

CITY OF SALEM

FINANCIAL POLICY MANUAL

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DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

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CITY OF SALEM MASSACHUSETTS

FINANCIAL POLICIES MANUAL



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FINANCIAL PLANNING POLICIES

ANNUAL BUDGET PROCESS

Applies to:	<ul style="list-style-type: none">▪ Mayor and Finance Director in budget decision making▪ Board of Assessors job duties▪ All department heads and the boards and committees that have spending authority (all referred to here as “department heads”) in their budget planning duties
Scope:	Annual budget development, documentation, and adoption processes
Date:	[Date]

PURPOSE

To promote transparency, procedural consistency, and fiscal sustainability, this policy establishes guidelines for developing, documenting, proposing, and adopting 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 Mayor 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 Mayor.

Pursuant to the Mayor’s vision, goals, and strategic plans, the Finance Director is responsible for creating an annual budget proposal for the Mayor’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 Finance Director with all the information needed for the creation of an informative budget proposal document for submission to City Council by mid-May each year.

A. Budget Goals

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.

Enterprise funds – For the budgets of the water and sewer 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 solid waste budget. Each year, the Finance Director will reanalyze the factors

related to the subsidy and recommend to the Mayor a subsidy amount for the forthcoming year. The City's fourth enterprise fund, for the PEG (public, educational and government) cable channel, is funded by a cable franchise fee, rather than through user fees, and is self-supporting.

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.

B. Principles for Balanced, Sustainable Budgets

Under the Mayor's direction, the Finance Director will prepare the annual budget proposal. Once the Mayor 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 Finance Director to document a plan to replace this source in future years.
3. The Finance Director will review fee schedules every year, in conjunction with the associated department heads, and propose increases when necessary to ensure coverage of service costs.
4. 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.
5. The Finance Director will evaluate all contractual obligations, requests, and strategic priorities to determine annual pay increases for employees who are not covered by collective bargaining agreements.
6. The Mayor'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.
7. 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

8. 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)

C. Budget Calendar

The Finance Director will coordinate a budget process that enables early identification and review of major policy issues and analysis of options. The Finance Director will create and distribute to the Mayor, City Council, all policy boards, and department heads an annual budget calendar that, at minimum, specifies dates for estimating initial revenue projections, sending out appropriation guidelines and returning departmental requests, updating the capital improvement plan, compiling a working budget, and completing the finalized budget proposal. The Mayor 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 Mayor, with a target date by mid-June.

D. Budget Document

The Finance Director will produce a transparent and reader-friendly budget document that presents the City's short- and long-term strategic objectives and explains its fiscal challenges. As a model for the budget document, the Finance Director will use standards established by the Government Finance Officers Association (GFOA) in its Distinguished Budget Presentation program. 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.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article 3, Division 9: City Finance Director/Auditor, Sections 2-502 and -503 ▪ Chapter 30, Article V Capital Improvement Planning Section 30-168 ▪ Chapter 46, Article II, Division 2 Rates and Charges, Sections 46-66 and -76 ▪ Chapter 36, Solid Waste Management, Sections 36-2 -4, -6, and -8
Policies	<ul style="list-style-type: none"> ▪ Appropriation Transfers & Supplements ▪ Capital Planning ▪ Debt Management ▪ Financial Reserves ▪ Forecasting ▪ Indirect Cost Allocation ▪ Other Postemployment Benefits Liability

EXTERNAL REFERENCES

[M.G.L. c. 44, §§ 32, 33, 33A, 33B](#) and [53F½](#)

DLS FAQs: [City Budget Process FAQs](#)

Government Finance Officers Association Best Practices: [*Achieving a Structurally Balanced Budget, Working Capital Targets for Enterprise Funds*](#), and [*Distinguished Budget Presentation Criteria*](#)

ANNUAL AUDIT

Applies to:	<ul style="list-style-type: none">▪ Mayor in the overall responsibility to safeguard the City's fiscal health▪ Finance Director's role as the chief financial officer▪ Finance Department managers and any other City employees whose activities are subject to being audited
Scope:	Goals and objectives for the City's annual engagement with an independent audit firm
Date:	[Date]

PURPOSE

To ensure the reliability, accuracy, and completeness of year-end financial statements and obtain independent verification that appropriate internal controls are in place to protect public assets, this policy sets guidelines for the City's annual engagement with an external audit firm.

POLICY

The City's financial statements will be audited annually by a certified public accounting firm ("independent auditor"). Because the City typically expends more than \$750,000 in federal grant funds each year, the contracted audit services will encompass the examinations called for in a "single audit," as outlined in the federal Omni Circular. In addition, every annual audit contract will include a requirement to review the City's financial management practices and report on any identified deficiencies in a management letter.

A. Auditor Selection

To ensure the opportunity for periodic new perspectives on financial practices, the City will solicit competitive bids from audit firms at six-year intervals. In compliance with state statute, the contract will be awarded to the lowest qualified bidder with a good municipal auditing reputation (i.e., "responsive and responsible" vendor). If the City selects its incumbent auditor, the firm must agree to rotate audit managers.

B. Audit Engagement

The Finance Director will coordinate the independent auditor's access to any requested accounting records, written procedures, or other documents. Every department head, official, or employee must respond to any such request timely and make themselves available to answer any of the independent auditor's questions. Under the vendor contract, the independent auditor will be required to provide the Finance Director with preliminary findings and present final audit and management letter results to the Mayor and City Council.

C. Corrective Action Plan

Whenever the independent auditor identifies a procedural weakness or deficiency, the independent auditor will describe it in a management letter citation. Upon receiving the management letter, the Finance Director will work with Finance Department managers, and any other relevant City employees, to compose a written response to each citation, explaining the City's corrective action

plan (CAP) for the identified issue. This will typically require them to identify the citation's root cause(s) and then determine what controls must be implemented to correct the cause(s), consulting further with the independent auditor when necessary.

The Finance Director will separately provide the Mayor with a CAP report that explains the plans in more detail, including the responsible parties and anticipated time frames for implementing the controls. The Mayor will hold the Finance Director and applicable employees accountable for any citations that repeat in a subsequent year.

D. Time frames and Reporting

Through adherence with the Reconciliations policy, it is the City's goal to ensure the independent auditor can complete the audit and management letter by March of the year following the fiscal year-end closing. The Finance Director will provide copies of the final versions of both reports to the Division of Local Services within two weeks of receipt.

SALEM REFERENCES

Policies	<ul style="list-style-type: none">▪ Procurement Conflict of Interest▪ Reconciliations
Procedures	<ul style="list-style-type: none">▪ Procurement Manual

EXTERNAL REFERENCES

U.S. Office of Management and Budget: [*Omni Circular*](#)

MA Office of the Inspector General guidance: [*A Local Official's Guide to Procuring and Administering Audit Services*](#)

Division of Local Services Best Practice: [*Annual External Audits*](#)

Government Finance Officers Association Guidance: [*Audit Procurement*](#)

APPROPRIATION TRANSFERS & SUPPLEMENTS

Applies to:	<ul style="list-style-type: none"> ▪ Mayor's budget proposal authority and general oversight of the Citywide budget ▪ Finance Director in monitoring and accounting for the Citywide budget ▪ School Committee in its School budget authority ▪ All department heads in managing their departmental budgets
Scope:	<ul style="list-style-type: none"> ▪ Requests, approvals, and tracking of: <ul style="list-style-type: none"> ○ Transfers of funds from one budget line item (Org) or subline item (Object) to another ○ Supplemental appropriations to adopted departmental budgets ▪ <u>Not in scope</u>: Transfers from the City Council's reserve fund, which should be guided by a separate policy adopted by the City Council
Date:	[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 SUMMARY

Appropriation Transfers		
Objective	Required Approvals	Required Documents
At any time: Transfer funds from one Org to another Org within the same <u>non-school</u> dept's budget	<ul style="list-style-type: none"> ▪ Mayor recommendation ▪ Council order by majority vote 	<ul style="list-style-type: none"> ▪ Letter to Mayor explaining the need for transfer ▪ Supplemental & Budget Transfer Form
Between the dates of July 1 and April 30 (for the same fiscal year): Transfer funds from an Org in one dept's budget to that of another dept	<ul style="list-style-type: none"> ▪ Mayor recommendation ▪ Council order by 2/3rds vote ▪ Written permission of the dept head of the transferring-out dept ▪ Majority vote of School Committee if School is the transferring-out dept 	
Between the dates of May 1 and July 15 (for the FY just ending/ended): Transfer funds from an Org of any <u>non-school</u> dept to that of another dept	<ul style="list-style-type: none"> ▪ Mayor recommendation ▪ Council order by majority vote 	
At any time: Transfer from a <u>non-school</u> dept Object to another Object within the same Org of that dept	<ul style="list-style-type: none"> ▪ Mayor approval 	<ul style="list-style-type: none"> ▪ Letter to Mayor explaining the need for transfer ▪ Budget Transfer – No Council Order Form

Appropriation Transfers		
Objective	Required Approvals	Required Documents
At any time: Within the School Dept budget, transfer funds between the Dept's Orgs and/or Objects	<ul style="list-style-type: none"> Majority vote of School Committee 	<ul style="list-style-type: none"> School Budget Transfer Form

Appropriation Supplements		
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)	<ul style="list-style-type: none"> Mayor recommendation Council order by majority vote 	<ul style="list-style-type: none"> Letter to Mayor 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 Mayor specifies a justification for deviation
Supplement a dept budget with a stabilization fund transfer	<ul style="list-style-type: none"> Mayor recommendation Council order by 2/3rds vote 	

POLICY TEXT

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

In accordance with the Annual Budget Policy, appropriations in the Mayor'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, or the Mayor 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. These are called Orgs, from the terminology used in the Munis general ledger. To facilitate accounting for the line items, these Orgs have subline items, or subaccounts, such as part-time salaries, overtime, etc. within a Personnel Org. In Munis, these are called Objects. Any transfer of funds between Objects within a single Org for a non-school department requires approval by the Mayor only.

For all proposed adjustments to budget line items, the Finance Department has created forms to manage the flow of information, record required approvals, and serve as part of the necessary back-up documentation for subsequent general ledger updates. 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 appropriate form, include with it a letter to Mayor providing an explanation for the submittal, and direct the package to the Finance Department. The Finance Director 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 Orgs or Objects only require the approval of a majority of School Committee members. The School Superintendent must submit a School Budget Transfer Form to the Finance Department, however, so that the relevant changes can be made in the general ledger.

