. Immediately following each submittal, the grant administrator will send an email notification of the reimbursement request to the City Auditor and [Treasurer]. The [Treasurer] will match reimbursements received electronically or by check with the requests and credit the proper revenue accounts. The City Auditor will respond to the email confirming receipt and recording to the general ledger.

The City Auditor will monitor each grant’s deficit balance to assure it is temporary and receives reimbursement within the grant’s allowable timeline and always prior to year-end.

1. Grant Closeout

Upon completion of the project work or grant period, whichever comes first, the grant administrator will verify that all grant requirements have been met and will send to the City Auditor a grant closeout package. This package will include a final report and either a final reimbursement request or notification of the amount to be refunded to the grantor. The report will outline the planned outcomes with the documented actual results.

Upon receipt of the closeout package, the City Auditor will reconcile the grant administrator’s report with the general ledger’s record of grant activity. The grant administrator will subsequently submit the final reimbursement request to the grantor or, if a refund is due, the City Auditor will add the refund amount to the accounts payable warrant. Additionally, the City Auditor will determine if the grant account has been over expended and will either apply the expense to the operating budget or propose an appropriation from other available funds. After all transactions are completed, the City Auditor will put the general ledger’s grant account into inactive status.

1. Audit

All grant activities are subject to audit by the grantors, the City Auditor, and [City]’s independent auditor. The City Auditor will maintain all grant documents and financial records for seven years after their closeouts or for the lengths of time specified by the grantors, whichever period is longer.

**REFERENCES**

**Policies:** Antifraud, Disbursements, Reconciliations, Revenue Turnover, Special Purpose Appropriations, Year-End Closing

**EXTERNAL REFERENCES**

[M.G.L. c. 41, § 3](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section3)

[M.G.L. c. 40, § 5D](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section5D)

[M.G.L. c. 41, § 57](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section57)

[M.G.L. c. 44, § 53A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53A)

Public Employee Retirement Administration Commission: [*Memo #12/2003*](https://www.mass.gov/doc/memorandum-12-2003/download)

Mass.gov webpage: [Community Grant Finder](https://www.mass.gov/lists/community-grant-finder)

US grant search website: [grants.gov](https://www.grants.gov/)

Federal programs Assistance Listings: [SAM.gov](https://sam.gov/content/assistance-listings)

## **Procurement - Conflict of Interest**

|  |  |
| --- | --- |
| **Applies to:** | * [Purchasing Agent]’s role as chief procurement officer, under the [CFO]’s supervision * All City employees, officials, and others working on the City’s behalf who are involved with procurements * Prospective contractors |
| **Scope:** | Guidelines for vetting conflicts of interest related to all procurements of the City |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure integrity in the procurement process, this policy sets guidelines for vetting potential conflicts of interest.

**POLICY**

The City is committed to ethical business practices, professional integrity, and compliance with all procurement laws and regulations. [City] will provide fair opportunities to participants in competitive processes for the award of contracts. Process integrity will be reinforced by the practices outlined here to ensure confidentiality during the bid evaluation process and to assess and address conflicts of interest in all competitive solicitations. The City will investigate all allegations of conflict of interest or procurement misconduct brought to the attention of City staff. Parties subject to this policy shall comply with [M.G.L. c. 268A](https://malegislature.gov/Laws/GeneralLaws/PartIV/TitleI/Chapter268A).

1. Confidentiality during the Bid Evaluation Process

City staff, consultants, and outside evaluators who are participants in a bid evaluation process are required to sign confidentiality agreements, which bind them not to share any information about responses received and the evaluation process until the City issues a Notice of Intended Award.

The departmental purchasing employee will:

1. Identify all participants of a bid evaluation process who receive proposals or other documents used in the evaluation process, including any non-evaluating observers.
2. Ensure that these participants sign confidentiality agreements.
3. Submit the confidentiality agreements to the [Purchasing Agent].

The [Purchasing Agent] will:

1. Verify that signed confidentiality agreements for all participants in the evaluation process, including non-evaluating observers, are submitted.
2. Maintain signed confidentiality agreements on file.
3. Conflict of Interest in Procurement

To ensure decisions are made independently and impartially, City employees and officials are expected to avoid any conflicts of interest and also avoid the appearance of conflicts of interest. A conflict of interest, or the appearance of one, must be disclosed whenever a vendor, employee, or officer has, or can reasonably anticipate having, an ownership interest, a significant executive position, or other remunerative relationship with a prospective supplier of goods or services to the City or knows that a family member or other person with whom they have a personal or financial relationship has such an interest.

According to the federal Office of Management and Budget’s Omni Circular, a conflict of interest arises when: “*the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.”*

And it states that: *“The officers, employees, and agents of the non-federal entity must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.”*

The Omni Circular further requires that for any federal grant involving a parent, affiliate, or subsidiary organization that is not a state or local government, the City must also maintain written standards of conduct covering organizational conflicts of interest. An organizational conflict of interest means that due to a relationship with a parent company, affiliate, or subsidiary organization, the City is unable or appears to be unable to be impartial in conducting a procurement action involving the related organization.

Any person with a conflict as described above shall not participate in the preparing of specifications, qualifying vendors, selecting successful bidders on products or services in which they have an interest, or approving payment to those interests. The only exception to this arises if the person makes full disclosure of a potential conflict and receives an advance, written determination from the [State Ethics Commission](https://www.mass.gov/orgs/state-ethics-commission) that the interest is not so substantial as to be deemed likely to affect the integrity of the services the City may expect from that individual.

1. Conflict Disclosure and Review

Department heads and other officials are required to ascertain and disclose to the [Purchasing Agent] any potential conflict of interest affecting procurement transactions before a contract is signed, commitment made, or order placed. The [Purchasing Agent] will then notify the City Auditor, who will verify the availability of funds before any order is placed with a vendor.

The following measures will be taken to ensure the City avoids any conflicts of interest in procuring City contracts:

1. Employees, officials, and others who regularly participate in contract activities on behalf of the City must disclose relevant financial interests as required by state and federal laws and to annually review those statements in conjunction with this policy and other ethical standards.
2. Other persons involved in procurements must review this policy and other ethical standards and provide information to determine if there is a conflict of interest. Such persons shall include, but are not limited to, authors of specifications; paid and unpaid evaluators; and paid and unpaid consultants who assist in the procurement process.
3. If a possible conflict of interest is identified, it must be documented and reviewed with the City Solicitor.

