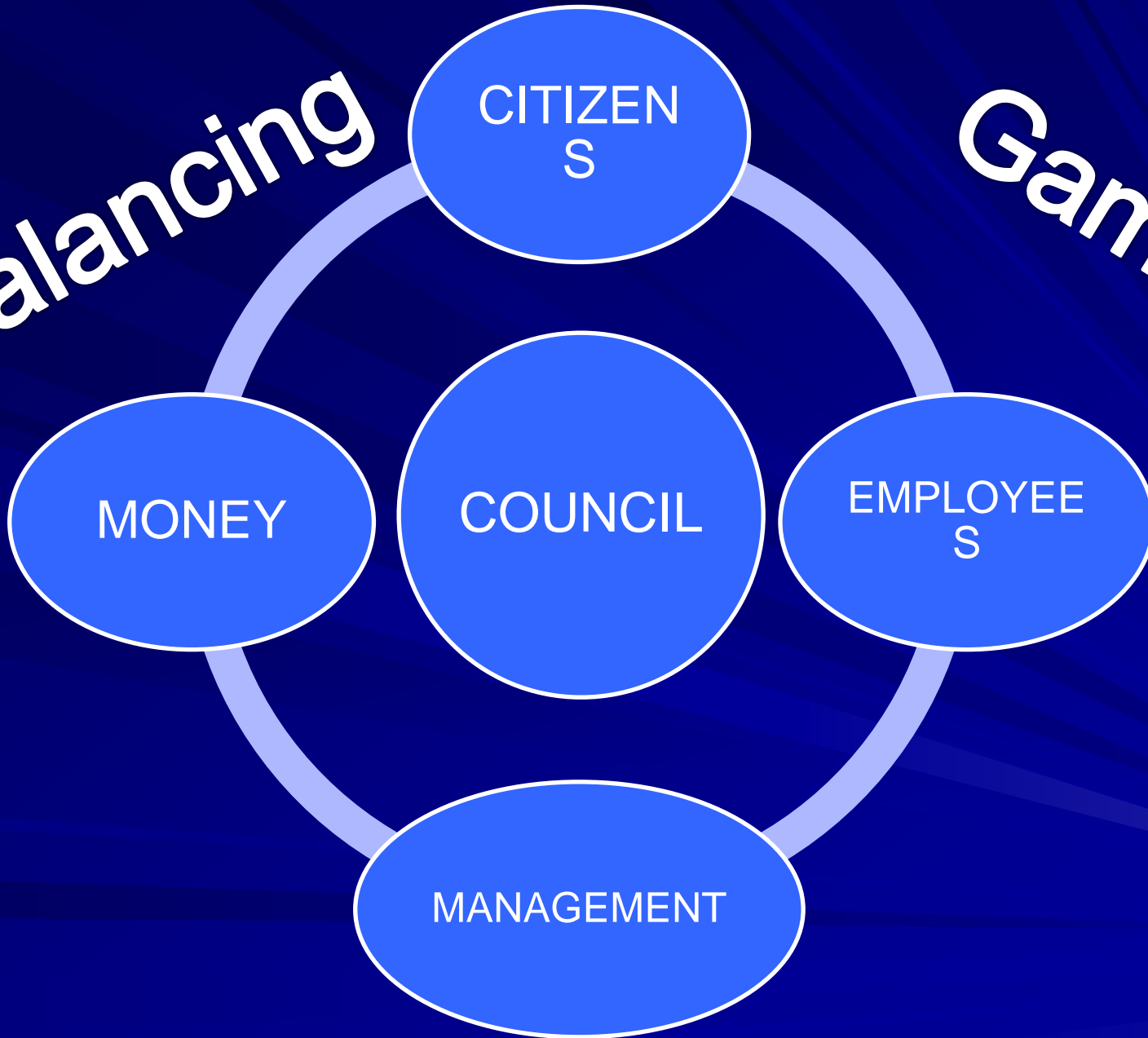




# Politics of Budgeting

**Balancing**

**Game**



# Balancing Politics

- **Use Policies to Justify**
- **Align Goals**
- **Obtain Public Input**
- **Understand Statistical Data**
- **Ultimately, Best Guess**