SALEM REFERENCES

Ordinances	▪ Chapter 2, Article 3, Division 9: City Finance Director/Auditor , Section 2-498
Policies	▪ Annual Budget ▪ Financial Reserves ▪ Reconciliations ▪ Year-end Closing
Procedures	▪ 2008-006 Year-end Receivables
Forms	▪ Supplemental and Budget Transfer Form ▪ School Budget Request Transfer Form ▪ Budget Transfer – No Council Order Needed

EXTERNAL REFERENCES

[M.G.L. c. 44, § 33B](#) [M.G.L. c. 71, § 34](#)

DLS Informational Guideline Release 17-13: [Appropriation Transfers](#)

CAPITAL PLANNING

Applies to:	<ul style="list-style-type: none"> ▪ Mayor, Finance Director, 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:	<ul style="list-style-type: none"> ▪ 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.
Date:	[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 SUMMARY

Capital Process Component	Policy Guidance
Capital project definition	<ul style="list-style-type: none"> ▪ Costs \$25,000 or more, <u>and</u> ▪ Has (or extends) useful life of five years
Annual capital budget	<ul style="list-style-type: none"> ▪ Developed by Finance Director, with assistance of Capital Planning Manager based on departmental submissions ▪ Finalized by Mayor for proposal to City Council
Multiyear capital improvement plan (CIP)	<ul style="list-style-type: none"> ▪ First year is the capital budget proposed for the next fiscal year ▪ Four subsequent years of capital project projections ▪ Updated and maintained by Finance Director ▪ Finalized by Mayor for acceptance vote by City Council
Capital asset inventory	<ul style="list-style-type: none"> ▪ Assembled and updated annually ▪ Responsibility of the Capital Working Group
Prioritization criteria	<p>Capital Working Group will determine project prioritization using the below criteria, in descending order:</p> <ol style="list-style-type: none"> 1. Eliminates public health or safety hazard 2. Required by state or federal laws or regulations 3. Uses outside financing sources, such as grants 4. Supports adopted plans, goals, objectives, and policies 5. Stabilizes or reduces operating costs 6. Makes better use of a facility or replaces a clearly obsolete one 7. Maintains or improves productivity or existing standards of service 8. Directly benefits City's economic base by increasing property values 9. Provides new programs having social, cultural, historic, economic, or aesthetic value

Capital Financing	Policy Guidance
Funding targets	<ul style="list-style-type: none"> ▪ Overall capital spending: 5-9% of the general fund budget <ul style="list-style-type: none"> ○ Non-debt, “cash capital” spending: 2-3% of GF budget ○ Annual capital debt service: 3-6% of GF budget
Debt usage	<ul style="list-style-type: none"> ▪ Short-term debt: Useful life < 10 years ▪ Long-term debt: Useful life > 10 years and cost > \$100,000
Cash capital	<ul style="list-style-type: none"> ▪ Appropriate funding sources: levy, free cash, general stabilization fund, short-term capital SF, revolving funds, overlay surplus, certain receipts reserved funds, grants

POLICY TEXT

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 Finance Director is responsible for developing the City’s annual capital budget and CIP in accordance with the Mayor’s directives. To assist and advise the Finance Director, this policy establishes a Capital Working Group, chaired by the Finance Director 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

A. 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
- Items obtained under a long-term capital lease

¹ This is a suggested working group. Chapter 30 Planning and Development, Article V [Capital Improvement Planning](#), Section 30-167 of the City ordinances (adopted in 2000) established a Capital Improvement Advisory Board, consisting of the Mayor, Treasurer/Collector, School Superintendent, Planning Board Chair, Director of Planning, Police Chief, Fire Chief, City Council President, and six citizen appointees by the Mayor. Under Section 30-168, the Board is responsible for creating a five-year CIP. The Board has been dormant for many years. In Chapter 2, Article III, Division 9 [City Finance Director/Auditor](#) Section 2-503 (adopted in 2021), the Finance Director is assigned the duty of creating a seven-year CIP. The City should consider either reestablishing the board, revising the ordinance, abolishing the ordinance, and/or creating a new ordinance for a Capital Working Group under the Finance Director. The ordinances should also be updated to reflect either a five-year or seven-year CIP.

- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years that, when aggregated, have total costs exceeding \$25,000

B. 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; expected and remaining useful lifespans; depreciated values; extent of use; and any scheduled replacement or expansion dates.

C. Evaluation of Capital Projects

As part of the annual budget process, the Finance Director will solicit capital project requests from department heads, assemble the responses, may hold meetings with department heads to discuss them. When evaluating and deciding on project proposals, the Capital Working Group will prioritize them using the criteria below:

1. Eliminates a hazard to public health and safety
2. Required by state or federal laws or regulations
3. Uses outside financing sources, such as grants
4. Supports adopted plans, goals, objectives, and policies
5. Stabilizes or reduces operating costs
6. Makes better use of a facility or replaces a clearly obsolete one
7. Maintains or improves productivity or existing standards of service
8. Directly benefits the City's economic base by increasing property values
9. Provides new programs having social, cultural, historic, economic, or aesthetic value

D. Multiyear Capital Improvement Plan

The Finance Director will provide the Mayor with a report of recommendations for the forthcoming's 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 Mayor may make changes to the CIP before presenting the finalized capital budget and CIP to the City Council for a vote.

E. Capital Financing

Annually, the City will strive to maintain two to three percent of the general fund operating budget, net of debt, on capital investment allocations. 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.

- 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 the water and sewer operations shall be financed from user fees.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article III, Division 9 City Finance Director Auditor, Section 2-503 ▪ Chapter 30, Article V Capital Improvement Planning²
Policies	<ul style="list-style-type: none"> ▪ Annual Budget Process ▪ Debt Management ▪ Forecasting ▪ Financial Reserves
Forms	<ul style="list-style-type: none"> ▪ Capital Expenditure Request Form

EXTERNAL REFERENCES

[M.G.L. c. 39, § 10](#) [M.G.L. c. 41, § 106B](#)

Division of Local Services (DLS) Best Practice: [Presenting and Funding Major Capital Projects](#)

DLS Guidance: [Capital Improvement Planning Manual](#) and [Capital Improvement Planning Guide](#)

² This is the ordinance whose provisions are not operationally in effect at the present time. The City should consider either reviving this model, revising the ordinance to reflect a new model, or abolishing the ordinance.

DEBT MANAGEMENT

Applies to:	<ul style="list-style-type: none"> ▪ Mayor and Finance Director in their budget decision-making roles ▪ Treasurer's debt management responsibilities
Scope:	All short- and long-term debt obligations 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
Date:	[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 SUMMARY

Long-term debt criteria	<ul style="list-style-type: none"> ▪ For purposes allowed by statute (MGL 44:8) and are tax-exempt ▪ For 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: <ul style="list-style-type: none"> ▪ Revenue bonds, special assessment, and other self-supporting bonds ▪ Special assessments and betterments
Debt parameters	<ul style="list-style-type: none"> ▪ Total debt limited to 5% of City's total equalized valuation ▪ Total debt limited to 10% of annual general fund revenues ▪ Maintain year-to-year debt service funding at 3 to 6% 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
Structure & terms	<ul style="list-style-type: none"> ▪ 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 [See Section C (6) below.]

Pursue bond refunding	<ul style="list-style-type: none"> ▪ Issue debt with optional call dates no later than 10 years from issue ▪ Analyze potential refunding opportunities on outstanding debt as interest rates change ▪ Use any net premium and accrued interest to reduce the amount of the refunding ▪ Work with the City's financial advisor to determine the optimal time and structure for bond refunding
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POLICY TEXT

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.

A. 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, special assessment bonds, or other types of self-supporting bonds instead of 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.

B. Debt Limits

The City will adhere to these debt parameters:

1. Total annual debt service, including any debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues.
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 three to six percent 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 state statute, the City's debt limit shall be five percent of its most recent equalized valuation.

C. 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 percent 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 and accrued interest.
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 City will work closely with its 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. City must comply with certain time frames for spending borrowed funds to avoid having to pay a rebate to the federal government on investment income earned on the funds. All funds must be used according to the following schedules or sooner:

Construction debt:

▪ First six months	10%
▪ First year	45%
▪ 18 months	75%
▪ Two years	100%

Capital Debt for non-construction projects:

- First six months 15%
- First year 60%
- 18 months 100%

All other municipal purpose debt:

- First six months 100%

D. 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.

E. 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 an expensive capital improvement is under consideration, the Finance Director will provide the Mayor with a report of certain ratios that are estimated to result from debt service projections. To do this, the Finance Director 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

F. Disposition of Surplus Bond Proceeds

Whenever a completed or discontinued project has a surplus balance from bond proceeds, the Finance Director will make a report of the information to the Mayor with a recommendation(s) on how the money should be repurposed. When the balance for a completed project is less than \$50,000, the Mayor will approve transferring the funds to an outstanding debt service obligation(s). If another circumstance applies, the Mayor 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.

G. 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.

H. Reporting

1. The Treasurer will report to the City Council, Mayor, and Finance Director on the City's debt status at least annually.
2. The Finance Director, with the City's financial advisor, will file an annual audit report and official disclosure statement within 270 days of the end of the fiscal year.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article III, Division 8: City Treasurer and City Collector, Sections 2-450 to -452 and -459
Policies	<ul style="list-style-type: none"> ▪ Annual Budget Policy ▪ Capital Planning ▪ Forecasting

EXTERNAL REFERENCES

[M.G.L. c. 41, § 59](#)

[M.G.L. c. 41, § 61](#)

[M.G.L. c. 44, § 4](#)

[M.G.L. c. 44, § 6](#)

[M.G.L. c. 44, § 6A](#)

[M.G.L. c. 44, § 7](#)

[M.G.L. c. 44, § 8](#)

[M.G.L. c. 44, § 17](#)

[M.G.L. c. 44, § 19](#)

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 21A](#)

[26 USC § 148](#)

DLS Informational Guideline Releases 17-21: [Borrowing](#) and 17-22: [Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt](#)

DLS Borrowing Guidelines: [Asset Useful Life - Borrowing Limits](#)

DLS Best Practice: [Understanding Municipal Debt](#)

Government Finance Officers Association Best Practice: [Refunding Municipal Bonds](#)

Internal Revenue Service Guidance: [Arbitrage Guidance for Tax-Exempt Bonds](#)

FINANCIAL RESERVES

Applies to:	<ul style="list-style-type: none"> ▪ Mayor's budget decision making ▪ Finance Director and Board of Assessors job duties ▪ Director of Public Services in rate-setting analysis
Scope:	Goals for and appropriate use of financial reserves, including free cash, stabilization funds, retained earnings, and overlay surplus
Date:	[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 SUMMARY

General Fund Reserve Name	Funding Target (% of PY general fund revenues)	Appropriate Usage
Free cash	3-5%	<ul style="list-style-type: none"> ▪ One-time costs only, including cash capital ▪ Transfer annually (at least): <ul style="list-style-type: none"> ○ 10% to general stabilization fund (SF) ○ 20% to short-term capital SF ○ 5% to OPEB trust fund
General SF	5-6%	<ul style="list-style-type: none"> ▪ Emergencies and unexpected events ▪ Usage generally limited to times when: <ul style="list-style-type: none"> ○ State aid decreases more than avg, and/or ○ Recurring local receipts increase < 3%
Short-term Capital SF	1-2%	<ul style="list-style-type: none"> ▪ Smaller capital improvement projects that do not require debt
Retirement SF	Based on annual budget projection	<ul style="list-style-type: none"> ▪ Accrued leave time balances payable to retiring employees
SPED SF	none	<ul style="list-style-type: none"> ▪ Unexpected increases in SPED budget
Opioid Settlement SF	none	<ul style="list-style-type: none"> ▪ Costs to the City arising from drug addiction in the community
Overlay	Based on annual analysis of levy shortfall risk and the cumulative balance from prior years	<ul style="list-style-type: none"> ▪ Any purpose, including reductions to the tax rate on the tax recap
Enterprise Fund Name	Retained Earnings Target (% PY EF budget)	Appropriate Usage
Water	25%	<ul style="list-style-type: none"> ▪ Capital improvements
Sewer	25%	<ul style="list-style-type: none"> ▪ Capital improvements
PEG	none	<ul style="list-style-type: none"> ▪ Channel operation costs

POLICY TEXT

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 9-13 percent of its prior year general fund budget.