The departmental purchasing employee will:

1. Identify employees, consultants, outside uncompensated parties, and any other persons who will be involved in a procurement or contract activity, such as specification development, preparation and issuance of solicitations, evaluation of solicitations or submissions, or other evaluations, that will lead to an award of contract.
2. Provide conflict of interest forms to the identified participants.
3. Submit the completed forms to the [Purchasing Agent] prior to commencing any procurement or contract activity.

The [Purchasing Agent]:

1. Review the submitted forms for potential conflicts of interest.
2. Discuss any potential conflicts of interest with the [CFO], who may also consult with the City Solicitor.
3. Document the resulting determinations and provide the [CEO] with a notice of the result.
4. If a conflict or the appearance of one exists, take appropriate actions, including but not limited to, removal of the employee, consultant, or outside uncompensated party from the procurement activity or cancelation of the solicitation.
5. Compliance Reviews

The [CFO] will conduct random reviews of compliance with this policy. All procurement activities are also subject to audit by [City]’s independent auditor.

**REFERENCES**

**Charter/Act:**

**Ordinances:**

**Policies:** Antifraud

**EXTERNAL REFERENCES**

[M.G.L. c. 30B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30B)

[M.G.L. c. 41, § 57](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section57)

[M.G.L. c. 268A](https://malegislature.gov/Laws/GeneralLaws/PartIV/TitleI/Chapter268a)

State Ethics Commission’s webpage [Disclosure Forms for Municipal Employees](https://www.mass.gov/service-details/municipal-employee-disclosure-forms)

MA Office of the Inspector General’s webpage [Procurement Assistance](https://www.mass.gov/how-to/get-public-procurement-assistance-from-our-chapter-30b-team)

U.S. Office of Management and Budget, December 2013 [*Omni Circular*](https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards#h-22)

## **Reconciliations**

|  |  |
| --- | --- |
| **Applies to:** | * [CFO]’s oversight responsibilities * City Auditor in keeping the general ledger up to date * [Treasurer] in maintaining a cashbook * [Human Resource Director] in managing insurance benefits * [Collector] and all other personnel within the City with responsibility for managing either a receivable account and/or special revenue fund * [Payroll official] managing payroll and associated withholdings |
| **Scope:** | Periodic reconciliations of departmental cash, receivables, payroll, and special revenue fund records and of those departmental records with the general ledger |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure transactions are in balance, mitigate fraud, safeguard general ledger accuracy, and maximize certifications of free cash and retained earnings, financial officers must conduct regular reconciliations of their accounting records, and these must be reconciled to the general ledger.

**POLICY**

The [Treasurer], [Collector], [Payroll official], and every department head responsible for managing a receivable account and/or special revenue fund will internally reconcile their respective accounting records and subsequently reconcile them with the City Auditor according to the guidelines and periodic time frames outlined in this policy. Although each financial officer is responsible for maintaining independent records of their office’s transactions, they are also collectively accountable for the overall accuracy of [City]’s financial records. All reconciliation activities are subject to audit by the City’s independent auditor.

**POLICY SUMMARY**

|  |  |  |
| --- | --- | --- |
| **Records of Account to be Reconciled** | **Record Keeper** | **Reconciliation Time Frames** |
| Cashbook | Treasurer | * With online bank data daily * Month-end close by the 10th of the following month * To the general ledger by 15th of each month |
| Payroll withholdings | Payroll Administrator | * Internally, by the 10th of the following month * To the general ledger by 15th of each month |
| Collector’s receivables | Collector | * Month-end close by the 10th of the following month * To the general ledger by 15th of each month |
| Other departments’ committed receivables | Departmental record-keepers | * Internally, within 10 days of the end of each quarter * To the general ledger by the end of the month following each quarter-end |
| Special revenue funds | Departmental record-keepers | * Internally, within 10 days of the end of each quarter * To the general ledger by the end of the month following each quarter-end |

1. Cashbook Reconciliation

To ensure an accurate accounting of all revenue activity, the [Treasurer] will maintain a cashbook that reflects up-to-date and accurate information for all cash and assets. To do so, the [Treasurer] will make certain that every cash receipt, disbursement, transfer, and interest accrual is recorded in the cashbook within [2] business days of each transaction. The [Treasurer] will reconcile cashbook accounts to their corresponding bank accounts daily and finalize the monthly reconciliation within [10] days after month-end. These will include zero-balance vendor and payroll bank accounts, whose balances must equal the outstanding checks at the end of any month.

The [Treasurer] will identify all reconciling items, including deposits in transit, bounced and voided checks, and discrepancies between the cashbook and financial institutions, and will document the reason for the discrepancy or correct them when appropriate. The [Treasurer] will then forward a cash activity summary report with the cashbook balances to the City Auditor.

1. Payroll Withholdings Reconciliation

Payroll withholdings include federal and state taxes, child support and other wage assignments for legal obligations, deferred compensation, optional insurances, association dues, and other employer-sponsored options.

At the conclusion of each pay cycle, the [Payroll Administrator] will forward a summary report of withholdings subject to vendor invoices (i.e., insurances) to the City Auditor to be recorded in separate general ledger agency accounts and disbursed through the accounts payable process. To reduce the risk to the City for liabilities in excess of withholdings, the [responsible official] will conduct monthly reconciliations of these payroll withholdings to their corresponding accounts payable, identify any discrepancies, document the results of these activities, contact the [HR Director] to resolve any insurance-related issues and [make any necessary payroll changes or adjustments] OR [report the necessary payroll changes or adjustments to the Payroll official]. The [Payroll Administrator] and [responsible official] will verify and reconcile payments for all other withholdings and deductions that are automatically issued through the payroll system via check or electronic fund transfer to the actual disbursements. The [responsible official] will provide a withholdings reconciliation report to the City Auditor within 10 days after month-end.

1. Accounts Receivable Reconciliation

Accounts receivable are outstanding monies owed to the City, whether from committed bills (e.g., taxes, excises, utility charges) or from uncommitted department invoices (e.g., police details, recreation programs).To ensure these assets are accounted for and balanced, the [Collector] and any other department head with accounts receivable duties (each referred to here as “record-keeper”) will ensure that all cash receipts are recorded timely, maintain a control record for each receivable type and levy year (if applicable), and verify the detail balance agrees with the receivable control.