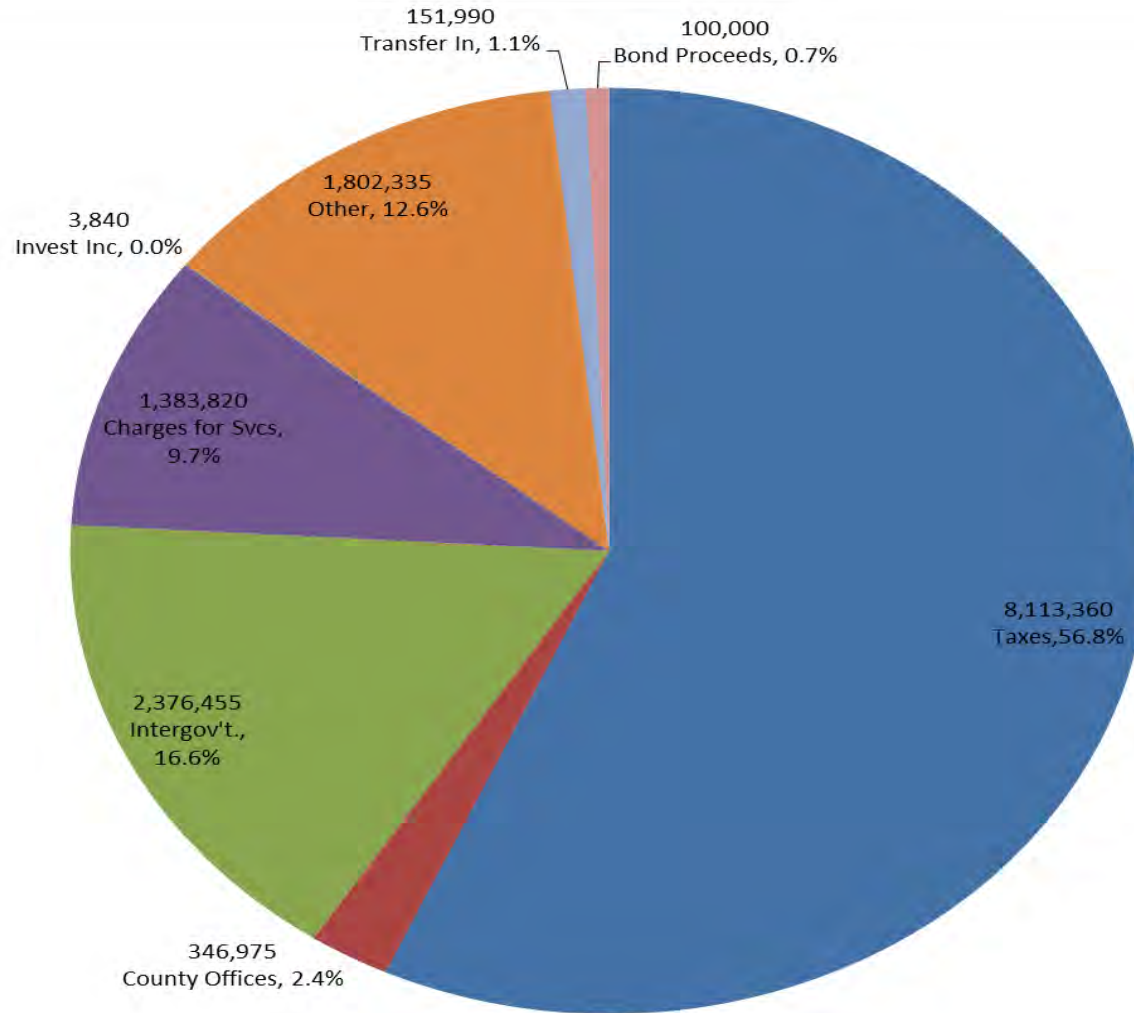
# Politics of Budgeting

- As staff don't involve yourself in the politics
- Leave that to elected officials
- Don't play favorites
- Resist allowing your personal political beliefs to come into play
- Remember- you are not there to push your own agenda

# Politics of Budgeting

- Logic/Rational often in short supply
- Compromise
- Despite it all, a lot of good can happen
- Be flexible, don't let frustration show
- Don't give emotional opinions
- Complain elsewhere, keep it out of the office
- A unique position: Taxpayer, both a recipient of and a provider of gov't services

# Revenue Sources and Forecasting



# Public Budgeting

“Not everything that counts can be counted and not everything that can be counted counts.”

Albert Einstein

# Revenue Sources

- Budget preparation begins with revenue projections

- Sources of revenue include:

  - Property tax

  - Federal and State Aid

  - Fees/Fines

  - Charges for Services

  - Usage of Fund Balance

  - Licenses and Permits

  - Interest Income

  - Transfers in from Other Funds

  - Sale of property

  - All Others(Misc)

Keep your head and your heart going in the right direction and you will not have to worry about your feet. Anonymous



# Typical Source Percentages

- 45% Property Tax
- 20% Federal and State Aid
- 5-10% Usage of Fund Balance
- 15-20% Fees, Fines, Licenses, Permits, and Charges for Services
- 5% or less Interest Income
- 5% Transfers in from other funds

My motto was always to keep swinging. Hank Aaron

# Property Tax

- Projected based upon the total assessed value of property multiplied by the appropriate assessment ratio multiplied by the applicable millage rate
- $\text{Assessed Value} \times \text{Assessment Ratio} \times \text{Tax Levy} = \text{Tax Due}$
- Agricultural, commercial, residential and personal property is taxed

Do not anticipate trouble, or worry about what may never happen. Keep in the sunlight.

Benjamin Franklin

# Property Tax – Real Property

- Counties levy against real property in the fall, usually September based upon assessed values established by: County Assessor, County Auditor and SCDOR.
- Various assessment ratios ranging from 4% to 10.5%
- Real property tax due in one payment on or before January 15<sup>th</sup>
- Penalties are added beginning with a 3% penalty on January 16<sup>th</sup>, 7% on February 2, and a 5% penalty on March 17<sup>th</sup>.
- After proper notification, law requires “exclusive possession” of the property necessary to satisfy delinquent taxes.
- Public auction during month of October

# Federal and State Aid

- Includes federal and state grant monies
- Also includes Local Government Fund
- LGF was developed to assist local governments in minimizing the potential increase in local property taxes to the citizens
- Based on a state-developed formula
- Includes “C” Funds from state from gasoline taxes

# Property Tax – Motor Vehicles

- Lien and collection date is the last day of the month in which the motor vehicle license expires
- County sends out vehicle tax notices each month so this means that the county is collecting this type of tax relatively evenly throughout the year

Luck is a dividend of sweat.  
The more you sweat the  
luckier you get. Ray Kroc

# Revenue Forecasting

- To ensure smoothly functioning budgeting processes and to maintain credibility with constituents, revenue forecasts must be reasonably accurate
- Revenue forecasting is one of the most complex topics in public finance
- Forecasting methods can be: Very Simple, Simple, Complex, or Very Complex
- Even complex mathematical models may produce estimates that are no better, and may even be worse, than those resulting from simpler methods

The road to excellence rarely has traffic. Anonymous

# Example – Real Property Collection Rates by Month 2002-Present

Month	Year									
	2002	2003	2004	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
September	N/A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
October	N/A	3.0%	0.9%	3.0%	4.1%	0.3%	0.0%	2.3%	3.7%	4.7%
November	N/A	8.2%	9.4%	N/A	9.6%	5.9%	3.0%	7.5%	9.2%	18.0%
December	N/A	32.8%	36.0%	N/A	40.4%	28.9%	26.3%	28.9%	43.1%	43.6%
January	N/A	88.1%	88.0%	88.6%	88.7%	88.3%	87.3%	86.2%	88.9%	-
February	N/A	90.3%	N/A	90.6%	90.4%	90.6%	89.3%	87.5%	90.5%	-
March	N/A	92.6%	93.2%	92.1%	92.6%	92.5%	91.2%	90.7%	92.1%	-
April	N/A	94.6%	95.0%	94.3%	94.4%	93.4%	92.7%	92.5%	93.5%	-
May	94.9%	N/A	95.6%	95.3%	95.1%	95.0%	93.6%	93.6%	94.0%	-
June	95.5%	N/A	96.1%	95.8%	95.7%	95.5%	94.0%	94.2%	94.6%	-
July	N/A	N/A	96.5%	96.2%	96.1%	95.9%	94.4%	94.6%	94.9%	-
August	96.8%	97.1%	97.4%	97.3%	96.9%	96.6%	95.1%	95.6%	95.8%	-

# Revenue Forecasting

- National Advisory Council on State and Local Budgeting (NACSLB) recommends 10 budget practices that should be used for revenue forecasting:

## 1. Develop Policy on Fees and Charges

A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

## 2. Develop Policy on Use of One-time Revenues

A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.



# Revenue Forecasting

## ■ 3. Evaluate the Use of Unpredictable Revenues

A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

## ■ 4. Develop Policy on Revenue Diversification

A government should adopt a policy that encourages a diversity of revenue sources.

## ■ 5. Prepare Revenue Projections

A government should prepare multi-year projections of revenues and other resources.

## ■ 6. Analyze Major Revenues

A government should maintain an in-depth understanding of its major revenues.