A. 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 three to five percent of the annual general fund budget. To achieve this, the Mayor 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. Avoided will be the application of free cash to reduce the tax rate on the annual tax recapitalization sheet, since this is the same as using it to fund recurring costs.

On an annual basis, City will plan to appropriate amounts from free cash in the following minimum amounts:

- 10 percent of the total certified amount to the general stabilization fund to reach or replenish its target level
- 20 percent to the short-term capital stabilization fund to reach or replenish its target level
- 10 percent to the City’s other postemployment benefits (OPEB) trust fund

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.

B. 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 four stabilization funds as follows:

General stabilization fund: The City will endeavor to maintain a balance in this fund in the range of five to six percent of the general fund revenues. The stabilization fund should only be used in the following circumstances:

- 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).
- To pay expenditures related to a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations.

When possible, withdrawals of funds should be limited to the amount available above the five percent minimum target level. Further, the Finance Director will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

Special Purpose Stabilization Funds:

- **Short-term capital:** The fund is for the acquisition or improvement of capital assets. The City will appropriate annually to the fund so that over time it achieves a minimum target balance in the range of one to two percent of the City's prior year general fund revenues. By sustaining funding in this reserve, the City can balance debt with pay-as-you-go, cash capital funding practices.
- **Retirement:** This fund was established to fund retiring employees' accrued sick and vacation buybacks. As part of the annual budget process, department heads will notify the Finance Director of anticipated retirements in the new fiscal year. Based on the calculated cumulative amount and the existing balance in the fund, the Finance Director will propose a line-item amount for this fund each year.
- **Special Education (SPED):** The purpose of this fund is to help the City manage fluctuations in costs for students enrolled in special education, and it currently has no target funding level.
- **Opioid settlement:** This fund receives monies from the Attorney General's settlement of cases versus opioid drug-making companies. The fund has no target, and it shall be used to offset costs to the City arising from drug addiction in the community.

C. 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 Mayor and Finance Director an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the overlay balance exceeds the amount of potential liabilities, the Mayor may request that the Board of Assessors vote to declare it as surplus and available for use in the City's capital improvement plan, any other one-time expense, and reduction to the tax rate on the tax recap.

D. Retained Earnings³

The finances of the water; sewer; and public, educational, and government access (PEG) cable channel operations 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 generally uses retained earnings to fund capital improvements that may come up during the fiscal year, as well as emergency repairs due to water or sewer main breaks or other urgencies. Some capital equipment may be funded during the year from this surplus as well.

The City's minimum targets for water and sewer retained earnings will both be 25 percent of each division's prior year budget. No target is set for the PEG fund. Whenever any major infrastructure improvement is being planned for the water or sewer operation, it may be necessary to revise the minimum targets upward. To maintain the target reserve level for each enterprise fund, the Director of Public Services must annually review, and when necessary, propose rate adjustments to the Finance Director for incorporation in the annual budget proposal. When the City Council approves water and sewer fee increases in the budget, it must also approve updates to the City ordinances to reflect the new figures.

SALEM REFERENCES

Ordinances	▪ Chapter 46, Article II, Division 2 Rates and Charges , Sections 46-66 and -76
Policies	▪ Annual Budget Process ▪ Capital Planning ▪ Debt Management ▪ Forecasting

EXTERNAL REFERENCES

[M.G.L. c. 40 § 5B](#) [M.G.L. c. 59 § 25](#) [M.G.L. c. 44 § 53F½](#)

DLS Informational Guideline Releases 17-20: [Stabilization Funds](#) and 17-23: [Overlay and Overlay Surplus](#) and Best Practice: [Free Cash](#)

Government Finance Officers Association Best Practice: [Fund Balance Guidelines for the General Fund](#)

³ As referenced in the Annual Budget Policy, the City also has a solid waste enterprise fund, which is not budgeted to be self-supporting. The City intentionally covers some of its total costs with a general fund subsidy. Therefore, these retained earnings provisions do not apply.

FORECASTING

Applies to:	<ul style="list-style-type: none">▪ Finance Director and Assessing Director job duties▪ Mayor's budget analysis and decision-making responsibilities
Scope:	<ul style="list-style-type: none">▪ 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
Date:	[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 Finance Director will annually create a detailed forecast with five-year projections of revenues and expenditures. The Mayor will use the forecast to support decision making for the upcoming year's operating and capital budgets and the long-range capital improvement plan. To guard against potential deficits, as a general rule, the Finance Director will purposely estimate revenues on the low end of possibility.

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

With each new budget year, the Finance Director 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.

A. 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 take into account the City's three-, five- and 10-year averages by property class and advice from the Assessing Director.
- The levy limit's relationship to the levy ceiling (which is 2.5 percent 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 percent 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.
- 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 policy.

B. Guidelines for Expenditure Assumptions

Annually, the Mayor, with the Finance Director's analytical advice, will determine a particular budget 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 enrollments, school choice, tuition, and charter assessments will be factored.
- 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 five-year capital improvement plan.
- The City will pay all existing debt service obligations and adhere to its Capital Planning and Debt Management policies.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article III, Division 2 Mayor, Section 2-147 ▪ Chapter 2, Article III, Division 9 City Finance Director/Auditor, Sections 2-502 to -505 ▪ Chapter 30, Article V Capital Improvement Planning, Section 30-168
Policies	<ul style="list-style-type: none"> ▪ Annual Budget Process ▪ Capital Planning ▪ Debt Management ▪ Financial Reserves ▪ Grants Management ▪ OPEB Liability

EXTERNAL REFERENCES

[M.G.L. c. 44, §§ 20, 53A, 53A½, 63, and 63A](#)

DLS Informational Guideline Release 17-21: [*Borrowing*](#)

DLS Best Practice: [*Revenue and Expenditure Forecasting*](#)

Government Finance Officers Association article: [*Financial Forecasting in the Budget Preparation Process*](#)

INDIRECT COST ALLOCATION

Applies to:	<ul style="list-style-type: none">▪ Mayor and Finance Director in their budget analysis and decision making▪ Finance Director, Public Services Director, Health Agent, and City Solicitor job duties
Scope:	Analysis, calculation, and accounting of indirect costs attributable to the City's four enterprise funds
Date:	[Date]

PURPOSE

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

BACKGROUND

The City has four enterprise funds for: water; sewer; solid waste; and public, educational, and government access cable channels (PEG). Under authority established in [M.G.L. c. 44 § 53F½](#), 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 consequently there are separate financial statements for each. Consolidating each 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 Finance Director will calculate the indirect costs to the general fund of the four enterprise funds and review them individually with each associated department head and then collectively with the Mayor. The Mayor, Finance Director, 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 Finance Director at that time. Based on the results, the Finance Director will record transfers between the relevant funds annually by June 15 of each fiscal year. The Finance Director will maintain written procedures detailing the costs and their calculation methodologies.

A. Cost Categories

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

- The enterprise fund departments' **personnel costs** for active and retired employees, including pensions, insurances, Medicare taxes, unemployment, and workers' compensation
- **Administrative services** performed on behalf of the enterprise departments by other departments, such as:
 - Annual budget development, vendor/payroll warrant, general ledger bookkeeping, and financial reporting services provided by the Accounting Division 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
- 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 Finance Director will calculate indirect costs based on the most recent 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.

B. Explanation of Calculation Methodologies

1. **Actual cost**, involves identifying the specific costs attributable to the enterprise based on documented schedules or bills payable, including debt service and insurance premiums.
2. The **proportional** method is a straightforward calculation of the utility's net-of-debt budget as a percentage of the total combined net-of-debt budget of the utility 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 utility 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 utility). For example, the Finance Director estimates an average of two hours weekly, or five percent of her time, on enterprise-fund-related activities (e.g., creating warrants, bookkeeping). This percentage would then be applied against the Finance Director's salary and benefits, including health and life insurance, Medicare, retirement, and any workers' compensation.

$$\frac{\text{Hours worked on enterprise activities per year by individual(s)}}{\text{Total hours worked per year by individual(s)}} \times \text{Salary and benefits of individual(s) working on enterprise activities} = \text{Indirect Departmental Salaries}$$

4. 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 sewer bill collections processed by the Collector's Office as a percentage of the total number of collections of all types 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 department.

$$\frac{\text{Number of enterprise-related transactions}}{\text{Total number of all like transactions processed by the non-enterprise department}} \times \text{Total budget plus benefits of the department processing the enterprise transactions} = \text{Indirect Departmental Salaries}$$

C. 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 method by adding up the actual amounts paid by the City for the participating enterprise employees during the current fiscal year.

2. **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 percent of the total gross wages paid by the City on behalf of eligible enterprise fund employees during the preceding calendar (not fiscal) year.

3. **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 each of the total enterprise fund department employee's compensation to the total employee compensation as reported to the Public Employee Retirement Administration Commission.

4. **Audit**

Independent audit costs will be based on the proportional method. The wastewater treatment plant enterprise fund department shall pay the proportion of the cost of the City's annual independent audit based on effort of the City's independent auditor.

5. **Administrative Services**

The indirect costs for enterprise-related administrative services performed by the Finance Department 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 enterprise funds.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> Chapter 46, Article II, Division 2 Rates and Charges, Sections 46-66 and -76 Chapter 36, Solid Waste Management, Sections 36-2 -4, -6, and -8
Policies	<ul style="list-style-type: none"> Annual Budget Process Forecasting

EXTERNAL REFERENCES

[M.G.L. c. 44 § 53F½](#)

Division of Local Services Informational Guideline Release 22-16: [*Enterprise Funds*](#)

Government Finance Officers Association Best Practice: [*Indirect Cost Allocation*](#)

INVESTMENTS

Applies to:	<ul style="list-style-type: none"> ▪ Treasurer's statutory duty to invest City funds, under the Finance Director's oversight ▪ Any investment advisor(s) with whom the Treasurer contracts
Scope:	<ul style="list-style-type: none"> ▪ 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 Salem Contributory Retirement Board
Date:	[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.

A. 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 it to 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 so as 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).

B. 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 Mayor and Finance Director 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](#) and the City's Procurement Conflict of Interest policy.

C. Investment Instruments

Under this policy, and in compliance with state statutes, the table below defines allowable investment instruments and guidelines.

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 (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.

Instrument Type	Short-term Funds	Long-term Funds
Money market mutual funds	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ 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-chartered 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.

D. 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.	<ul style="list-style-type: none"> 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 E).
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.	<ul style="list-style-type: none"> 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 F). 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.