The receivable control is a record of original entry in which a record-keeper reduces a commitment according to processed collections, abatements, and exemptions and increases it by issued refunds. To maintain accuracy, the record-keeper must review the detailed list of receivables, identify credit balances as prepaid amounts, or investigate them for possible correction, and reconcile the control balance to the detail.

Whenever these records do not agree, the record-keeper must determine the discrepancy by:

* Verifying the various transactions (commitments, abatements, refunds, chargebacks) against their supporting documents
* Comparing the total amount of posted payments to the turnovers accepted by the [Treasurer]
* Determining whether any revenues were incorrectly recorded as payments to the commitment, such as interest and fees

Within 10 days after every month-end, the [Collector] will provide a summarized accounts receivable report by bill type and levy year and forward the summary to the City Auditor as the Schedule of Outstanding Receivables showing the internally reconciled accounts receivable balances. All other record-keepers will provide a list of outstanding balances to the City Auditor.

1. Special Revenue Reconciliation

Governed by various state statutes, special revenue funds are specific revenues segregated from the general fund and earmarked for specific purposes. They include gifts and grants from governmental entities, individuals, and organizations; revolving funds; trust funds, and receipts reserved for appropriation. To ensure these funds are balanced, department heads with responsibility for special revenue funds will verify that all revenues turned over to the [Treasurer], expenditures authorized for payment by the City Auditor, and properly authorized transfers are recorded monthly. These department heads will subsequently provide the City Auditor with quarterly reconciliation reports on the funds.

1. General Ledger Reconciliation

To achieve the core objective of maintaining the general ledger’s integrity, the City Auditor must regularly reconcile it with the separately maintained accounting records outlined in Sections A – D above. In addition, it is the City Auditor’s responsibility to review all accounts analytically from time to time for reasonableness and to identify unusual activity.

The general ledger’s cash accounts should reflect only those transactions reported to the City Auditor by the [Treasurer], so that in theory, the general ledger should be in balance with the cashbook. However, errors may occur due to omitting transfers or transactions or applying them in the wrong amounts or to the wrong accounts. Whenever the City Auditor identifies a discrepancy between the general ledger and the cashbook, the following steps must be taken in conjunction with the [Treasurer] to determine the cause:

* If the total amount of revenue reported in the cashbook does not agree with the amount recorded in the ledger for that month, the [Treasurer] must verify that the monthly total Treasurer’s Schedule of Receipts revenue reports agree by detailed amount and classification with the cashbook and correct any errors.
* Compare the total amount of warrants paid during the month as recorded in the cashbook with the total recorded in the ledger for the same period. The last warrant paid must be the last one recorded; otherwise, a timing problem will create a discrepancy.
* If the records still do not agree, the [Treasurer] and City Auditor must trace each entry to the ledger until the variance is determined.

All receivable records must also be reconciled to the City Auditor’s general ledger. If a given receivable control has been internally reconciled, any discrepancy must be in the general ledger, so the City Auditor must:

* Review the commitments, charges, payments, abatements, refunds, reclassifications, and adjustments in the general ledger, as appropriate for each control.
* Verify whether receipts are recorded to the correct type and levy year.
* Verify the dates that activities were recorded.

The City Auditor’s receivable accounts in the general ledger should reflect the transactions provided by the [Collector] or other departmental record-keeper. Therefore, the above steps must resolve any discrepancies between the receivable control and the ledger. If they do not, the particular record-keeper and City Auditor must trace each ledger entry until they determine the reason for variance.

The City Auditor will verify that all special revenue fund reconciliations match the general ledger. The responsible department head and City Auditor must research any discrepancy and correct the record(s) as appropriate.

1. Time frames and Documentation

Employees subject to this policy will complete reconciliations of their internal accounting records early each month so that subsequent reconciliations to the general ledger take place no later than the 15th of the month following the one being reconciled. At each quarter-ending month the City Auditor will extend the cash reconciliation process to individually reconcile every general ledger account that directly corresponds to a specific bank account (e.g., stabilization funds, trust funds, guarantee bond deposits).

Each general ledger reconciliation will be documented and cosigned by the two parties. If, at that time, any variance has not yet been fully resolved, this must be noted, along with a work plan and timetable for resolution. The City Auditor will report the documented reconciliation status to the [CFO] at each month’s end and the [CEO] quarterly.

**REFERENCES**

**Policies:** Antifraud, Disbursements, Grants Management, Revenue Turnover, Special Purpose Appropriations, Year-End Closing

**EXTERNAL REFERENCES**

DLS Best Practice: [*Reconciling Cash and Receivables*](https://www.mass.gov/doc/reconciling-cash-and-receivables/download)

Massachusetts Municipal Auditor’s and Accountants’ Association: [*Accounting Manual*](https://mmaaa.wildapricot.org/resources/Documents/MMAAA%20Manual%2012%202020.pdf)

Massachusetts Collectors & Treasurers Association: [*Treasurer’s Manual*](https://masscta.com/resource/resmgr/treasurersmanualrev062317.pdf) and [*Collector’s Manual*](https://masscta.com/resource/resmgr/collectorsmanualrev2017__1_.pdf)

## **Revenue Turnover**

|  |  |
| --- | --- |
| **Applies to:** | * [CFO]’s oversight responsibilities * [Treasurer], as the City’ custodian of funds, and [Treasurer] Department staff in their cash management duties * All individuals and department heads with responsibility for handling payments * City Auditor in the duty to keep the general ledger up to date |
| **Scope:** | Guidelines for managing all cash, check, credit card, and other forms of payment received by all City departments for taxes, excises, fees, charges, and intergovernmental receipts, from the departmental level through Treasury and Accounting duties |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To safeguard City assets and maximize cash flow, this policy provides guidelines for departments to turn over receipts to the [Treasurer]. Included are details of internal controls designed to provide reasonable assurance that the City’s revenues are properly and timely secured, recorded, and deposited in City bank accounts.

**POLICY**

City departments are expected to turn over their receipts on a daily basis, unless the total amount is less than $100, in which case the turnover can be done with 48 hours. The head of each department that receives payments is responsible for instituting and employing internal controls designed to ensure that all receipts are recorded accurately, kept secure from loss or theft, and turned over timely to the Treasurer. The departmental staff and [Treasurer] will separately notify the City Auditor of the money turned over and accepted, respectively.