# Revenue Forecasting

## ■ 7. Evaluate the Effect of Changes to Revenue Source Rates and Bases

A government should evaluate and understand the effect of potential changes to revenue source rates and bases.

## ■ 8. Analyze Tax and Fee Exemptions

A government should periodically estimate the impacts and potential foregone revenue as a result of policies that exempt from payment, provide discounts and credits, or otherwise favor particular categories of taxpayers or service users.

## ■ 9. Achieve Consensus on a Revenue Forecast

A government should develop a process for achieving consensus on the forecasts used to estimate available resources for a budget.

## ■ 10. Document Revenue Sources in a Revenue Manual

A government should prepare and maintain a revenue manual that documents revenue sources and factors relevant to present and projected future revenues.

# Local Property Taxes

Ones affecting most citizens:

Home, or real property taxes,

and

## Vehicle Taxes

Success is the result of  
perfection, hard work, learning  
from failure, loyalty, and  
persistence. Colin Powell



Property Taxes are computed  
by:  
Assessment X Tax Levy

Assessment is computed  
by:

Market Value X Assessment Ratio =  
Assessment

Market Value is same as Appraised Value.

# Assessment

State law requires every county to conduct a countywide reassessment every five years. This means that a real estate appraiser from the Assessor's Office personally visits every property in the county and prepares an appraisal for each one. The purpose of the reassessment is to ensure that each piece of property is fairly valued, relative to all other real property values in the county.

The best way to have a good idea is to have a lot of ideas. Dr. Linus Pauling

# Assessment Ratios

- 4% Legal Residence
- 6% “Other”
- 4% and 6% Agriculture Use
- 10.5% Industrial Property, and previously, Vehicles



The ripest peach is highest on the tree. James Whitcomb Riley

# What is a levy?

A levy, or tax levy, is simply a multiplier.

It is a tax rate, or percent.

For example: A tax levy of 75 mils, would mean a 7.5% rate of tax, or expressed as a

decimal

would be .075



Be bold. If you're going to make a error, make a doozy, and don't be afraid to hit the ball. Billie Jean King



# Millage

Sometimes levy is referred to as millage.

Millage also is just a rate of taxation.

Millage is expressed in terms of mills.

One mill is one tenth of one cent, or .001.

For example: A levy 75 mills is expressed as  
.075.

Keep company with those who  
make you better. English proverb



Property Taxes are computed  
by:

Assessment X Tax Levy = Base Tax  
Amount

This formula is used for both real  
property and vehicles.

# Real Property (Homes) Tax

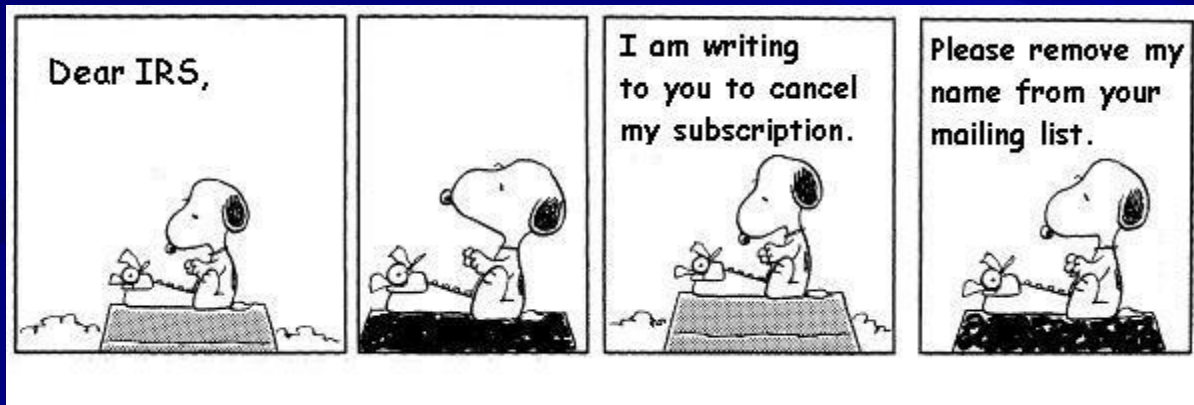


There are two common exemptions that work to reduce the base tax amount:

1. State Property Tax Relief
2. Homestead Exemption

# State Property Tax Relief

The State Property Tax Relief is a special exemption given to taxpayers on their 4% Legal Residence (domicile) property obtained through Legal Residence application with the Assessor's Office. It means that you are getting a credit against your Base Tax Amount on up to \$100,000 of Market Value of your legal residence. This credit is applied against the school operating portion only of your Base Tax Amount. Only one exemption is allowed per taxpayer. State funds are returned to the schools to offset a portion of school operating budgets, therefore reducing local property taxes. This exemption was enacted by the State in 1995 by Governor Beasley.



# Homestead Exemption

The Homestead Exemption is another special exemption obtained through application with the County Auditor's Office, given to taxpayers who are 65 years or older, blind, or disabled. This exempts the first \$50,000 of Market Value of your 4% Legal Residence (domicile) property from all local property taxes. Again, this exemption includes, but is not limited to, those who are 65 years of age or older, blind, or disabled. This legislation was enacted by the State in 1972.



Final Tax Due is the Base Tax minus any exemptions, then plus any fees.

Base Tax Amount - Exemptions + Fees =  
Net Tax Due

Do not follow where the path may lead. Go instead where there is no path and leave a trail. Anonymous

# Vehicle Assessment Ratio

Assessment ratio for vehicles changed by referendum in November 2000. Effective beginning in January of 2002. Original assessment was 10.5%, went down to 6.0%, ratably, over a six year phase-in. Reduced by  $\frac{3}{4}$  of 1% every January, stopped at 6.0%

# Vehicle Assessment Ratio

Assessment Ratchet Down Schedule from 10.5% to:

Jan of 2002 to Dec 2002	9.75%
Jan of 2003 to Dec 2003	9.0%
Jan of 2004 to Dec 2004	8.25%
Jan of 2005 to Dec 2005	7.50%
Jan of 2006 to Dec 2006	6.75%
Jan of 2007 to Dec 2007	6.00%



# Vehicle Assessment Reduction

What this means, is that, absent any increases to the levy, you saw a decline in your vehicle taxes each year, during this six-year phase-in.