E. 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 or obligations backed by U.S. government agencies, the Treasurer will invest no more than 25 percent the City's long-term funds with a single financial institution. In addition, the Treasurer will ensure compliance with the various allowable percentage thresholds for specific investment instruments and issuers set forth in the List of Legal Investments.

F. 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 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](#) 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.

G. Standards of Care

The Treasurer must review, understand and comply with the state's Prudent Investor Act ([M.G.L. c. 203C](#)). 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 have been carried out in accordance with the Act and the provisions of this policy.

H. Reporting Requirements

The Treasurer will assess investment activity and keep the Mayor and Finance Director 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

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article 4, Division 4, Board of Trust Fund Commissioners, Section 2-740⁴
Policies	<ul style="list-style-type: none"> ▪ OPEB Liability ▪ Procurement Conflict of Interest

EXTERNAL REFERENCES

[M.G.L. c. 30B](#) [M.G.L. c. 29, § 38A](#) [M.G.L. c. 44, §§ 54, 55, 55A and 55B](#)
[M.G.L. c. 110A, § 201](#) [M.G.L. c. 167, § 15A](#) [M.G.L. c. 203C](#)

Governmental Accounting Standards Board Statement 40: [Deposit and Investment Risk Disclosures](#)

Massachusetts Collectors & Treasurers Association: [Treasurer's Manual](#)

MA Division of Banks webpages: [List of Legal Investments](#) and [Find Banks and Credit Unions](#)

Massachusetts Depositors Insurance Fund webpage: [FAQs](#)

MA Secretary of State webpage: [Registration Inspections, Compliance and Examinations Section](#)

U.S. Securities and Exchange Commission webpage [Form ADV Information](#)

⁴ This ordinance calls for a Board of Trust Fund Commissioners, which is not correctly active. The City should consider either reviving this model, revising the ordinance to reflect a new model, or abolishing the ordinance.

OTHER POSTEMPLOYMENT BENEFITS LIABILITY

Applies to:	<ul style="list-style-type: none">▪ Mayor and Finance Director in their budget decision-making duties▪ Treasurer and Human Resource Manager job duties
Scope:	<ul style="list-style-type: none">▪ Budget decisions related to the City's OPEB liability▪ Liability mitigation
Date:	[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. To do so, the City will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. 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.

A. Accounting for and Reporting the OPEB Liability

The Finance Director 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 Finance Director 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 Mayor.

B. Trust Management and Investment

The City established an OPEB Trust Fund⁵ and designated the Treasurer as its trustee. As fund custodian, the Treasurer will manage the OPEB Trust Fund in conformance with the City's Investment policy and the state's prudent investor laws.

⁵ The trust fund was established pursuant to the City's acceptance of M.G.L. c. 32B, § 20 in 2011. The Municipal Modernization Act of 2016 revised the statute to achieve greater adherence with the guidance of the Government Accounting Standards Board. To become compliant with the revised statute requires the City to reaccept it. By doing so, the trust will become legally irrevocable.

C. Mitigation

On an ongoing basis, the City will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Finance Director and Human Resource Director will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts. The Human Resource Director 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.

D. 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 operation remains self-supporting, the Public Works Board will factor their OPEB contributions into the setting of wastewater treatment plant 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 policy, appropriate an annual portion of the certified free cash amount (10 percent as of FY2023).
- Appropriate annually increasing dollar amounts or percentages of yearly revenues for the general fund and enterprise fund operation.
- 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.

SALEM REFERENCES

Ordinances	▪ Chapter 2, Article 4, Division 4, Board of Trust Fund Commissioners , Section 2-740 ⁶
Policies	▪ Annual Budget Process ▪ Financial Reserves ▪ Investments

EXTERNAL REFERENCES

[M.G.L. c. 32B, § 20](#) and [20A](#)

[M.G.L. c. 44, § 54](#) and [55](#)

[M.G.L. c. 203C](#)

GASB Statements 75: [Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions](#) and 74: [Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans](#)

Division of Local Services Information Guideline Release 19-10 [Other Postemployment Benefits Liability Trust Fund](#)

⁶ This ordinance calls for a Board of Trust Fund Commissioners, which is not correctly active. The City should consider either reviving this model, revising the ordinance to reflect a new model, or abolishing the ordinance.

Government Finance Officers Association Best Practice: [Ensuring Other Postemployment Benefits \(OPEB\) Sustainability](#)

FINANCIAL OPERATIONS POLICIES

DISBURSEMENTS

Applies to:	<ul style="list-style-type: none"> ▪ Finance Director and Mayor in approving disbursements in warrants ▪ Treasurer in disbursing funds ▪ Human Resource (HR) Director in establishing payroll accounts in Munis ▪ All department heads and elected or appointed officials with spending authority (all referred to here as “department heads”) in submitting requests for expense and payroll disbursements ▪ All employees in recording time and attendance
Scope:	Submitting and processing requests for and disbursements of City funds to pay accounts payable (“vendor”) liabilities and to compensate employees through payroll
Date:	[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 vendor expense shall occur without prior warrant approvals by the Finance Director and Mayor.

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 Munis 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.

Departments should submit their vendor invoices within one week of receipt but no later than 20 days. No vendor disbursement will be approved unless the Finance Department has a valid W-9 on file for the payee and receives an original invoice. 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. As a tax-exempt organization, the City will not pay sales tax on any expense.

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

Role/Position	Disbursement-Related Responsibilities
HR Director	<ul style="list-style-type: none"> ▪ Create new employee profile/account in Munis
Every employee	<ul style="list-style-type: none"> ▪ Record daily time and attendance (T&A) on a time sheet
Dept payroll clerk	<ul style="list-style-type: none"> ▪ Data enter weekly T&A for dept employees in Munis (schools biweekly)
Department heads	<ul style="list-style-type: none"> ▪ Ensure all purchases of goods & services conform to procurement laws ▪ 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 accuracy of payroll submissions via electronic approval of Munis payroll entries and of vendor submissions by signing invoice coversheet ▪ Transmit vendor disbursement requests and payroll reports timely

Role/Position	Disbursement-Related Responsibilities
Treasurer	<ul style="list-style-type: none"> ▪ Maintain Munis employee master file by updating leave time balances on weekly and annual accrual bases ▪ Verify all payroll payment tables are consistent with collective bargaining agreements or any other compensation schedules ▪ Process weekly payroll data in Munis ▪ Upon receipt of approved payroll and vendor 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 ▪ Mail checks to vendors ▪ Update the cashbook to document the disbursement activity
Finance Director	<ul style="list-style-type: none"> ▪ Review all departmental submissions and approve items for inclusion on the vendor or payroll warrant only after validating: <ul style="list-style-type: none"> ○ 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 vendor & payroll warrants and provide them to the Mayor ▪ Update the general ledger with all vendor and payroll warrant expenditures
Mayor	<ul style="list-style-type: none"> ▪ Review each warrant and direct any inquiries to the Finance Director ▪ Approve the warrants by signing them

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none"> ▪ Chapter 2, Article 1 In General, Section 2-18 ▪ Chapter 2, Article II Compensation and Conditions of Employment ▪ Chapter 2, Article III, Division 8, City Treasurer and City Collector, Section 2-457
Policies	<ul style="list-style-type: none"> ▪ Fraud ▪ Reconciliations ▪ Gifts of Funds
Procedures	<ul style="list-style-type: none"> ▪ 2008-007 Invoices 45 to 60 Days Past Due ▪ 2008-10 Prior Fiscal Year Invoice Payments ▪ 2008-009 School Summer Payroll Accruals for Teachers ▪ 2011-001 Accounts Payable - Hold Check Processing ▪ Voiding Checks – Payroll and AP
Cheat sheets	<ul style="list-style-type: none"> ▪ Accounts Payable Procedures and Best Practices 2021
Forms	<ul style="list-style-type: none"> ▪ Request for Overtime ▪ Application for Leave Form

EXTERNAL REFERENCES

[M.G.L. c. 30B](#) [M.G.L. c. 41, §§ 41, 41A, 41B, 41C, 42, 43, 52, 56](#)
[M.G.L. c. 44, §§ 56, 58, 64](#) [M.G.L. c. 200A, § 9A](#)

FRAUD

Applies to:	<ul style="list-style-type: none">▪ All elected and appointed City officials and employees▪ All other persons acting on behalf of the City,⁷ such as vendors, contractors, volunteers, casual employees, and grant subrecipients▪ The City's Independent Auditing Firm when hired to investigate fraud
Scope:	Any suspected fraud, abuse, or similar irregularity against the City
Date:	[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 communicate the City's intent to prevent, report, investigate, and disclose to proper authorities suspected fraud, abuse, and similar irregularities
- To create an environment in which employees and citizens can report any suspicion of fraud
- 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 City⁸ 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. This policy sets out specific guidelines and responsibilities regarding the appropriate actions that must be followed for the investigation of fraud and other similar irregularities.

A. Definitions

Occupational fraud is defined by the Association of Certified Fraud Examiners as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. There are three major categories of occupational fraud.

1. **Asset Misappropriations** – Theft or misuse of an organization's assets.

- Cash
 - Fraudulent Disbursements – Perpetrator causes City to disburse funds through some trick or device (e.g., submitting false invoice/time card, expense reimbursement schemes, check tampering, etc.)

⁷ "Person acting on behalf of the City" refers to any individual responsible for or to Salem's government placed in that position by some official relationship with the City.

- Skimming – Cash is stolen from the City before it is recorded on the City’s books and records.
 - Cash Larceny – Cash is stolen after it has been recorded on the City’s books and records.
 - Inventory and all other assets
 - Misuse – Use of the City’s inventory or assets for personal use (e.g., vehicles, computers, supplies, etc.)
 - Larceny – Theft of City assets, such as equipment or supply inventory
2. **Corruption** – Wrongfully using influence in a business transaction to procure some benefit for themselves or another person, contrary to duty to the City or the rights of another.
- Conflicts of Interest – An undisclosed economic or personal interest in a transaction that adversely affects the employer.
 - Bribery – The offering, giving, receiving, or soliciting of anything of value to influence an official act or business decision.
 - Illegal Gratuities – A party who benefits from an official act or a business decision gives a gift to a person who made the decision. An illegal gratuity does not require proof.
 - Economic Extortion – An employee demands that a vendor/contractor/etc. pay to influence an official act or a business decision.
3. **Fraudulent Statements** – Falsification of the City’s financial statements.

Other similar irregularities is defined as any activity involving questionable behavior or business dealings by members of the public, contractors, vendors, agents, or City employees, that puts the City’s revenue, property, information and other assets at risk of waste or abuse.

B. Antifraud Responsibilities

1. 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.
2. 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.
3. The Finance Director has the primary responsibility for the investigation of all activity defined in this policy.
4. To the extent practical, the Finance Director will notify the City’s Independent Auditing Firm and the Mayor of a reported allegation of fraudulent or irregular conduct upon the commencement of the investigation. Throughout the investigation the Mayor will be informed of pertinent investigative findings.