To indemnify the City from potential loss or theft of receipts, the [CFO] will ensure that surety bonds are maintained for all individuals responsible for handling payments.

1. Receiving Payments

Using prenumbered receipt books, assigned departmental staff must issue a receipt for every payment received, even when the payer attempts to refuse it. These employees must identify the forms of payment (check, cash, or credit card) in the receipt books. As the exception, employees in the [Collector]’s office receiving taxes and other collections from the public need only issue receipts for cash payments. Every City employee who receives a check will immediately stamp it “For Deposit Only.” Every department shall secure their received payments in a locked cashbox or safe until completing a turnover to the [Treasurer].

The School Department’s business office deposits lunch and student activity receipts into a City bank account. All departments that operate on weekends or holidays must do daily bank deposits using night deposit bags, which can be obtained from the Treasurer. Copies of the bank deposit slips must be included with the turnovers to the [Treasurer].

Each department head is responsible for overseeing the processing, recording, record retention, and turning over of receipts to the [Treasurer]. To the extent practicable, separate individuals should be tasked with 1) receiving and endorsing payments, 2) recording payments in the departmental log, 3) depositing receipts in the bank (if applicable for the department), and 4) turning receipts over to the [Treasurer].

1. Turning Over Revenues

*[Manual/Paper Process]*

Departmental staff will complete a Schedule of Departmental Payments to the Treasurer (i.e., the turnover form) in Excel, print it, and obtain the department head’s signature. Every listed receipt must contain the account number/charge code, account description, and receipt details and tie back to the book entry and to the receipt logs maintained by the department head. Departmental staff will deliver the payments in person with the turnover form and documentation (e.g., online accounts, credit card settlement). Departments with access to online bank accounts will include a reconciliation of the revenue amount to the bank deposit activity with the turnover. At no time may departmental staff leave any unattended turnovers in the [Treasurer]’s office or elsewhere in City Hall.

No less than weekly and at month-end, the [Treasurer] will complete an internal turnover of all the revenues received directly by the [Treasurer]’s office during that period (e.g., collections processed during that period for taxes and other committed receivables, interest, state aid, grant funds, etc.). The turnover form will report all the revenues summarized by receipt type, which must reconcile to the bank deposits for the same period.

When the [Treasurer]’s office has accepted the turnover, the departmental employee will receive two signed copies back. The departmental employee will deliver one copy to the Accounting Office and retain the other on file. The City Auditor will refuse to accept any turnover form that is not signed by a [Treasurer] employee.

The City Auditor will issue revenue reports monthly to the head of every department that receives payments. The department head will verify that all turned over receipts have been recorded in the appropriate general ledger accounts and either affirm accuracy or report any discrepancies to the City Auditor.

*[Remote Entry Process]*

The department head is responsible for overseeing the processing, recording, record retention, [financial software] report release and turning over of receipts to the [Treasurer]. The department staff will reconcile the day’s receipt activity, record the revenue details into [financial software], attach/provide required documentation, and print a payment proof report. Every receipt on the payment proof report must tie back to the receipt amount and logs maintained by the department head. Backup documentation for online payments will include a settlement statement, reconciliation of the revenue amount to the bank deposit activity, and any other summary reports provided by the vendor.

The department head or designee will release the revenue batch, and departmental staff will deliver the payments in person. At no time may leave any unattended payments in the [Treasurer]’s office or elsewhere in City Hall.

When the [Treasurer]’s office has accepted the turnover, notification will be sent to the department head and Accounting Office indicating that the [financial software] payment batch total and the revenue turned over was verified by [Treasurer] staff. The attached payment proof will serve as the City Auditor’s departmental turnover.

The head of every department that receives payments will review the [financial software] payments report monthly to verify that all department payment batches have been recorded in the appropriate general ledger accounts and either affirm accuracy or report any discrepancies to the City Auditor.

1. Receiving Turnovers

*[Manual/Paper Process]*

When presented with the turnover, [Treasurer] staff will count the receipts in the presence of the departmental employee submitting the turnover. Any inaccuracies on the turnover forms will be corrected on them at that time and initialed by both parties. The [Treasurer] staff member will then sign the form, make two copies, and return two copies to the departmental employee.

Within 24 hours of receiving the turnover, [Treasurer] staff will record the receipt data in [financial software] and deposit checks received via remote scanner. The [Treasurer] will complete a bank deposit for the cash for each payment batch and bank deposit daily. Until the deposit is completed, the [Treasurer] will ensure that all receipts are secured, either in a cash drawer or, if being held overnight, in a safe.

At the close of business each day, the [Treasurer] will review the [financial software] payment proof against all submitted documentation (from remote entry, cash deposit slips, credit card, and online payment settlement). When all the activity ties out, the [Treasurer] will update the cashbook with all deposit data. No less than weekly, the Treasurer will approve and release the [financial software] payment batches for the City Auditor’s review.

*[Remote Entry Process]*

When presented with the turnover, [Treasurer] staff will count the receipts in the presence of the authorized departmental employee. The [Treasurer] staff will reject the payment batch upon finding any inaccuracies for the department head to correct and re-release.

Within 24 hours of receiving the payment batch and revenue, [Treasurer] staff will deposit any checks received via remote scanner. The [Treasurer] will complete a bank deposit for the cash for each payment batch and bank deposit daily. Until the deposit is completed, the [Treasurer] will ensure that all receipts are secured, either in a cash drawer or, if being held overnight, in a safe.

At the close of business each day, the [Treasurer] will review the [financial software] payment proof against all submitted documentation (from remote entry, cash deposit slips, credit card, and online payment settlement). When all the activity ties out, the [Treasurer] will update the cashbook with all deposit data. No less than weekly, the Treasurer will approve and release the [financial software] payment batches for the City Auditor’s review.

1. Insufficient Funds

Upon notification from the bank of an insufficient check or an invalid or otherwise unpaid electronic funds transfer (EFT), the [Treasurer] will create a reversal entry in the [financial software] to enter a negative deposit to the original revenue account, document the reason for the reversal, and notify the department responsible for the turnover. The [Treasurer] will also make a reversal entry in the cashbook, assigning it to the appropriate bank account. The [Treasurer] will notify the department responsible for the turnover and the City Auditor.