Assessment X Tax Levy = Base Tax  
Amount

# Value of a Mil

- First step is to calculate, or estimate, the value of a mil
- Start with total assessed value of all taxable property in your jurisdiction
- Most counties will have this information via the County Auditor's Office, although other county officials have access to it as well such as Treasurer, Assessor, Finance

Your attitude is either your best friend or your worst enemy, your greatest asset or your greatest liability. John Maxwell

# Value of a Mil

- Once you have the total assessed value you have to consider what changes to these values may occur both before and even during the fiscal year you are projecting revenues for
- For example: Vehicles may increase, decrease, or stay the same
- You must consider economic conditions and any tax legislative changes that may impact your assessments
- For vehicles and example of a legislative change was the vehicle tax ratchet down that began in Jan 2002 and ran through December of 2007

# Value of a Mil

- Best to separate out the major items of your assessed values and estimate each one separately
- For example take your real property assessment and estimate any growth in that area
- You can make this as complex or as simple as you deem necessary
- My general experience is that a simple method yields as accurate results as do more complex
- You can even analyze mobile homes separate from stick built homes if mobiles are a large part of your totals

## Value of a Mil-Lessons Learned (sometimes the hard way)

- Analyze what makes sense to your specific jurisdiction but don't over analyze- that is a waste of time
- Remember that you are working with large numbers therefore if you make a mistake it will be a big mistake
- Ask appropriate officials for their input, such as Assessor, Treasurer, and Auditor. These folks are on the ground and have a good sense of tax collections and growth.
- Utilize your own in-house technology to gather data
- Create your own reports pulling from data that is already in place in your gov't systems

# How to Project Revenues

- Gather as much history as possible
- Use trends to estimate
- Use knowledge of economy
- Use knowledge of new or changes to existing legislation affecting revenues
- Ask for input from other county/city officials
- Always err on conservative side, you want to underestimate as opposed to overestimate

# Act 388

- Signed by Governor June 10, 2006
- Most know this as the property tax reform bill
- 3 most prominent provisions to counties/cities:
  1. Sales tax swap
  2. 15% assessment cap
  3. Levy (millage) limitations

He who is good at making excuses is seldom good for anything else.

Benjamin Franklin

# Sales Tax Swap

- State retail sales tax increased by one cent to 6% (eff. 6/1/07)
- Sales tax on groceries reduced to 3% on 10-1-06.
- Owner-occupied residential property exempt from all property taxes for school operations (starting in 2007)
- Increased sales tax revenue to fully reimburse school districts for revenue loss



# 15% Assessment Cap

- Maximum increase in assessed value is 15% over 5 years
- Properties that are sold go on the books at sales price – this is known as ATI = Assessable Transfer of Interest
- New construction adds some growth, but for most entities, this will result in slowdown of tax base growth
- Exception may be in areas that experience high property turnover

The richest soil, uncultivated, produces the rankest weeds.

Plutarch

## Millage limitation revised

SECTION 2. A. Section 6-1-320 of the 1976 Code, as last amended by Act 145 of 2005, is further amended to read:

"Section 6-1-320. (A) Notwithstanding Section 12-37-251(E), a local governing body may increase the millage rate imposed for general operating purposes above the rate imposed for such purposes for the preceding tax year only to the extent of the increase in the average of the twelve monthly consumer price indexes for the most recent twelve-month period consisting of January through December of the preceding calendar year, plus, beginning in 2007, the percentage increase in the previous year in the population of the entity as determined by the Office of Research and Statistics of the State Budget and Control Board. However, in the year in which a reassessment program is implemented, the rollback millage, as calculated pursuant to Section 12-37-251(E), must be used in lieu of the previous year's millage rate.

(B) Notwithstanding the limitation upon millage rate increases contained in subsection (A), the millage rate limitation may be suspended and the millage rate may be increased upon a two-thirds vote of the membership of the local governing body for the following purposes:

- (1) the deficiency of the preceding year;
- (2) any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot;
- (3) compliance with a court order or decree;
- (4) taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year; or

# Expenditures



Any time the going seems easier, better check and see if you're not going downhill.

# Expenditures

- County government expenditures are categorized according to the following functions:

General Government

Health and Welfare

Public Safety

Highways/Streets

Culture/Recreation

Transfers Out

Capital

One-fifth of the people are against everything all the time.

Robert Kennedy

# Expenditures

- The single greatest cost of all governments is salaries and associated fringes of government employees
- The work of government can rarely be done by machine, and keeping qualified, motivated staff while keeping staff costs under control is always a challenge

The true test of stewardship is not what your money is doing for you but what it's doing to you.

John Maxwell

# Expenditures

- Limited to the total overall appropriations in the budget ordinance
- This is referred to as the “legal level of control”
- Supplemental budget appropriations are sometimes used when it is evident that you will exceed its originally adopted budget
- A supplemental budget appropriation must be approved in the same manner as the original budget ordinance, i.e. three readings and public hearing
- An inordinate use of supplemental budget appropriations generally indicates poor planning

# Example of Line-Item Budget for Department

<b>COUNTY TREASURER- DEPT # 00400</b>				
GENERAL LEDGER ACCT #	EXPENDITURE CATEGORY	BUDGET FY 2017 - 2018	DEPARTMENT REQUEST FY19	BUDGET FY 2018 - 2019
	<b>PERSONNEL</b>			
010-005-00400-00005	SALARIES-FULL TIME	\$94,911	\$121,535	\$121,535
010-005-00400-00020	STATE RETIREMENT	12,870	17,695	17,695
010-005-00400-00021	F I C A & MEDIC ARE (COUNTY PORTION)	7,261	9,297	9,297
010-005-00400-00022	HEALTH INSURANCE (County Contribution)	24,702	57,683	57,683
010-005-00400-00023	UNEMPLOYMENT COMP INSURANCE	508	678	678
010-005-00400-00024	WORKER S COMP INSURANCE	2,233	2,942	2,942
	<b>TOTAL PERSONNEL</b>	<b>\$142,485</b>	<b>\$209,830</b>	<b>\$209,830</b>
	<b>OPERATING EXPENSE S</b>			
010-005-00400-00025	MEALS (SUBSISTENCE)	400	600	400
010-005-00400-00027	TRAVEL	1,000	1,000	1,000
010-005-00400-00028	PHOTOCOPY MAINTENANCE	575	600	600
010-005-00400-00029	LODGING	1,500	1,800	1,500
010-005-00400-00032	REGISTRATION FEES	1,250	1,500	1,250
010-005-00400-00033	DUES AND SUBSCRIPTIONS	200	200	200
010-005-00400-00040	SUPPLIES - OFFICE	2,500	3,100	2,500
010-005-00400-00038	INSURANCE - PROFESSIONAL LIAB FOR BCFC	1,100	1,100	1,100
010-005-00400-00752	PHOTOCOPY LEASE	1,400	1,400	1,400
	<b>TOTAL OPERATING EXPENSES</b>	<b>\$9,925</b>	<b>\$11,300</b>	<b>\$9,950</b>
	<b>CAPITAL</b>			
010-005-00400-00050	EQUIPMENT	\$0	\$0	\$0
	<b>TOTAL CAPITAL EXPENSES</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
	<b>DEPARTMENT TOTAL</b>	<b>\$152,410</b>	<b>221,130</b>	<b>219,780</b>



Monitoring the Budget



# Budgetary Controls

- What are some budgetary controls?
- The budget ordinance is a control in that it is the legal spending authorization limit
- Encumbrance accounting is a control
- Purchase order system is a control
- Divisional and departmental controls inherent in the budget
- Internal audit department or internal review system is a control

# Monitor with Periodic Reports

Budgeting process should include periodic reports to governing body

Negative variances should be highlighted and remedied when necessary

Administrators should notify elected officials if new developments require budgetary modifications

# Monitor with Periodic Reports

Budget is not a static document

Dynamic process requiring continuous monitoring and occasional revisions

Mid-year budget review is a good practice

Publish interim financial information

# Interim Financial Reports

What type of interim financial reports are being provided to management/Council?