5. In all circumstance where there are reasonable grounds to indicate a fraud may have occurred, the Finance Department and/or Independent Auditor, subject to the advice of the Mayor and City Solicitor, will contact the office of the District Attorney and/or the Salem Police.
6. Upon conclusion of the investigation, the results will be reported to the Mayor and others as determined necessary.
7. 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.

C. Procedures

1. 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 OTA. 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.

2. 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 Finance Director.

3. Office of the Mayor

Upon notification or discovery of a suspected fraud, the Finance Director 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 Finance Director or Independent Auditor will inform the Mayor. Subject to the advice of the City Solicitor, the Finance Director or Independent Auditor will contact the Office of the District Attorney and/or the Salem Police.

4. Contacts/Protocols

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

5. Security of Evidence

Once a suspected fraud is reported, the Finance Director 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, removing the records and placing them in a secure location, limiting access to the location where the records currently

exist, and preventing the individual suspected of committing the fraud from having access to the records. The records must be adequately secured until the Finance Director or Independent Auditor obtains the records to begin the audit investigation.

6. Personnel Actions

If a suspicion of fraud is substantiated by the investigation, disciplinary action shall be taken by the Mayor, in consultation with the Personnel Director and the Finance Director or Independent Auditor.

7. Whistle-Blower Protection

Under Massachusetts General Law Chapter 149, 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.

8. Media Issues

Any City employee or elected official contacted by the media with respect to an audit investigation shall refer the media to the Mayor's Office at 978-619-5600. The alleged fraud or audit investigation shall not be discussed with the media by any person other than through the Mayor's Office.

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

9. Documentation

At the conclusion of the investigation, the results will be reported to the Mayor and others as determined necessary. If the report concludes that the allegations are founded, the report will be forwarded to the Office of the District Attorney and/or the Salem Police.

10. Completion of the Investigation

Upon completion of the investigation, including all legal and personnel action, any records, documents and other evidentiary material will be returned by the Finance Director or Independent Auditor to the appropriate department.

11. Training

New employees are trained at the time of hiring about the City's Code of Conduct and Fraud Policy. This training explicitly covers expectations of all employees regarding:

- (1) Their duty to communicate certain matters;
- (2) List of the types of matters, including actual or suspected fraud, to be communicated along with specific examples; and
- (3) Information on how to communicate those matters.

SALEM REFERENCES

Charter	▪ Charter Part 1: General Provisions, Section 27: Officials and employees prohibited from making or sharing in municipal contracts
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EXTERNAL REFERENCES

U.S. Office of Management and Budget: [Omni Circular](#)

[M.G.L. c. 12, §§ 5A, 5B, 5C, 5D, 5E, 5F, 5J](#)

[M.G.L. c. 268A](#)

MA Office of the Inspector General webpage: [What is Fraud?](#)

MA Ethics Commission webpage [Summary of the Conflict of Interest Law for Municipal Employees](#) and required training [FAQs](#)

GIFTS OF FUNDS

Applies to:	<ul style="list-style-type: none"> ▪ Mayor, City Council, and School Committee in their responsibilities related to approving the expenditure of gift funds ▪ Department heads⁹ in their responsibilities related to accepting and expending gift funds ▪ Treasurer, Finance Director, and Assistant Finance Director in their job duties related to managing, accounting for, and reporting on gift funds
Scope:	<ul style="list-style-type: none"> ▪ All receipts of monetary gifts to the City ▪ Managing, expending, and accounting of gift funds ▪ <u>Not in the scope of this policy:</u> <ul style="list-style-type: none"> ○ 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 grants¹⁰
Effective:	[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](#) 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 Mayor and City Council (or the School Committee for school gifts). This approval process allows the Mayor and City Council (or School Committee) 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 the approvals of the Mayor and City Council (or School Committee) 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 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.

⁹ In this policy, department head refers to any City employee or official with spending authority.

¹⁰ Although gifts and grants are governed by the same statute (44:53A), grants are addressed in a separate Grants Management policy.

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). In other words, 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 Mayor and City Council (or School Committee) 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 Mayor and City Council (or School Committee).

A. 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 and include the following information and documents with the 9-10 turnover form:

If the gift received is:	Info/docs to include with the turnover:
For an existing gift account	<ul style="list-style-type: none">▪ Gift acct # on the 9-10 form▪ Document from the donor stating the purpose of the gift
For a new gift account	<ul style="list-style-type: none">▪ Indicate the need for a new gift account on the 9-10▪ Any and all documents from the donor that show the gift’s donative purpose

The Treasurer will secure the received funds in a safe pending the completion of the appropriate approval(s).

The Assistant Finance Director will coordinate with the Mayor’s and City Clerk’s Offices (or School Superintendent) to present the Mayor and City Council (or School Committee) with the offered gift. Once the gift is approved or rejected, the Assistant Finance Director will notify the originating department, Treasurer, and Finance Director. If a gift is not approved for expenditure, the Treasurer will mail it back to the donor. Approved gifts will be processed in accordance with Section B below.

B. Managing and expending gift funds

Whenever a gift for a new purpose has been approved, the Finance Director will create a new account for it in the general ledger, and the Treasurer will open and maintain a separate bank account for it. Once any gift has been approved for expenditure, the Treasurer will deposit it in the new or existing gift account. All interest on gift accounts shall be deposited to the general fund.

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). In accordance with the Disbursements policy, the Finance Director shall approve a gift expenditure for inclusion in a warrant only after verifying all of the following:

1. It is legal, which in this case means:
 - a. The gift had received the appropriate approval(s);
 - b. The expenditure's purpose is consistent with the intent of the donor; and
 - c. 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 submit a request to the Treasurer to refund the money to the donor, with a cc. the Finance Director.

C. 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.

SALEM REFERENCES

Policies	<ul style="list-style-type: none"> ▪ Disbursements ▪ Fraud ▪ Revenue Turnover
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EXTERNAL REFERENCES

MA Constitution Anti-Aid Amendment: [Article XVIII, as amended by Articles XLVI and CIII](#)

[M.G.L. c. 44, § 53A](#) [M.G.L. c. 71, § 37A](#) [M.G.L. c. 268A](#)

State Ethics Commission's Advisory Opinion on gift solicitation, [EC-COI-12-1](#)

Division of Local Services *City & Town* article, [Ask DLS: Public Purpose Expenditures](#)

GRANTS MANAGEMENT

Applies to:	<ul style="list-style-type: none">▪ Grant administrators within City departments▪ Mayor, School Superintendent, School Committee, Finance Director, and Treasurer in their related responsibilities▪ Department heads and City officials that accept the grants obtained for their departments, in their budget management and operational oversight roles
Scope:	<ul style="list-style-type: none">▪ Evaluating grant opportunities▪ Tracking grant activity▪ Processing revenues and expenditures
Date:	[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 allows any department head or City official to accept a 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 Mayor and City Council (or the School Committee for school grants). This approval process allows the Mayor and City Council (or the School Committee) 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 that are consistent with the City's goals. All municipal grant applications must receive preapproval by the Mayor and City Council and all educational ones by the School Committee. 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 City Council and Mayor (or the School Committee when applicable). 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 Finance Director is responsible for consulting with grant administrators on grant budgetary matters,

accounting for grants in the general ledger, monitoring grant expenditures for consistency with award requirements, tracking the timeliness of reimbursement requests, and distributing monthly reports of grant expenditures to departments. The Finance Director will also maintain a database of all grants and grant activity from inception to closure.

A. 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 Finance Director or 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.

B. 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 School Committee) and will also submit a memo to the Mayor 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 Mayor 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 Finance Director.

When a grant administrator receives notice of any grant award, he or she will submit it as a meeting agenda item for the Mayor and City Council (or the School Committee) 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 Finance Director, along with a completed Request to Establish New Grant/Special Revenue Fund form.

Upon receiving the new grant's documents, the Finance Director will create a new general ledger account to record the grant's activity. When notified of any amendment or adjustment by the grantor, the grant administrator will immediately forward the information to the Finance Director, who will make adjustment(s) to the grant's budget in the general ledger.

C. Grant Financial Management

At the start of a new grant, the Finance Director 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 Department consistent with the City's Disbursements policy. The grant administrator will also ensure the proper payroll account codes for grant-funded employees are reported on the department's submission to the Treasurer as part the regular payroll process.

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

To minimize the use of advance City funds, every grant administrator will request reimbursements as often as the grant's guidelines allow and always no later than June 30th. In doing so, the grant 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 Finance Director and Treasurer.

The Finance Director 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. The Treasurer will match reimbursements received electronically or by check with their requests and credit the proper revenue lines.

D. 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 Finance Director a grant closeout package that includes a final report and either a final reimbursement request or notification of the amount to be refunded to the grantor.

Upon receipt of the closeout package, the Finance Director will put the general ledger's grant account into inactive status and 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 Finance Director will add the refund amount to the AP warrant.

Within 30 days of any grant closeout or the year-end closure, whichever is earlier, the Finance Director will determine if the grant account has been overexpended and will either apply the expense to the operating budget or propose an appropriation from other available funds.

E. Audit

All grant activities are subject to audit by the particular grantors, the Finance Director, and Salem's independent auditor. The Finance Director 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.

SALEM REFERENCES

Policies	<ul style="list-style-type: none">▪ Disbursements▪ Year-end Closing
Procedures	<ul style="list-style-type: none">▪ 2008-003 Grant and Special Revenue▪ 2008-013 Drawdown of Revenue for Spec Rev Funds
Forms	<ul style="list-style-type: none">▪ Request to Establish New Grant/Special Revenue Fund

EXTERNAL REFERENCES

[M.G.L. c. 40, § 5D](#) [M.G.L. c. 41, § 57](#) [M.G.L. c. 44, § 53A](#)

Public Employee Retirement Administration Commission: [Memo #12/2003](#)

Mass.gov webpage: [Municipal Grant Finder](#)

US grant search website: [grants.gov](#)

PROCUREMENT - CONFLICT OF INTEREST

Applies to:	<ul style="list-style-type: none">▪ Purchasing Agent's role as chief procurement officer, under the Finance Director'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
Date:	[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. The 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 misconduct brought to the attention of City staff.

A. 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 an evaluation process who receive proposals or other documents used in the evaluation process, including any nonevaluating 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 nonevaluating observers, are submitted.
2. Maintain signed confidentiality agreements on file.

B. 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](#) 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.

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 Finance Director, 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 in order 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 City Counsel.

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 will:

1. Review the submitted forms for potential conflicts of interest.
2. Discuss any potential conflicts of interest with the Finance Director, who may also consult with the City Counsel as needed.
3. Document the resulting determinations and provide the Mayor 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.

C. Compliance Reviews

The Finance Director will conduct random reviews of compliance with this policy. All procurement activities are also subject to audit by the City's independent Auditor.