The department head will prepare and send a non-sufficient funds notice to the issuer of the bounced check or rejected EFT. Payment of the original amount plus a [$25.00] penalty is due in 10 days and must be in the form of cash, money order, or certified check. The department will not accept repayment funds without the applicable penalty fee. The repayment plus fee will always be entered into a new payment batch as an original receipt.

It is the department head’s (or designee’s) responsibility to follow up on collecting the amounts owed. If the payment was for a license or permit, the department will suspend the license or permit until the original amount and penalty have been paid. If it was for a committed receipt (e.g., tax bill), the committed amount will be reinstated by the appropriate official and the usual collection procedures followed.

1. Updating the General Ledger

The City Auditor will select the payment batch or batches to post to the general ledger. The City Auditor will compare the data entered in the [financial software] to the turnover reports received from departments and investigate any discrepancies with the [Treasurer] and originating department. Within two business days, the City Auditor will reconcile the [financial software] batches with the turnover reports and post the data to the [financial software] general ledger.

The City Auditor will provide monthly revenue reports no later than the 15th of the following month to department heads for their verification that all department payment batches have been recorded in the appropriate general ledger accounts.

1. Cash Drawers

On a limited basis, the City Auditor may authorize funds for a department cash drawer for the exclusive purpose of making change. The City Auditor will maintain records of cash drawer balances in the general ledger as cash accounts.

Use of these cash drawers shall be restricted only to departmental staff whose job duty assignments specify cashier functions. The department head is responsible for ensuring that each cash drawer is counted daily and will immediately investigate and correct any discrepancies. Cash drawers shall be stored in locked cabinets or safes.

1. Audit

All cash management activity is subject to review by the [CFO] and the City’s independent auditor. Further, the City Auditor will conduct periodic, random audits of the receipt management done by the City’s various departments to ensure adherence to this policy.

**REFERENCES**

**Ordinances:**

**Policies:** Reconciliations

**EXTERNAL REFERENCES**

[M.G.L. c. 41, § 3](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section3)

[M.G.L. c. 41, §35](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section35)

[M.G.L. c. 41, § 54](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section54)

[M.G.L. c. 41, § 57](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section57)

[M.G.L. c. 44, § 53](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section53j)

[M.G.L. c. 44, § 69](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section69)

[M.G.L. c. 60, § 2](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter60/Section2)

[M.G.L. c. 60, § 57A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter60/Section57A)

Massachusetts Municipal Auditor’s and Accountants’ Association: [*Accounting Manual*](https://mmaaa.wildapricot.org/resources/Documents/MMAAA%20Manual%2012%202020.pdf)

Massachusetts Collectors & Treasurers Association’s [*Treasurer’s Manual*](https://masscta.com/resource/resmgr/treasurersmanualrev062317.pdf) and [*Collector’s Manual*](https://masscta.com/resource/resmgr/collectorsmanualrev2017__1_.pdf)

## **Tailings**

|  |  |
| --- | --- |
| **Applies to:** | * [Treasurer], City Auditor, and all department heads job duties * Payees of City disbursements |
| **Scope:** | Managing uncashed checks, including notifying payees, handling claims, and escheating unclaimed funds to the general fund |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To minimize the negative impact of uncashed checks on cash position certainty, to provide appropriate opportunities for payees to claim uncashed checks, and to properly recover unclaimed funds for the City’s general fund, this policy sets guidelines for the resolution of tailings.

**BACKGROUND**

A tailing is a form of unclaimed property that results from a disbursed but uncashed check, and it represents a debit liability on the City’s books. It can arise from any treasury check issued to pay an employee or vendor, refund a municipal tax or charge, or pay any other municipal obligation. Having accepted [M.G.L. c. 200A § 9A](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter200A/Section9A), the City can expedite tailing resolutions and escheat to the City’s general fund the funds that remain unclaimed at the completion of the process rather than surrendering the money to the state, as would be required otherwise. This policy sets forth the steps that must be taken to properly manage tailings under § 9A.

**POLICY**

Periodically throughout the year, the [Treasurer], relevant department heads, and City Auditor will work together to resolve accumulated tailings, either by prompting actual pay outs or through escheatment to the City.

1. Monthly Management of Tailings

As part of the monthly cash reconciliation and under the direction of the [Treasurer], the [responsible staff] will review the applicable bank checking accounts to identify all accounts payable and payroll checks outstanding 30 days or more after issuance. The [responsible staff] will email the department head associated with each of the checks to follow up with the payee. The department head will attempt to contact the payee to determine why the check has not been cashed. For all checks still outstanding two weeks after notices to departments, the [responsible staff] will send an uncashed check notice to the payees at their last known addresses.

Every month, the [responsible staff] will also identify all checks that are uncashed one year after being issued and notify the bank to stop payment. At this point, the checks may still be claimed by the payees but will require reissuance. The [Treasurer] will provide a report of the stop-paid to the City Auditor, who will then record the funds as abandoned property liability in the general ledger.

1. Yearly Review

At least once a year, the [Treasurer] will review the accumulated inventory of stop-paid tailings and do the following:

1. List the payee names on the City’s website for a minimum of 60 days under the heading: “Notice of names of persons appearing to be owners of funds held by the City of [City] and deemed abandoned.” This posted notice will detail the process to claim funds and state a deadline for making a claim that is not less than 60 days after the initial posting date of the notice on the website.
2. For all checks still unclaimed after the website deadline, publish in *[Local Newspaper]* a notice in the same form as the website posting but stating a new claim deadline not less than 60 days after the publication date.
3. For checks of $100 or greater that remain uncashed after the publication deadline, publish a second notice in the same newspaper with the same language as the previous except with a deadline for claiming the funds at least one year after the new publication date.
4. Schedule a calendar prompt one year after the second publication date to review all the published checks again. When the prompted date occurs, notify the City Auditor of all those that are still unclaimed at that time.
5. Check Claiming

If a payee submits a claim to the [Treasurer] within the given deadline, or at any time before the funds are escheated, the [Treasurer] will review the claim and determine its validity.