Typically interim financial information should be available at least mid-year, sometimes late January is a good time so that property tax revenue can be included in the analysis.

It is important to know that your revenues are tracking according to the budget, or as expected. A shortfall of revenue can necessitate mid-year budget reductions

# Interim Financial Reports

Equally important, although more predictable is to ensure expenditures are also tracking according to the budget, or as planned.

Some counties use a monthly expenditure plan to monitor outflows

Most counties delegate this function to the chief executive officer and his/her department managers



# Interim Financial Reports

Large counties often have accountants in each department, or division, who act as that area's CFO

This adds another layer of oversight and control in addition to the Finance Department

Often these divisional accountants will prepare internal reports for management to track expenditures and ensure that program objectives are being met



# Capital Budgeting

If you want to make enemies, try to change something. Woodrow Wilson

# Capital Budgeting

- First step is to identify all capital improvements
- Then prioritize the projects
- Next prepare a time frame for their completion
- Prepare financing plan
- Usually the plan has a 5 to 10 year outlook
- Governing body should approve the plan



# Capital Budgeting

- Normally referred to as a Capital Improvement Plan
- A good practice, recommended by the National Advisory Council on State and Local Budgeting (NACSLGB)
- Make the CIP a part of your regular budget document
- In fact, this is a mandatory criteria for the GFOA Distinguished Budget Presentation Awards Program

# Capital Improvement Planning

Capital financing is best facilitated through the preparation , adoption, and implementation of multi-year capital improvement program

5 Year most common

Prioritizing and scheduling projects discourages inefficient decisions

# Capital Improvement Planning

Must include a sustainable and feasible financial plan that links resources and funding sources with spending

Include equipment and facilities

A well-thought out CIP can enhance economic development by providing for orderly improvements and well-planned land uses that support local industries and businesses

# Capital Improvement Planning

Catalog of existing facilities

Estimate life span of each facility and  
equipment item

Determine how much funding is needed  
each year to provide for orderly  
replacements

# Capital Improvement Planning

Debt financing is appropriate  
when:

1. Both present and future taxpayers benefit from the facility/equipment
2. Amount to be financed is substantial
3. Within borrowing limits

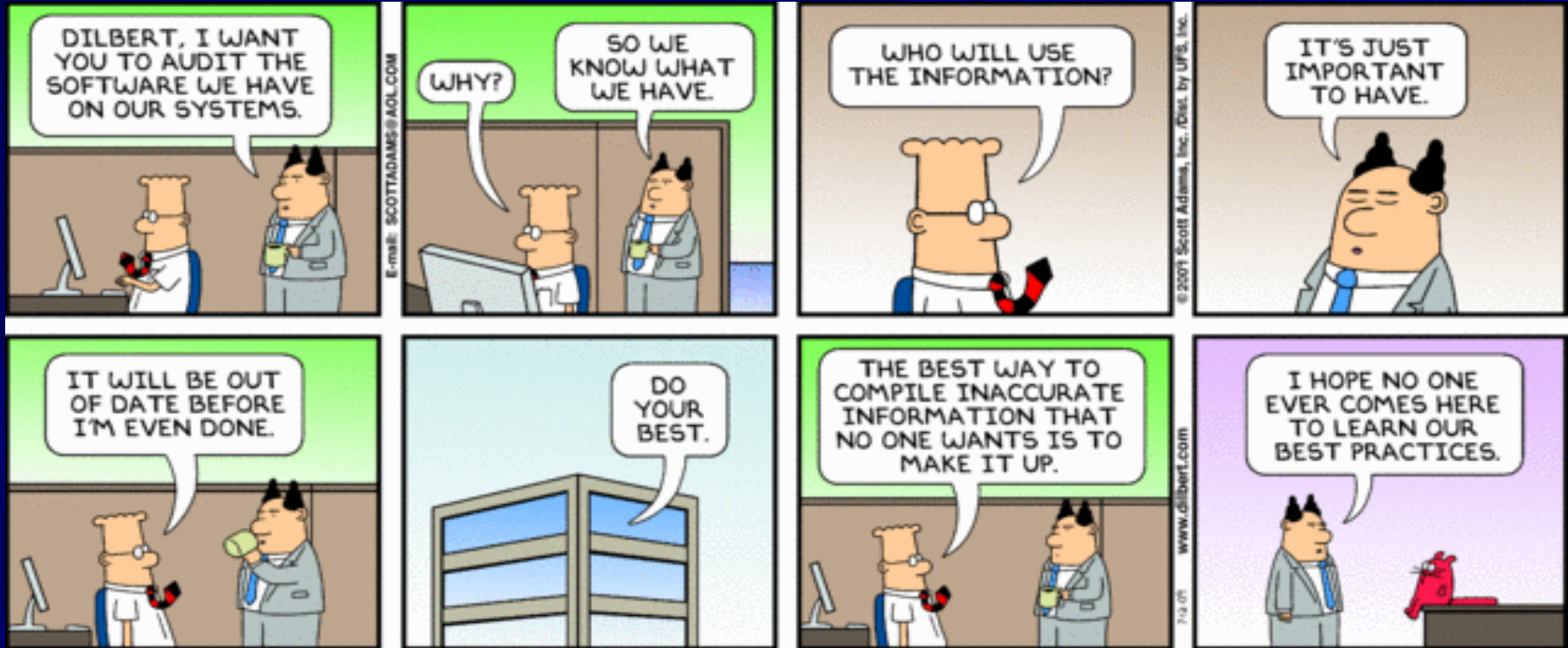
# Capital Budgeting

- Almost always, the cost of the projects will exceed the available funds of most governments
- Should have a process for evaluating the proposed projects. Allow ample opportunity for stakeholder involvement
- Each project should have both a capital cost and an operating cost identified
- The CIP should be fully integrated into the governments overall financial plan

# Capital Budgeting

Never give up, for that is just the place and time that the tide will turn. Harriet Beecher Stowe

- Revisit the plan annually, updating as necessary
- Some use a pay as you go philosophy while others are comfortable with using debt financing
- The CIP should be developed in tandem with a debt policy to insure the acceptability, and the affordability of the financing options needed



# The Financial Audit and the CAFR

You never have to recover from a good start.