SALEM REFERENCES

Charter	▪ Charter Part 1: General Provisions, Section 27: Officials and employees prohibited from making or sharing in municipal contracts
Ordinances	▪ Article X Purchases and Contracts , Divisions I and II
Procedures	▪ Procedures: Procurement Manual (2014) ▪ Purchase Order and Requisition Processing (2008)

EXTERNAL REFERENCES

U.S. Office of Management and Budget: [Omni Circular](#)

[M.G.L. c. 30B](#)

[M.G.L. c. 41, § 57](#)

[M.G.L. c. 268A](#)

MA State Ethics Commission webpage: [Disclosure Forms for Municipal Employees](#)

MA Inspector General webpage: [Procurement Assistance](#)

RECONCILIATIONS

Applies to:	<ul style="list-style-type: none"> ▪ Finance Director in keeping the general ledger up to date ▪ Treasurer in maintaining a cashbook and managing payroll withholdings ▪ 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
Scope:	Periodic reconciliations of departmental cash, receivables, payroll, and special revenue fund records and of those departmental records with the general ledger
Date:	[Date]

PURPOSE

To ensure transactions are in balance, mitigate fraud, safeguard general ledger accuracy, and maximize certifications of free cash, financial officers must conduct regular reconciliations of their accounting records, and these must be reconciled to the general ledger. Although each financial officer is responsible for maintaining independent records of their own office's transactions, they are also collectively accountable for the overall accuracy of the City's financial records.

POLICY SUMMARY

Records of Account to be Reconciled	Whose Records	Reconciliation Time Frames
Cashbook	Treasurer	<ul style="list-style-type: none"> ▪ 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	Treasurer and HR Director	<ul style="list-style-type: none"> ▪ Internally, by the 10th of the following month ▪ To the general ledger by 15th of each month
Collector's receivables	Collector	<ul style="list-style-type: none"> ▪ Month-end close by the 10th of the following month ▪ To the general ledger by 15th of each month
Other departments' receivables	Departmental record-keepers	<ul style="list-style-type: none"> ▪ Internally, within 10 days of the end of each fiscal year quarter ▪ To the general ledger by the end of the month following each quarter-end
Special revenue funds	Departmental record-keepers	<ul style="list-style-type: none"> ▪ Internally, within 10 days of the end of each fiscal year quarter ▪ To the general ledger by the end of the month following each quarter-end

POLICY TEXT

The Treasurer, the Collector, 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 Finance Director according to the guidelines and periodic time frames outlined in this policy. Although each financial officer is responsible for maintaining independent records of his or her office's transactions, they are also collectively accountable for the overall accuracy of the City's financial records.

A. 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 one week 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 create a final payment batch in the Munis General Revenues – Payment Entry module and forward a cash activity summary report with the cashbook balances to the Finance Director.

B. 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, which are all itemized in separate general ledger accounts. The Treasurer must verify and reconcile all withholdings recorded in Munis to the actual disbursements.

The Treasurer will report specific payroll deductions subject to vendor invoices, such as health insurance, to the Finance Director for recording in the general ledger and cc. the Human Resource (HR) Director. On a monthly basis, the HR Director will review these reports to ensure they correspond accurately with the invoices submitted by the HR Department.

To reduce the risk to the City for liabilities in excess of withholdings, the Finance Director will conduct monthly reconciliations of these payroll withholdings to their corresponding accounts payable and identify any discrepancies. The Finance Director will contact the HR Director to resolve any insurance-related issues and will report the results of these activities to the Treasurer to make any necessary payroll changes or adjustments.

C. Accounts Receivable Reconciliation

Accounts receivables are outstanding monies owed to the City, whether from committed bills (e.g., taxes, 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 list of receivables according to processed collections (as well as abatements and exemptions, when applicable) 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 summarize the Munis reports of all accounts receivables by bill type and levy year and forward the summary to the Finance Director. The Collector will forward to the Finance Director a Schedule of Outstanding Receivables report showing the internally reconciled accounts receivable balances. Quarterly, all record-keepers will provide a list of outstanding balances to the Finance Director.

D. Special Revenue Fund 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; 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 Finance Director, and properly authorized transfers are recorded monthly. These department heads will subsequently provide the Finance Director with quarterly reconciliation reports on the funds.

E. General Ledger Reconciliation

To achieve the core objective of maintaining the general ledger's integrity, the Finance Director must regularly reconcile it with the separately maintained accounting records outlined in Sections A – D above. In addition, it is the Finance Director'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 Finance Director 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 Finance Director 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 Treasurer's Schedule of Receipts agrees 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 Finance Director must trace each entry to the ledger until the variance is determined.

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

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

The Finance Director's receivable accounts in the general ledger should reflect the transactions provided by the Collector. Therefore, the above steps must resolve any discrepancies between the receivable control and the ledger. If they do not, the Collector and Finance Director must trace each ledger entry until they determine the reason for variance.

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

F. 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 Finance Director 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 by a worksheet 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 Finance Director will submit the collective set of reconciliation worksheets to the Mayor quarterly.

SALEM REFERENCES

Policies	<ul style="list-style-type: none">▪ Disbursements▪ Fraud▪ Grants Management▪ Revenue Turnover▪ Year-end Closing
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EXTERNAL REFERENCES

Division of Local Services Best Practice: [*Reconciling Cash and Receivables*](#)

Massachusetts Collectors & Treasurers Association: [*Treasurer's Manual*](#) and [*Collector's Manual*](#)

RETURNED CHECKS

Applies to:	<ul style="list-style-type: none"> ▪ Treasurer's cash management ▪ Finance Director's general ledger job duties ▪ The heads of all departments that receive payments, or their designees
Scope:	<ul style="list-style-type: none"> ▪ Actions to recoup payments rejected by the bank for nonsufficient funds (NSF) or as automated clearing house (ACH) returns, both referred to here as NSFs ▪ Accounting and banking tasks related to NSFs
Date:	[Date]

PURPOSE

To minimize the negative revenue impacts from checks or electronic payments that are dishonored by banks, to enhance revenue recovery, and to ensure the accuracy of the general ledger's assets and liabilities, this policy sets guidelines for managing returned checks.

POLICY

For every payment that a bank refuses to honor (i.e., returns) because the account has nonsufficient funds, was frozen by a government agency, or another reason, the City will make efforts to recover the full amount of the payment from the payer, along with the \$25.00 bank penalty. The responsibility to pursue recovery lies with the department that received the payment.

Any party that has had two checks returned by the bank within a 12-month period must pay future City debts by cash, money order, or certified bank check. Additionally, the City reserves the right to pursue criminal prosecution of individuals or companies that pass bad checks.

A. Treasurer Actions:

1. Upon notice from a bank of a NSF, create a Munis payment reversal batch to enter a negative deposit to the related revenue account, make a reversal entry to the associated bank account in the cashbook, and note the reversal reason in each database.
2. Email a notice to the originating department to contact the payer with a cc. to the Finance Director.
3. When a new, valid payment with fee is received, credit the revenue line for the original amount and credit the \$25.00 fee to miscellaneous revenue line 11-4840.

B. Department Head (or Designee) Actions

1. Upon receiving the NSF notice from the Treasurer, send a letter by certified mail with return receipt requested telling the payer to satisfy the debt and the \$25.00 penalty by tendering cash, money order, or certified funds within the next 14 days.
2. If the NSF was for a license or permit, suspend the license or permit until the original amount and penalty have been paid and include notice of this suspension in the letter to the payer.
3. If it was for a committed receipt (e.g., tax bill), reinstate the commitment and pursue the

usual collection procedures. Penalty and interest charges will revert to the date on which the NSF payment was due and accrue until a proper payment is made.

4. If there is no response from the payer after 14 calendar days, email a status update to the Treasurer with a cc. to the Finance Director.

C. Finance Director Actions

1. Upon receiving the NSF notice from the Treasurer, accept the payment reversal in Munis to update the general ledger.
2. Upon notice from the department head that 14 days have passed without a response from the payer, consult with the Mayor and City Counsel about moving forward with legal action.

SALEM REFERENCES

Ordinances	▪ Chapter 2, Article 3, Division 8 City Treasurer and City Collector , Sections 2-450 and -454
Policies	▪ Reconciliations ▪ Revenue Turnover
Procedures	▪ 2012-002 Treasurer's Cash Policy

EXTERNAL REFERENCES

[M.G.L. c. 41, § 57](#) [M.G.L. c. 44, § 69](#) [M.G.L. c. 60, § 57A](#)

Massachusetts Collectors & Treasurers Association's [Treasurer's Manual](#) and [Collector's Manual](#)

REVENUE TURNOVER

Applies to:	<ul style="list-style-type: none"> ▪ Treasurer, as the City's cash manager, and Treasurer Division staff ▪ All individuals and department heads with responsibility for handling payments ▪ Finance Director 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
Date:	[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.

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

A. 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 receiving payments shall secure them in a locked cash box 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, and 3) turning receipts over to the Treasurer.

B. Turning Over Revenues

Departmental staff will fill out a 9-10 turnover form, print two copies, and obtain the department head's signatures on them. Every listed receipt should tie back to a receipt book entry and to the receipt logs maintained by the department head. Departmental staff will deliver the turnover package in person and at no time may 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., 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 and signed the 9-10, the departmental employee will receive one signed copy back. The departmental employee will photocopy this, give a copy to the Finance Director, and retain the other on file. The Finance Director will refuse to accept any turnover form that is not signed by a Treasurer employee.

Department heads will review the Munis Payments Report monthly to verify all department payment batches have been accurately recorded in the appropriate general ledger accounts and report any discrepancies to the Finance Director.

C. Receiving Turnovers

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 9-10 will be corrected on the form at that time and initialed by both parties. The Treasurer staff member will then sign the two 9-10 copies and return one to the departmental employee.

Within 24 hours of receiving the turnover, Treasurer staff will record the receipt data in the Munis Treasurer's Receipts module and will deposit any checks received via remote scanner. The Treasurer will take any received cash to the bank for 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 all the payment reports and documentation for the day (from Munis, remote scanner, credit card, cash deposit slips, and online payment settlement). When all the activity ties out, the Treasurer will update the cashbook with all the deposit data, and then approve and release the Munis payment batches for the Finance Director's review.

D. Updating the General Ledger

The Finance Director will compare the batches posted in Munis by the Treasurer to the turnover reports received from departments and investigate any discrepancies with the Treasurer and the originating department. When the Munis batches reconcile properly with the turnover reports, the Finance Director will post the data to the Munis general ledger.

E. Audit

All cash management activity is subject to review by the Finance Director and the City's independent auditor. Further, the Finance Director will conduct periodic, random audits of departments' payment processing and turnover procedures to ensure adherence to this policy.

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none">▪ Chapter 2, Article 3, Division 8 City Treasurer and City Collector, Sections 2-450, 2-454 through -456, -458, -459
Policies	<ul style="list-style-type: none">▪ Gifts of Funds▪ Reconciliations▪ Returned Checks
Procedures	<ul style="list-style-type: none">▪ No. 2012-002 Cash, Checks, Credit Card Receipt Handling▪ Collector's Daily Receipts (2007)

EXTERNAL REFERENCES

[M.G.L. c. 41, §§ 35](#) and [54](#) [M.G.L. c. 44, § 53](#) [M.G.L. c. 60, § 2](#)

Massachusetts Collectors & Treasurers Association's [Treasurer's Manual](#) and [Collector's Manual](#)

TAILINGS

Applies to:	<ul style="list-style-type: none">▪ Treasurer, Finance Director, and all department heads▪ Payees of City disbursements
Scope:	Managing uncashed checks, including notifying payees, handling claims, and escheating unclaimed funds to the general fund
Date:	[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, 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 Finance Director will work together to resolve accumulated tailings, either by prompting actual pay outs or through escheatment to the City.