* If the claim is deemed valid, the [Treasurer] will submit the amount to the City Auditor for inclusion on the next disbursement warrant.
* If the claim is deemed invalid, the [Treasurer] will segregate the funds into a separate, interest-bearing account and notify the claimant of this action within 10 days. Within 20 days after receiving this notice, the claimant may file an appeal at [XXX District Court] (or at [XXX Superior Court] if the amount is $50,000 or more).
* If the court rules for the claimant, the [Treasurer] will submit the tailing amount, along with any interest, to the City Auditor for inclusion on the next disbursement warrant after receiving the court order.
* If the court rules against the claimant, or if the [Treasurer] receives no notice of any court appeal being filed within one year of the [Treasurer]’s notice to the claimant that the funds were being withheld, the [Treasurer] will notify the City Auditor to escheat the total tailing and interest amount.

1. Escheatment

Upon receipt of a notice from the [Treasurer] as described in Sections B and C above, the City Auditor will escheat the listed funds. This involves reversing the abandoned property liability and recognizing the funds as revenue in the general fund to be available for future appropriation for any public purpose.

**REFERENCES**

**Ordinances:**

**Policies:** Disbursements,Reconciliations

**EXTERNAL REFERENCES**

[M.G.L. c. 200A, § 9A](https://malegislature.gov/Laws/GeneralLaws/PartII/TitleII/Chapter200A/Section9A)

## **Tax Recapitulation**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] policymaking and management responsibilities * Board of Assessors as principal overseer of the tax recap process * [CFO], City Auditor, [Assessor], [Treasurer], and City Clerk job duties |
| **Scope:** | * Guidelines and responsibilities involved with setting an annual property tax rate and reporting it to the Division of Local Services (DLS) |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure the City timely and appropriately charges taxes to property owners in support of the annual budget, this policy sets forth the roles, responsibilities, and deadlines associated with the tax recapitulation (“tax recap”) process. A timely and accurate annual tax recap helps ensure the City complies with state statutes, prevents workflow disruptions in its financial offices, and avoids any temporary borrowing costs associated with cash shortfalls.

**BACKGROUND**

The tax recap forms and schedules present the City’s annual budget plan for the fiscal year. They summarize all appropriations made by City Council since the previous year's tax rate was set and identify all non-property-tax revenue sources, such as state aid, local receipts, available funds, and reserves. The difference between these sources and the total budgeted appropriations must be raised through the property tax levy.

By completing the tax recap and submitting it to the DLS for approval, the City establishes its property tax levy and sets the tax rate for the fiscal year. The City may issue actual tax bills only after DLS reviews the recap and approves the tax rate.

**POLICY**

At the [CFO]’s direction, the City’s financial team will annually complete the tax recap process no later than [Date]. The [CFO] will develop a realistic plan and timetable to meet this date with the goal of timely production and distribution of actual tax bills. The [CEO] will be kept apprised of progress by the [CFO]. If the schedule is delayed, the [CFO] will develop a detailed plan to achieve the original deadline.

1. Preparation and City Council

A successful tax recap process starts with a balanced annual budget, valid funding sources, and proper City Council votes, which will be accomplished as follows:

* The [CFO] will ensure that any annual increase in the tax levy does not exceed the maximum allowed under Proposition 2½.
* The [CEO] and [CFO] will verify that the proposed budget is balanced.
* The City Auditor will maintain a schedule of sources and uses to monitor the impact of funds available for ongoing appropriation by City Council.
* The [CFO], [Treasurer], and City Solicitor will ensure any debt issuance authorizations are proper.
* The [CFO] will ensure that any proposal for a general override, debt exclusion, or capital exclusion is properly presented to City Council and, if passed, put to a city-wide referendum.

All appropriations and borrowings approved by City Council since the previous tax rate was set must be included in the current tax recap process.

1. Recording Legislative Actions

To allow time for any required corrective measures, the following tasks will be completed within two weeks after City Council approves the annual budget and after each subsequent appropriation:

* The City Clerk will record and certify the voting minutes of all City Council votes since the last tax rate was set.
* The City Auditor will review the City Clerk’s certified City Council minutes to ascertain all the authorized appropriation amounts for the tax recap period.
* When the City Clerk and City Auditor agree on the individual appropriations by revenue category, the City Clerk will enter the amounts into the DLS Gateway system (by vote on page 4 of the tax recap).
* From the certified City Council authorizations, the City Auditor will complete the following Gateway forms:
  + Enterprise Fund revenues and expenditures (Form A-2 for each enterprise fund)
  + Community Preservation Fund revenues and expenditures (Form A-4)
  + Free cash used (Form B-1)
  + Available funds used (Form B-2)
* The [Treasurer] and City Auditor will prepare the debt exclusion report, including any use of reserved bond premiums (Form DE-1), and report any reserved bond premium amounts used as funding sources (Form B-2).

1. Tax Recap Entries done after the Fiscal Year-end Closing

Within two weeks of closing the books for the fiscal year, the City Auditor will do the following to complete the tax recap:

* Document and report all deficits or other expenditures that must be funded, including debt and snow and ice (page 2 of the tax recap)
* Record the actual amounts received for each type of local receipt (page 3, column (a) of the tax recap)
* Enter estimated local receipts using the revenue projections from the final budget approved by City Council (page 3, column (b) of the recap)
* Record the actual amounts received for the enterprise funds (A-2, column a)
* Record the actual amounts received for the community preservation fund (A-4, column a)

1. Property Value Certification

Assessors must value all taxable real and personal properties and classify them into one of four classes (residential, open space, commercial/industrial, or personal) based on their use as of January 1. To do this, the [Assessor] will:

* Update any prior-year omitted and revised assessments that included growth (Form LA-13A, which is transferred to the Levy Limit Worksheet) no later than June 20th
* Complete the property sales report (Form LA-3) for all sales over $1,000 and submit it to DLS for approval.
* Analyze market conditions and set final property values in compliance with DLS certification standards.
* Report the total assessed valuation for real and personal property by class (Form LA-4, which is transferred to page 1 of the tax recap).
* Report fiscal year tax base growth used to determine the levy limit under Proposition 2½ (Form LA-13, which is transferred to the Levy Limit Worksheet).

The [Assessor] will submit the above forms to DLS for review and certification.

1. Tax Rate Setting

After DLS has certified property values, the City Council will hold a public hearing for the Board of Assessors to present its analysis of valuation trends and for the City Council to determine the City’s tax policy. At this classification hearing, the City Council, with the [CEO]’s approval, may vote for a single tax rate, which thereby allocates the tax levy proportionately across all property classes, or for a shift of the tax burden between the four classes. The City Council may also allow an open space discount. The [CEO], with approval of City Council, may grant a residential exemption and a small commercial exemption.