# The CAFR

- Comprehensive Annual Financial Report
- Commonly referred to as the audit
- State law requires all governments to publish, within 6 months of the close of the fiscal year, a complete set of financial statements
- Must be prepared in conformity with accounting principles known as GAAP
- Must be audited in accordance with auditing standards generally accepted in the U.S. by a firm of licensed certified public accountants.

# The Audit- State law

**SECTION 4-9-150.** Audits of county records; designation of auditors; public inspection of report.

The council shall provide for an independent annual audit of all financial records and transactions of the county and any agency funded in whole by county funds and may provide for more frequent audits as it considers necessary. Special audits may be provided for any agency receiving county funds as the county governing body considers necessary. The audits must be made by a certified public accountant or public accountant or firm of these accountants who have no personal interest, direct or indirect, in the fiscal affairs of the county government or any of its officers. The council may, without requiring competitive bids, designate the accountant or firm annually or for a period not exceeding three years. The designation for any particular fiscal year must be made no later than thirty days after the beginning of the fiscal year. The report of the audit must be made available for public inspection. A copy of the report of the audit must be submitted to the Comptroller General no later than January first each year following the close of the books of the previous fiscal year.

If the report is not timely filed, or within the time extended for filing the report, funds distributed by the Comptroller General to the county in the current fiscal year must be withheld pending receipt of a copy of the report.

State Law Section 4-9-150

# Selection of Auditors

- Normally accomplished through a competitive bidding process
- Use of RFP or RFQ
- Best to not rely solely on price
- Selection and evaluation process should also consider: the breadth and depth of the firm's experience in similar engagement, the quality and responsiveness of the audit work plan, and the auditor's knowledge of upcoming accounting and auditing pronouncements

# Audit Purpose

- To provide reasonable assurance that the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP)
- Audit includes examining, on a test basis, evidence supporting the disclosures in the financial statements



# Audit Purpose

- Principles of transparency and accountability for the use of public resources are key to the governing process
- Auditing is essential for that accountability
- Provide key information to stakeholders
- Also improves performance, reduces costs, facilitates decision making, stimulate improvements, identifies trends that affect government

If you think you can, you can. And if you think you can't, you're right.

Mary Kay Ash

# Audit Standards and GAO

- Private sector auditing performance standards are set forth by a variety of private organizations such as the American Institute of Certified Public Accountants (AICPA).
- Government agencies auditing performance standards are set by U.S. Government Accountability Office.
- Yellow Book

The young man knows the rules,  
but the old man knows the  
exceptions.

Oliver Wendell Holmes

# Government Auditing Standards



- GAS (the Yellow Book) contains standards for audits of government organizations
- Normally referred to generally accepted government auditing standards (GAGAS)
- GAGAS pertain to auditor's professional qualifications, the quality of the audit effort, and the audit reports

Experience is knowing a lot of things you shouldn't do.

# Other Professional Audit Standards

- American Institute of CPA (AICPA) publishes Statement's on Auditing Standards (SAS)
- Public Company Accounting Oversight Board (PCAOB)
- International Auditing and Assurance Standards Board (IAASB)
- Auditors use GAGAS in conjunction with all these standards



# Auditor Independence

- Auditor must be free from personal, external, and organizational impairments to independence
- Must avoid the appearance of such impairments
- If not independent, then auditors are rendered incapable of giving an objective opinion

Nobody gets to run the mill by doing run-of-the-mill work.

# Single Audit

- During the 1960's and 1970's federal grants grew to become a significant funding source for state and local governments
- There were thousands of federal programs being administered by different federal agencies, in many instances, each agency required its own accounting practices.
- Thus, keeping track of the accounting, reporting, and auditing demands was a heavy burden for state and local governments receiving federal assistance.

# Single Audit

- Efforts were made to standardize in the 60's, but no real success made until late 70's
- Finally, the Single Audit Act passed in 1984, which required that audits be conducted on an agency wide basis instead of grant by grant.
- The Single Audit requires the auditor to report not only on the fair presentation of the financial statements, but also on the entity's internal controls and compliance with legal requirements.
- A separate report is issued and is called the "Single Audit" report.
- The Single Audit is broader in scope than the financial statement audit.



# Other Types of Audits

- Performance audits – provides assurance or conclusions based on an evaluation of evidence against stated criteria. Typically used to evaluate a programs performance or operations.
- Compliance audits – used to measure adherence to regulations relating to a federal award
- Attestation engagements – covers a broad range of financial or non-financial objectives and provides different levels of assurance

# Audit Opinion

- Unqualified or Unmodified (Clean)– this means that the auditor can state, or attest, that the entities financial statements present fairly the results of operations
- Qualified – this means that the auditor cannot state, or agree, that the financial statements are presented fairly.
- Disclaimer – no opinion
- Adverse – an opinion that the financial statements do not present fairly the results of operations
- Additionally, the auditor will state whether the audited financial statements are prepared in accordance with generally accepted accounting principles or other principles applicable to the organization.


# Internal Control

- Management's responsibility
- As with any organization responsible for large sums of money, governmental entities are subject to risks of fraud, embezzlement, misrepresentation, misappropriation, incompetence, and related problems.



# Internal Control

- Incorporates a much broader risk management focus
- Safeguarding of assets
- Legal compliance
- Management of financial risks
- Preparation of reliable financial reports



Tone at the Top  
Very Important!



# Financial Planning and Policies

To err is human...but when the eraser wears out ahead of the pencil, you're overdoing it.

Jerry Jenkins



# Financial Policies-Principles

Well prepared elected officials can assume leadership role in creating and sustaining long-term financial policies

Professional finance managers share experience, insights

Thereby supporting elected officials

Achieving common goal of serving the public interest

Long-term perspective far more important than short-term

Each governmental entity should adopt prudent, long-term policies



# Financial Policies-Why?

Public office is a public trust

Responsible leaders realize that a long-term perspective will produce a legacy far more important than short-term expedience

Each governmental entity should adopt prudent, long-term policies

# Adopt Prudent, Long-Term Financial Policies

Budgets should be based on realistic revenue estimates, and current operating expenses should be fully budgeted – not deferred to future years

Non-recurring (one-time) revenues and fund balances should be used for \_\_\_\_\_  
(what type) of expenses?