A. Monthly Management of Tailings

As part of the monthly cash reconciliation and under the direction of the Treasurer will review the accounts payable bank accounts online to determine which checks have been cashed by recipients and update their status in Munis. Following this, the Treasurer will run a Munis report of all checks outstanding 30 days or more after issuance and email the department head associated with each of them to follow up with the payee. The department head will attempt to contact the payee by phone to determine why the check has not been cashed. For all checks still outstanding two weeks after notices to departments, the Assistant Treasurer will send an uncashed check notice to the payees at their last known addresses.

Every month, the Assistant Treasurer 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 checks to the Finance Director, who will then record the funds as abandoned property liability in the general ledger.

B. 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 Salem 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 *The Salem News* 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 two newspapers 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 Finance Director of all those that are still unclaimed at that time.

C. 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 make a determination as to its validity.

- If the claim is deemed valid, the Treasurer will submit the amount to the Finance Director 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 Salem District Court (or at Essex County 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 Finance Director 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 Finance Director to escheat the total tailing and interest amount.

D. Escheatment

Upon receipt of a notice from the Treasurer as described in Sections B and C above, the Finance Director 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.

SALEM REFERENCES

Policies	<ul style="list-style-type: none">▪ Disbursements▪ Reconciliations
Procedures	<ul style="list-style-type: none">▪ Voiding Checks
Forms	<ul style="list-style-type: none">▪ Claim Form▪ Deceased Payee Claim Form

EXTERNAL REFERENCES

[M.G.L. c. 200A, § 9A](#)

TAX ENFORCEMENT

Applies to:	<ul style="list-style-type: none">▪ Treasurer and Collector job duties▪ Finance Director oversight▪ City's contracted tax title attorney
Scope:	<ul style="list-style-type: none">▪ Enforcement of delinquent property taxes▪ Resolution of tax title accounts
Date:	[Date]

PURPOSE

To provide guidance for equitably enforcing tax obligations and set expectations for both the City and taxpayers, this policy clearly defines when and how the City will pursue collection of all outstanding property taxes and secure the City's financial interest in any properties in tax title.

POLICY

The City intends to timely pursue all legal methods to collect taxes from delinquent property owners with the aim of achieving a property tax collection rate of at least 98 percent by fiscal year-end. A tax delinquency is defined as a bill outstanding at least one year and one day after its final due date, and it represents a lien on property that remains in effect until all taxes, interest, and fees have been paid. The costs of all collection methods are added to the real estate tax bill and property lien.¹¹ The City will also periodically pursue foreclosure actions with the primary objective of receiving all monies due.

Taxpayers are responsible for notifying the City in writing of any mailing address changes.

A. Demands

The Collector will establish an annual tax enforcement schedule beginning with demand notices.

Final taxes are due to be paid as of May 1 each year (the due date for the fourth quarter tax bill). No later than May 15, the Collector will issue demand notices to all assessed property owners who have failed to pay in full, have not been granted full exemptions, and do not have automatic stays on record due to bankruptcy filings.

B. Tax Taking

The Collector shall carefully document all tax taking activity to preserve the City's rights for future actions. The Collector will begin the tax taking process within 60 days of the demand notice. State law allows the process to begin as soon as 15 days after the demand, but, in every case, the Collector must complete the takings within 3½ years from the end of the fiscal year for which the taxes were assessed to secure, or perfect, the tax liens.

¹¹ If the City Council accepts M.G.L. c. 60, § 15B, the City may adopt an ordinance to establish a tax title collection revolving fund for the costs, charges, and fees to be used by the Collector and Treasurer to pay expenses, without appropriation, related to tax takings, redemptions, and foreclosures of tax titles. More information is contained in Informational Guideline Release [2016-101](#).

The Collector will send at least one enforcement letter to delinquent property owners as a courtesy to potentially avoid a tax taking advertisement. If this does not result in full remittance by September 1, the Collector will publish a Notice of Tax Taking in *The Salem News* and post the notice on bulletin boards at City Hall. The Collector will also coordinate with the Chief Information Officer to post the notice on the City's website. From this point forward only cash, certified check, or cashier's check are acceptable forms of payment.

The Collector will work with delinquent taxpayers to suspend the tax taking process, and potentially avoid the tax taking advertisement, if they comply with making regular payments of at least 10 percent of the outstanding tax. However, the Collector will proceed to publish the Notice if there is a lapse of more than 30 days from the last partial payment.

Within 60 days of the tax taking announcements, the Collector will prepare an Instrument of Taking form for each delinquent property and record them at the Registry of Deeds to perfect the tax liens. After receiving the recorded Instruments back from the Registry, the Collector will notify the affected property owners of the liens by sending each of them a letter and a copy of the Instrument. The Collector will provide copies of the List of Recorded Takings to the Finance Director and Mayor.

C. Subsequent Taxes

After the demand bill and before June 15 each year, the Collector will certify all unpaid taxes for parcels of real estate taken into tax title for nonpayment of taxes in prior years and not yet redeemed and put them in a Subsequent Tax Takings report. The Collector will provide copies of the report to the Treasurer and Finance Director and retain one on file.

D. Interest, Fees, and License Revocation

All delinquent taxpayers are subject to charges, which the Collector will add to their accounts and tax bills. These include interest accrued to the date of tax taking, advertising fees, certified mailing costs, legal fees, and all recording fees.

The Collector will create a list of all the individuals who are delinquent in paying taxes or other charges and provide it to the City departments, boards, and committees that issue licenses and permits. These authorities will review the list to deny, suspend, or revoke delinquent taxpayers' licenses and permits.

E. Redemption

The taxpayer may redeem the tax title by paying off the debt, either in a lump sum or in partial payments.¹² Redemption can only be done prior to the property being foreclosed. Under this policy, if the taxpayer has paid at least 25 percent of the total amount owed (taxes, interest, and fees), the Treasurer will give them a statement that the time to fully redeem the tax title has been extended

¹² To promote equity, transparency, and long-term consistency, the City could consider adopting a tax title payment agreement ordinance pursuant to [M.G.L. c 60, § 62A](#). This statute also permits the City to decide whether or not to incorporate a provision in the ordinance to waive a portion of the interest owed when a taxpayer fulfills the agreement. For more information, see Informational Guideline Release [2005-208](#). To see samples, review the ordinances of Boston, Springfield, Holyoke, and Westfield.

two years from the statutory deadline for redemption (i.e., six months after the date of the original taking). If the debt, including interest and fees, is not fully paid by the end of that extended period, the Treasurer will initiate foreclosure activities. When a taxpayer pays the full outstanding amount on a tax title property, the Treasurer will prepare an Instrument of Redemption and file it at the Registry of Deeds, which removes the lien.

F. Foreclosure

The primary policy goal of the foreclosure process is to receive the outstanding amounts owed. On a quarterly basis, the Treasurer will review all tax title properties for all unpaid balances that are not subject to bankruptcy recordings and that are older than six months (or older than two years and six months if a statement granting a partial payment extension was issued). From these, the Treasurer will identify all properties of significant value to process for potential foreclosure in Land Court. To do this, the Treasurer will thoroughly verify the properties' enforcement histories before referring them to the tax title attorney, beginning with those with the largest debt owed.

As manager of the service contract, the Treasurer will ensure the tax title attorney complies with the objectives laid out in this policy section. The Treasurer will work with the tax title attorney to prepare parcels in tax title status for foreclosure, beginning by providing each Instrument of Taking. The tax title attorney will research the tax title properties and also mail new collection enforcement letters to the taxpayers telling them of the importance of redeeming the property and warning of potential foreclosure action. If the obligation remains unpaid, the tax title attorney will proceed with foreclosure action by filing a Petition to Foreclose Rights of Redemption in Land Court, possibly resulting in auctioning of the property.

In addition to Land Court foreclosure referrals, the Treasurer is responsible for completing foreclosures on any properties below the "Land of Low Value" threshold, which is annually updated each spring by the Division of Local Services (DLS).

SALEM REFERENCES

Ordinances	<ul style="list-style-type: none">▪ Chapter 2, Article III, Division 8, City Treasurer and City Collector, Sec 2-461▪ Chapter 2, Article XIV, Data Processing, Section 2-2030
Policies	<ul style="list-style-type: none">▪ Reconciliations

EXTERNAL REFERENCES

[M.G.L. c. 40, §§ 57, 42A, 42B, 42C, 42D, 42E, 42F](#)

[M.G.L. c. 60, §§ 6, 16, 22, 37, 40, 50, 53, 54, 57, 61, 62, 63, 76, 77, 79, 80](#)

DLS Informational Guideline Releases (annually updated): [Land of Low Value Foreclosure Valuation Limit](#)

DLS Guidance: [Local Tax Collection FAQs](#)

DLS Best Practice: [Enforcing Collections](#)

Massachusetts Collectors & Treasurers Association: [Treasurer's Manual](#) and [Collector's Manual](#)

TRAVEL/EMPLOYEE REIMBURSEMENT

Applies to:	All City employees and elected or appointed officials (all referred to here as “employees”)
Scope:	<ul style="list-style-type: none"> ▪ Guidelines for determining reasonable travel-related expenses ▪ Procedures, forms, and documentation required for reimbursement
Date:	[Date]

PURPOSE

To mitigate opportunities for fraud, waste, and abuse, the City must properly monitor and control travel costs and reimbursements to employees. This policy establishes rules governing reimbursements for legitimate business-related expenses, including necessary travel expenses incurred in performing official duties. It also provides guidelines for determining reimbursable expenses and details the procedures, forms, and documents required to receive reimbursement.

POLICY SUMMARY

Categories	Rules & Criteria	Required Documents ¹³
Professional development	<ul style="list-style-type: none"> ▪ Applicable only for any training, workshop, or conference that does not accept purchase orders 	<ul style="list-style-type: none"> ▪ Brochure (or if online info only: detailed screenshots with dates, hours, included expenses) ▪ Proof of attendance: such as certificate, name badge, screenshots of virtual sessions
Personal car transport	<ul style="list-style-type: none"> ▪ Destination must be outside the City of Salem ▪ Mileage calculated from employee’s residence or work location, whichever is closer to the destination ▪ Mileage reimbursed at IRS rate ▪ May submit for parking and tolls; no receipt needed for cash parking meters 	
Other transport	<ul style="list-style-type: none"> ▪ Airplanes, trains, buses, ferries ▪ Taxi fares only between home and airport/station and between airport/station and lodging ▪ City-owned vehicle: fuel is reimbursable 	<ul style="list-style-type: none"> ▪ Proof of travel: boarding pass or ticket
Lodging	<ul style="list-style-type: none"> ▪ Travel is longer than 24 hours ▪ One night before the event is reimbursable ▪ Must book at govt/group rate or most comparable when not available 	

¹³ These are the required documents **in addition to** a Reimbursement Request Form and proof(s) of purchase(s) (e.g., itemized receipts, credit card statement, etc.)