Leading up to and during this hearing, the following must be done:

* The [Assessor] and City Auditor prepare an overlay analysis (Form OL-1).
* The Board of Assessors estimates and votes the amount of overlay to raise.
* The Board of Assessors prepares a financial analysis of the various tax alternatives.
* The City Clerk publishes an advance notice of the hearing and reports this on Form LA-5.
* The City Council votes on residential, small commercial, and open space exemptions.
* The City Council acknowledges excess levy capacity (Form LA-5).

1. Review and Submittal to DLS

The Board of Assessors, working with the [Assessor] and [CFO], is responsible for submitting all forms and supporting documents to DLS for tax rate approval. To do this:

* The [Assessor] and [CFO] will review all schedules, verify signatures, and confirm that all proper documents are uploaded.
* The [CFO] will ensure that all budget authorizations are represented and clearly reconcile to the amounts reported in the tax recap schedules.

**EXTERNAL REFERENCES**

[M.G.L. c. 40, § 56](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40/Section56)

[M.G.L. c. 40A, § 11](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter40A/Section11)

[M.G.L. c. 41, § 15A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section15A)

[M.G.L. c. 41, § 54A](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter41/Section54A)

[M.G.L. c. 59 § 5C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5C)

[M.G.L. c. 59, § 21C](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section21C)

[M.G.L. c. 59 § 25](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section25)

DLS Informational Guideline Release 2025-3: [*Fiscal Year 2026 Tax Bills Quarterly Payment System*](https://dls-gw.dor.state.ma.us/gateway/dlspublic/igrmaintenance/index/817) (updated annually)

DLS Training Publications:[*Assessors Course 101 Handbook Chapter 5: Setting the Tax Rate*](https://www.mass.gov/service-details/course-101-2017-handbook)

Massachusetts Municipal Auditor’s and Accountants’ Association: [*Accounting Manual*](https://mmaaa.wildapricot.org/resources/Documents/MMAAA%20Manual%2012%202020.pdf)

## **Year-End Closing**

|  |  |
| --- | --- |
| **Applies to:** | * [CEO] and City Council in their budget transfer authority * [CFO], City Auditor, [Collector], and [Treasurer] job duties * All department heads in managing and reporting on their budgets and assets |
| **Scope:** | * Tasks necessary to close the fiscal year’s books and complete required annual reports * Protocol for year-end appropriation transfers |
| **Effective:** | Adopted by City Council on [Date] |

**PURPOSE**

To ensure local officials have accurate financial data in adequate time to make necessary budgetary decisions, the City must properly close its books promptly after the fiscal year ends. Failure to adhere to a timely schedule delays the completion of closing entries, trial balances, reconciliations, account analyses, and financial reporting. Furthermore, the completion of these tasks must take place before the City can submit the combined balance sheet to the Division of Local Services (DLS) for the annual certification of free cash.

**POLICY**

The [CEO] will hold all department heads accountable for timely and accurately completing the year-end tasks applicable to them as outlined in this policy. All facets of the year-end closing will be accomplished no later than [September 30].

Annually no later than [May 15], the City Auditor will transmit year-end instruction memo to department heads and provide them with the current fiscal year submission deadlines for the following:

* June XX: Status reports or updates on capital projects, capital assets, and borrowings
* June XX: Requests for fiscal year budget transfers requiring [CEO] and City Council approval
* June XX: Status reports on grants, special appropriations, and special revenue accounts
* June 30: Submission of current year account payable invoices and documentation
* June 30: Requisitions for all outstanding current year invoices not processed to be encumbered
* July XX: Submission of first next fiscal year accounts payable invoices and documentation
* July 15: Submission of remaining invoices related to the fiscal year just ended for payment

*If no remote access:*

Along with the year-end memo, the City Auditor will distribute year-to-date reports of all grant, special appropriation, and special revenue funds to the responsible department heads.

1. Year-end Encumbrances

The City Auditor will encumber funds when proper documentation confirms the funds have been committed to specific purchases (by purchase orders), services (by service agreements), or projects (by contracts). All remaining encumbrances from the prior fiscal year will be closed on June 30.

*For Remote Entry Processing:*

Department heads (or designee) will enter into [financial software] all pending expense obligations from the fiscal year and attach proper documentation confirming the funds have been committed to specific purchases, services (by service agreements), or projects (by contracts).

*Cities using Purchase Orders:*

Prior to the fiscal year end, each department head will review all open current year purchase orders and notify the Accounting Office of those that are to be closed out prior to June 30. All remaining purchase orders from the prior fiscal year will be closed on June 30.

1. Review of Grant Balances, Other Special Appropriations, and Special Revenue Accounts

By June 15, every department head with responsibility for a grant, special revenue fund, and/or special appropriation will send the City Auditor a spreadsheet providing status update(s) on the account(s). In the spreadsheet, the department head will report whether or not the grant/project has been completed or discontinued. Additionally, if an account has a deficit balance, the department head will state whether revenue is anticipated to be received sufficient to cover the deficit by September 30 and include relevant back-up documentation. If the deficit will not be covered by September 30, the department head will complete a Year-End Transfer Request Form and include it with the status package.

Depending on the status reported and documents received from the department head, the City Auditor will:

* Review the Year-End Transfer Request Form and coordinate with the [CEO] and City Council to obtain the suitable transfer (see section D below) or appropriation to cover the deficit.
* Close each account that has been verified as completed, transferring any residual balance to general fund balance or to the original special revenue source when applicable.
* Carry forward into the new fiscal year’s accounts the verified balances for each grant, special revenue fund, and special appropriation that has been confirmed to be ongoing.

Further, the City Auditor will carefully review any special appropriation account remaining open but inactive in the general ledger for more than two fiscal years to ensure it does not serve as an unauthorized special revenue funding source.

1. Capital Project Reviews, Capital Asset Updates, and Borrowings

As of March 1, the City Auditor will review all capital project accounts to ensure that any internal borrowings done in anticipation of short- or long-term debt issuances have been covered.

For any identified deficits:

* If debt had been authorized, the City Auditor will notify the [Treasurer] to initiate a short-term borrowing in an amount sufficient to cover the deficit no later than June 30.
* If debt had not been authorized, the City Auditor with the [CFO], in conjunction with the responsible department head, will request either a debt authorization by City Council, appropriation from available funds by City Council, or line-item transfer by the City Council and [CEO] (see section D below).