Not to be used as wallpaper over ongoing deficits

# Financial Policies-Fund Balance

- Every government should adopt fund balance policies to set parameters for the financial reserves appropriate to ensure stable operations without overburdening current taxpayers
- Referring to these policies in the budget process and documents can establish the rules of engagement for policymakers.
- Periodically review policies and compare decisions made to the policies

# Financial Policies-Fund Balance

Fund Balance Policy. How much?

Necessary to ensure stable operations  
without overburdening current taxpayers

Incorporated into long-term financial plan

Sometimes referred to as rainy-day or fiscal  
stabilization funds

Consider putting fund balance policy in your  
budget ordinance

# Financial Policies-Fund Balance

Temptation is strong to compensate for chronic budgetary shortfalls by using previously accumulated fund balances

The more volatile a government's revenue stream and the longer the lead time necessary to reduce operating expenditures, the greater the financial cushion must be.

# Financial Policies-Fund Balance

Cash flow must be examined so that a sufficient cash balance is maintained to avoid undesirable borrowing

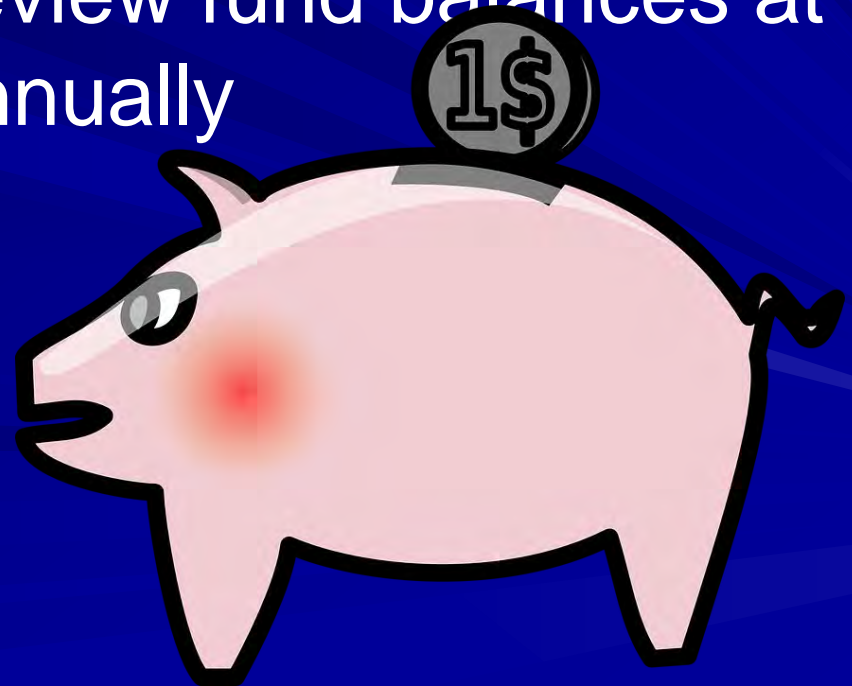
Remember that lower fund balances reduce interest/investment income and thus weaken future revenues

# Financial Policies-Fund Balance

Excessive fund balances may reflect stockpiling or lack of financial management

Taxpayer resistance may emerge

Policymakers should review fund balances at least annually






# Financial Policies-Fund Balance

Desired level of fund balance  
to be maintained

Circumstances in which they  
would be used

How they would be  
replenished, and

Over what time period they  
would be used



Policy should  
Address:

# Fund Balance Policy

- Rainy-day or fiscal stabilization funds should be incorporated into the long-term financial plan, especially if revenues are so cyclical that traditional fund balance levels are insufficient to sustain ongoing operations in lean years

If in the last few years you haven't discarded a major opinion or acquired a new one, check your pulse. You may be dead. Gelett Burgess

# Fund Balance Policy

- County governments must pay close attention to cash reserves
- Property tax revenues are cyclical
- Operating expenditures are relatively constant from month to month
- No set amount for reserves, although most schools of thought recommend 4 to 6 months of operating expenditures
- Each entity must examine their cash outflows versus inflows to determine what is adequate
- Cash reserves is an important factor to credit rating agencies
- Important to formalize your fund balance policy as credit rating agencies look for that

# Financial Policies-Debt

Debt – use frugally. Plan to achieve the most favorable borrowing rates.

Debt should be openly and widely debated

Manage your credit rating

A component of capital improvement plan

Debt service payments should be evenly planned

Financial practices should be designed to secure the most favorable borrowing rates for capital projects and long-term financing needs

# Financial Policies-Procurement

Procurement Policy. Competitive and value-based to ensure best buy for taxpayer dollars.

Purchasing procedures should be codified

Staff should be trained annually

Procurement should be competitive to ensure the best buy for taxpayer dollars

When the eagles are silent, the parrots begin to jabber.  
Winston Churchill

# Anti-Fraud Policy

- Approved by Council, generally through Resolution
- Describes what is considered fraud
- Describes what action/investigations are required as a result of suspected fraud
- Mandates that all employees must report fraud
- Mandates that management take fraud seriously and take corrective action to improve controls
- A part of an overall enterprise risk management plan

**RESOLUTION #R2010-029**

**A RESOLUTION TO APPROVE ANDERSON COUNTY'S ANTI-FRAUD POLICY; AND MATTERS RELATED THERETO**

**WHEREAS**, in order to improve Anderson County's financial policies and internal controls, the Anderson County Finance Division, working with the County's outside auditors, developed the Anti-Fraud Policy as more fully set forth in the document which is attached hereto and incorporated herein as **Exhibit A**;

**WHEREAS**, the Anderson County Council wishes to express its approval of the Anti-Fraud Policy;

**NOW, THEREFORE, IT IS HEREBY RESOLVED** by Anderson County Council that:

1. The Anderson County Council endorses and approves the Anti-Fraud Policy.
2. This resolution shall take effect and be in force immediately upon enactment.

**RESOLVED** in meeting duly assembled this 20<sup>th</sup> day of April, 2010.

**ATTEST:**

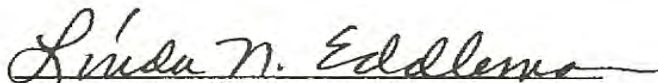


Rusty Burns, Interim County Administrator

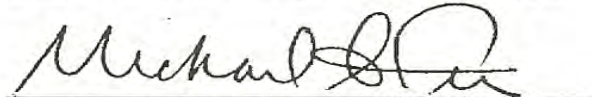
**FOR ANDERSON COUNTY:**



Tommy Dunn, Chairman



Linda N. Eddleman, Clerk to Council



Michael S. Pitts, Anderson County Attorney

APPROVED AS TO FORM

# Other Policies Related to the Budget

- Economic development policies – assess your county's competitive position locally and globally
- Consider the long-term economic and financial benefits of economic development policies
- Optimize the use of land, labor force, infrastructure, and other resources

No man ever listened himself out of a job. Calvin Coolidge



# Other Policies Related to the Budget

- Capital replacement policy – anticipate the inevitable aging and obsolescence of facilities and equipment
- This can be made a part of the Capital Improvement Budget
- Again, this is something that credit rating agencies look for
- You can never over-plan!