Categories	Rules & Criteria	Required Documents ¹³
Meals	<ul style="list-style-type: none"> ▪ \$20 max for lunch if gone for 6 hours, unless the meal is included in the fee ▪ \$50 max for each 24-hour period ▪ 20% tip max 	<ul style="list-style-type: none"> ▪ Write each employee's name with their charges on any receipt with multiple employees
Supplies	<ul style="list-style-type: none"> ▪ Out-of-pocket only allowed as a last resort and with the department head's approval 	<ul style="list-style-type: none"> ▪ Department head attestation that the supplies were received by the department
Time frames <ul style="list-style-type: none"> ▪ All requests for reimbursement should be submitted within 15 days of incurring the expense and no later than 30 days. Submissions received by the Finance Department beyond 30 days may not be reimbursed. ▪ Once the request is received the estimated time to reimbursement is two weeks. 		

POLICY TEXT

The City will reimburse employees for reasonable expenses incurred for travel on the City's behalf as authorized by their department heads. With the department head's preapproval, also reimbursable are non-travel-related, employee out-of-pocket expenses for any purchases that cannot otherwise be made through the purchase order (PO)/invoice process. When this policy is not followed, there is no guarantee that all employee expenditures will be reimbursed.

Employee travel shall be restricted to necessary activities that provide a public benefit, such as trainings, professional conferences, and other municipal-related activities. All travel on City business shall be planned for using the most economical mode and class of transportation reasonably available and the most direct and time-efficient route. Employees should determine estimates for their travel costs, discuss any extraordinary travel circumstances and expenses with their department heads, and obtain their authorizations in advance of travel. Employees will travel using government and group rates when available.

The City will not reimburse any sales taxes but will, however, pay meals and room excise taxes.

A. Unauthorized Expenses

The following expenditures will not be reimbursed:

- Alcoholic beverages and tobacco
- Hotel minibar
- Costs associated with any political or charitable event
- Expenses incurred for the sole benefit of the traveler, such as internet access, gym fees, valet service, entertainment, laundry services, etc.
- Expenses incurred by or on behalf of any person who is not a City employee who accompanies the employee on official business
- Theft, loss, or damage to personal property while on City business
- Non-mileage-related personal automobile expenses, including repairs, insurance, gasoline, and traffic citations

The Finance Director may refuse to approve for payment any claim deemed to be fraudulent, unlawful, or excessive. In that instance, the Finance Director will file a written statement of the reason for refusal with the Treasurer and forward copies to the Mayor and the originating department head.

B. Reimbursable Expenses by Category

Professional Development Events

- Whenever possible, registration fees for any conference or workshop should be submitted as a PO requisition in Munis. If the training/conference does not accept POs, the employee may pay out-of-pocket and then submit for reimbursement.
- The employee must provide documentation of attendance at the training/conference, such as a certificate of completion, name badge, or screenshot of virtual trainings.

Personal Car and Other Transportation

- Employees authorized to travel using their personal vehicle will be reimbursed at the Internal Revenue Service (IRS) mileage reimbursement rate in effect on the dates the travel occurred.
- Mileage will be calculated starting from the employee's office location or residence to the destination point, whichever distance is shorter.
- Transportation costs between the employee's residence and any office or meeting location within the City are not reimbursable.
- Employees must present receipts to be reimbursed for parking, tolls, airfares, taxi fares, and, when using a City-owned vehicle, fuel charges.
- Taxi fares may only be for routes between the employee's home and the airport/station and between the airport/station and place of lodging.
- If not traveling by car, the employee must include proof of travel, such as a train ticket or boarding pass.

Lodging

- If travel requires an employee to be away from home for more than 24 hours, he or she will be reimbursed for reasonable charges for lodging expenses.
- Lodging expenses must not exceed the group rate published by the conference or activity sponsor. If the sponsor's group rate is not available when booking, the City will reimburse for lodging costs comparable in location and quality and reserved at the lodging's government or group rate, whenever that is available.
- The City will reimburse for the overnights between the days of a multiday professional development event. One night before any single or multiday day event is also reimbursable.

Meals

- If travel requires an employee to be away from their work location for more than six hours, he or she will be reimbursed up to \$20.00 for lunch, unless lunch was included in the cost of the professional event. If longer than a 12-hour period, the per diem meals limit is \$50.00.
- Meals included in registration costs cannot be claimed for reimbursement or advance.
- Meal costs, including tips and taxes, incurred during the course of approved travel will be reimbursed only upon presentation of original itemized receipts. The City will not reimburse tips larger than 20 percent. If any receipt is for multiple employees, they should be listed on the receipt.

Business and Office Supplies

- Employees must obtain department head approval prior to incurring expenses for any business or office supplies, and all purchases made on behalf of the City must be necessary, reasonable, and appropriate.
- The department head must verify that the department received the supplies for which an employee requests reimbursement before approving the Reimbursement Request Form.
- Business-related special postal services or delivery services that are not available through the City will be reimbursed.

C. Reimbursement Submission

Every claim for reimbursement must be documented using a Reimbursement Request Form signed by the employee and their department head. Required information includes (as applicable): travel or purchase date(s), purpose, amount(s), and total business-related mileage. Except for mileage and cash parking meter expenses, the employee must attach to the form a receipt or other valid proof of payment for each reimbursement claim.

Employees should submit for reimbursement as soon as the travel concludes, and at maximum, no later than 30 days after the expenses being incurred. If an employee does not submit the Travel Reimbursement Form with the related receipts or other documentation within that time, he or she may be personally responsible for the expenses.

D. Violations

Employees who violate this policy will be held directly responsible for their actions. Consequences may include revocation of travel privileges, reparatory payments, suspension, or termination. Improper documentation of otherwise valid travel expenditures creates the appearance of fraud, waste, or abuse and may result in similar consequences. Moreover, misrepresenting expenses and intentionally submitting false claims are fraudulent and could result in criminal penalties.

E. Audit

All expenses are subject to verification of compliance with this policy and to audit by the City's independent auditor.

SALEM REFERENCES

Ordinances	▪ Chapter 2, Article III, Division 1, Section 2-106
Policies	▪ Disbursements ▪ Fraud
Forms	▪ Reimbursement Request Form

EXTERNAL REFERENCES

[M.G.L. c. 41, § 52](#) [M.G.L. c. 44, § 58](#) [M.G.L. c. 64H § 6\(d\)](#)

IRS webpage: [Standard Mileage Rates](#)

YEAR-END CLOSING

Applies to:	<ul style="list-style-type: none"> ▪ Mayor, Finance Director, Treasurer, and Collector 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
Date:	[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 Mayor 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 Finance Director will transmit a year-end instruction memo to department heads and provide them with the following submission deadlines:

- June 1: Status reports or updates on capital projects, capital assets, and borrowings
- June 10: Requests for budget line-item transfers
- June 15: Verification of open purchase orders
- June 30: All available invoices
- June 30: Status reports on grants, special appropriations, and special revenue accounts
- July 10: Invoices related to the fiscal year just ended

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

A. Year-end Encumbrances

The Finance Director 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). Any current fiscal year budget amounts committed by an active purchase order that is still open in Munis at the end of June will automatically carry over to the next year.

B. Review of Grants, Special Revenue Funds, and Special Appropriations

By June 30, every department head with responsibility for a grant, special revenue fund, and/or special appropriation will send the Finance Director 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 Supplemental & Budget Request Form and include it with the status package.

Depending on the status reported and documents received from the department head, the Finance Director will:

- Review the Supplemental & Budget Request Form and coordinate with the Mayor and City Council to obtain the suitable transfer 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 chart of accounts the verified balances for each grant, special revenue fund, and special appropriation that has been confirmed to be ongoing.

C. Review, Resolution, and Update of Capital Projects, Assets, and Borrowings

As of March 1, the Finance Director 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 Finance Director 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 Finance Director, in conjunction with the responsible department head, will complete a Supplemental & Budget Request Form to obtain either a debt authorization by City Council, appropriation from available funds by City Council, or line-item transfer by the City Council and Mayor.

By June 15, the Finance Director will distribute via email 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 Finance Director an asset update report with notes confirming the existing data, making additions, and/or noting appropriate deletions, along with narrative explanations. The Finance Director will update the City's capital asset inventory based on the returned information.

D. Year-end Transfers

The Finance Director and department heads will pay close attention to any pending appropriation deficit and pursue timely authorizations for same in accordance with the City's Appropriation Transfers & Supplements policy.

E. Closing the Books

No later than August 31, the Finance Director 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 open purchase orders from the prior fiscal year ~~are~~ 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.

F. Submissions to DLS

Annual submissions to DLS will comply with the time frames listed below.

Finance Director:

- | | |
|---|--------------|
| ▪ Snow and ice data sheet | September 15 |
| ▪ Community preservation surcharge report (CP-1)
(with the Chief Assessor) | September 15 |
| ▪ Balance sheet checklist | September 30 |
| ▪ Combined balance sheet and supporting documents | September 30 |
| ▪ Community preservation fund report (CP-2) | September 30 |
| ▪ Schedule A | November 30 |

Finance Director and Treasurer:

- | | |
|------------------------------------|--------------|
| ▪ Statement of indebtedness | September 30 |
| ▪ Treasurer's year-end cash report | September 30 |
| ▪ Cash reconciliation | September 30 |

Finance Director, Treasurer, and Collector:

- | | |
|---------------------------------------|--------------|
| ▪ Schedule of outstanding receivables | September 30 |
|---------------------------------------|--------------|

SALEM REFERENCES

Policies	<ul style="list-style-type: none"> ▪ Appropriation Transfers & Supplements ▪ Capital Planning ▪ Grants Management ▪ Reconciliations
Procedures	<ul style="list-style-type: none"> ▪ 2008-006 Year-end Receivables
Forms	<ul style="list-style-type: none"> ▪ Supplemental and Budget Transfer Form ▪ School Budget Request Transfer Form ▪ Budget Transfer – No Council Order Needed

EXTERNAL REFERENCES

[M.G.L. c. 44, § 33B](#) and [56A](#)

DLS Informational Guideline Release 17-13: [Appropriation Transfers](#)

DLS guidance: [Annual Year-End Letters](#) and [Municipal Calendar](#)

Governmental Accounting Standards Board Statement 1: [Objectives of Financial Reporting](#)

Government Finance Officers Association Guidance: [Timely Financial Reporting](#)

POLICY LOG

Financial Planning

Policy	Adopted	Reviewed	Revised
Annual Budget Process			
Annual Audit			
Appropriation Transfers & Supplements			
Capital Planning			
Debt Management			
Financial Reserves			
Forecasting			
Indirect Costs			
Investments			
OPEB Liability			

Financial Operations

Policy	Adopted	Reviewed	Revised
Disbursements			
Fraud			
Gifts of Funds			
Grants Management			
Procurement Conflict of Interest			
Reconciliations			
Returned Checks			
Revenue Turnover			
Tailings			
Tax Enforcement			
Travel/Employee Reimbursement			
Year-end Closing			