By June 15, the City Auditor will distribute a capital asset list to department heads along with next-step instructions. By no later than August 1, each department head with capital assets will respond by forwarding to the City Auditor an asset update report with notes confirming the existing data, making additions, and/or noting appropriate deletions, along with narrative explanations. The City Auditor will update the City’s capital asset inventory based on the returned information.

1. Year-end Transfers

The City Auditor and department heads will pay close attention to any pending appropriation deficit that may be rectified through a subsequent appropriation or inter-departmental transfer and notify the [CFO] and [CEO]. Upon recommendation from the [CEO], no earlier than May 1 and no later than July 15, a majority of the City Council may authorize a year-end inter-departmental transfer The City Auditor will notify any department head whose budget is affected by the transfer.

1. Closing the Books

No later than August 31, the City Auditor will do the following to close the books:

* Conduct a reconciliation of each fund type in turn (including transfers between funds) and, when completed, close each fund in the general ledger.
* Confirm that all encumbrances from the prior fiscal year have been closed.
* Verify the opening balances of all special revenue funds, grants, and continuing special appropriations.
* Calculate the general fund’s unreserved fund balance.

1. Submissions to the Division of Local Services (DLS)

Submissions to DLS will comply with the time frames listed below.

|  |  |  |
| --- | --- | --- |
| **Finance Official** | **Schedule/Report** | **Date** |
| City Auditor | * Snow and ice data sheet * Community preservation surcharge report (CP-1) (with the [Assessing official]) * Balance sheet checklist * Combined balance sheet and supporting documents * Community preservation fund report (CP-2) * Schedule A | * September 15 * September 15 * September 30 * September 30 * September 30 * November 30 |
| City Auditor, [Treasurer] | * Statement of indebtedness * Treasurer’s year-end cash report * Cash reconciliation | * September 30 * September 30 * September 30 |
| City Auditor, [Treasurer], [Collector] | * Schedule of outstanding receivables | * September 30 |

**REFERENCES**

**Policies:** Antifraud, Appropriation Transfers & Supplements, Capital Planning, Grants Management, Reconciliations, Special Purpose Appropriations

**EXTERNAL REFERENCES**

[M.G.L. c. 44, § 33B](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section33B)

[M.G.L. c. 59, § 5](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5)

[M.G.L. c. 64, § 64](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section64)

Division of Local Services Informational Guideline Release 2017-13: [*Appropriation Transfers*](https://www.mass.gov/files/documents/2017/09/11/igr17-13.pdf) and other guidance: [*Annual Year-End Letters*](https://www.mass.gov/service-details/year-end-letters-forms) and [*Municipal Calendar*](https://www.mass.gov/doc/municipal-calendar/download)

Massachusetts Municipal Auditor’s and Accountants’ Association: [*Accounting Manual*](https://mmaaa.wildapricot.org/resources/Documents/MMAAA%20Manual%2012%202020.pdf)

Governmental Accounting Standards Board Statement 1: [*Objectives of Financial Reporting*](https://gasb.org/page/document?pdf=GASBCS-1.pdf&title=GASB%20CONCEPTS%20STATEMENT%20NO.%201%E2%80%94OBJECTIVES%20OF%20FINANCIAL%20REPORTING)

Government Finance Officers Association Guidance: [*Timely Financial Reporting*](https://www.gfoa.org/materials/timely-financial-reporting)

# **Policy Log**

Financial Planning

|  |  |  |  |
| --- | --- | --- | --- |
| **Policy** | **Adopted** | **Last Reviewed** | **Amended** |
| Annual Budget Process |  |  |  |
| Appropriation Transfers & Supplements |  |  |  |
| Capital Planning |  |  |  |
| Debt Management |  |  |  |
| Financial Reserves |  |  |  |
| Forecasting |  |  |  |
| Indirect Cost Allocation |  |  |  |
| Investments |  |  |  |
| OPEB Liability |  |  |  |
| Overlay |  |  |  |
| Special Purpose Appropriations |  |  |  |

Financial Operations

|  |  |  |  |
| --- | --- | --- | --- |
| **Policy** | **Adopted** | **Last Reviewed** | **Amended** |
| Antifraud |  |  |  |
| Disbursements |  |  |  |
| Financial Management Team |  |  |  |
| Gifts of Funds |  |  |  |
| Grants Management |  |  |  |
| Procurement Conflict of Interest |  |  |  |
| Reconciliations |  |  |  |
| Revenue Turnover |  |  |  |
| Tailings |  |  |  |
| Tax Recapitulation |  |  |  |
| Year-End Closing |  |  |  |

Appendix

1. This is a suggested working group. [↑](#footnote-ref-1)
2. Total revenue is defined as the fiscal year gross revenues, whereas the general fund revenue is the total gross revenues less Community Preservation Fund and enterprise fund revenues. [↑](#footnote-ref-2)
3. Under the General Laws, this debt limit may be exceeded for: (1) projects to construct, reconstruct, equip, or furnish a school facility if the City voted to exclude the debt from the limits of Proposition 2½ and will not receive any financial assistance from the Massachusetts School Building Authority or (2) issuances that meet criteria laid out in the 24 exceptions listed under [M.G.L. c. 44, § 8](https://malegislature.gov/Laws/GeneralLaws/PartI/TitleVII/Chapter44/Section8). [↑](#footnote-ref-3)
4. General fund budget is defined as the fiscal year gross revenues less Enterprise Fund revenues, and Community Preservation Fund revenues [↑](#footnote-ref-4)
5. If the City does not budget an enterprise to be self-supporting, rather intentionally covers some of its total costs with a general fund subsidy, these retained earnings provisions do not apply. [↑](#footnote-ref-5)
6. The SRBTF invests funds earmarked for retiree health insurance costs with the Massachusetts Pension Reserves Investment Management Board (PRIM). [↑](#footnote-ref-6)
7. “Person acting on behalf of the City” refers to any individual responsible for or to the City’s government placed in that position by some official relationship with the City. [↑](#footnote-ref-7)
8. In this policy, department head refers to any City employee or official with spending authority. [↑](#footnote-ref-8)
9. Although gifts and grants are governed by the same statute (44:53A), grants are addressed in a separate Grants Management policy. [↑](#footnote-ref-9)