# Debt Administration

The farsighted tend to get blindsided by the nearsighted.

# Debt Management Plan

Can be freestanding or part of your capital improvement plan

Should portray your long-term capacity to absorb and repay debt

Important-take into account other long-term obligations such as unfunded pension and retiree medical benefits

Update annually

# Debt Management Plan

Identifies borrowing requirements

Short-term first, then equipment, then capital improvements

Next, identify infrastructure, enterprise, and other public facilities

Identify all possible sources of funding

Timing, capacity of electorate and taxpayers to support debt

# Debt Management Plan

Encourage efforts to improve bond rating

Marketability of debt

Schedule principal payments as early as possible to avoid burdening future generations for aged facilities or benefits they do not receive (back-loading)

Sound financial planning is highly valued by investors

# Debt Management

- A debt management policy, not only appropriate tool for management but also important for bond ratings
- Part of debt management is to not exceed the Legal Debt Margin
- Debt policy may state that debt will not exceed certain levels, such as debt per capita, or even a certain millage level
- Unique to each county's fiscal capacity
- Important to continually monitor and analyze market conditions, cash flow needs,
- Typically this is done formally each year in the budget process so that any debt that is issued can be synchronized with the fiscal budget

# Credit Rating

- Council members should know their city or county's credit rating
- Improvement in ratings can save hundreds of thousands of dollars in interest costs
- There are several major rating agencies:
  1. Standard & Poor's
  2. Moody's Investors Service
  3. Fitch

When you soar like an eagle, you attract hunters.

# Credit Rating

- Council has the ability to impact this very important criteria
- Through the hiring of professional administrators, and
- Through sound policy setting and guidance that maintains county on solid financial footing, and
- Through approving budgets that provide adequate revenue streams to maintain and grow county services, and
- Through participation in Bond Rating presentations



# What are the factors that rating agencies look for?

- Overview of the City/County, mission statement, and key staff
- Growth trends and progress in terms of population, building permits, demographics
- Extensive use of planning, monitoring and updates to those plans, ex. Sewer, land use, parks & recreation, transportation

The bamboo which bends is stronger than the oak which resists.

Japanese Proverb

# What are the factors that rating agencies look for?

- Existing industries
- Capital investments
- Diversity and strength of tax base
- Economic situation, in terms of outlook, technical training, per capita income, unemployment rate

He who has a sharp tongue soon cuts his own throat.

# What are the factors that rating agencies look for?

## ■ Financial factors

1. Fund Balance
2. Budgetary controls
3. Investment policies

## • Debt factors

1. General obligation debt per capita
2. General obligation debt as a percentage of assessed value
3. Legal debt margin

He who forgets the language of gratitude can never be on speaking terms with happiness.

# How are these factors communicated?

- Often through a live presentation to the rating agencies
- Agencies keep track of County's data through interim submission of CAFR's and other information
- Conference calls are also used for updates and to give the agencies the opportunity to ask questions of management

Give neither counsel nor salt until you are asked for it.

# Ratings Explained

- Hierarchy of letters and number scale
- Each agency has a different rating scale

A pint of example is worth a  
gallon of advice.

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>Meaning</b>
<b>Investment Grade</b>	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-		
<b>Junk</b>	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	In Default
			CC-	
D	D	DDD		

## County Credit Ratings

County	Fitch	Moody's	S&P
Abbeville			
Aiken		Aa2	AA
Allendale			
Anderson		Aa2	
Bamberg			AA
Barnwell			
Beaufort		Aa1	AA
Berkeley		Aa2	AA
Calhoun			
Charleston	AAA	Aaa	AAA
Cherokee			
Chester			
Chesterfield			
Clarendon			
Colleton		Aa3	AA-
Darlington			A-/A-1
Dillon			
Dorchester		Aa2	AA
Edgefield			
Fairfield			
Florence		Aa2	AA
Georgetown		Aa2	
Greenville	AAA	Aaa	AAA
Greenwood		A1	A+

## Ratings Defined

Fitch	AAA	Highest credit quality
	AA	Very high credit quality
	A	High credit quality
	BBB	Good credit quality
Moody's	Aaa	Exceptional financial security
	Aa	Excellent financial security
	A	Good financial security
	Baa	Adequate financial security
S&P	AAA	Extremely strong capacity
	AA	Very strong capacity
	A	Strong capacity
	BBB	Adequate capacity

Note: In some cases, Fitch and Standard & Poor's use a plus or minus sign to show relative standing within a rating category. Similarly, Moody's uses the numerical modifiers 1, 2, and 3 with 1 signifying the higher end of a rating category and 3 signifying the lower end.

# Legal Debt Margin

**BAMBERG COUNTY, SOUTH CAROLINA  
COMPUTATION OF LEGAL DEBT MARGIN  
JUNE 30, 2019**

Real and Other Personal Property Assessed Value	\$ 18,901,220
Vehicles Assessed Value	5,045,510
Public Utilities and Railroads	5,995,660
Fee-in-Lieu of Taxes/Joint Industrial Park Fees	5,551,250
Other Business Personal Property	740,510
Manufacturer's Assessed Value	261,910
Merchants Inventory Value	<u>394,850</u>
Total Taxable Assessed Value	<u>36,890,910</u>
Debt Limited - Eight Percent (8%) of Total Taxable Assessed Value	2,951,273
Amount of Debt Applicable to Debt Limit Total Bonded Debt - Note 12	<u>1,544,507</u>
<b>LEGAL DEBT MARGIN</b>	<u><u>\$ 1,406,766</u></u>

Found in Statistical  
Section of your CAFR



# Debt Policy

- Once a jurisdiction decides to issue debt, it should develop a formal debt policy to establish parameters and to provide general direction to staff
- The GFOA recommends that all state and local governments adopt comprehensive written policies and that these policies should be reviewed at least annually and revised as necessary
- Debt policy should be formally submitted to and adopted by the elected officials

A new broom sweeps clean, but the old one knows where the dirt is.

# Debt Policy

■ A debt policy will encompass several elements:

- \* Purposes for which debt will be issued
- \* Types of debt
- \* Limitations
- \* Debt maturity schedules
- \* Method of sale
- \* Use of consultants and professionals
- \* Refunding policies
- \* Disclosure practices

Not everyone repeats gossip. Some improve it.

Franklin P. Jones

# Debt Policy

- Establishing a policy on acceptable levels of debt requires an understanding of:
  - \* Legal limitations on debt
  - \* Service levels and other factors affecting operating expenses
  - \* Debt commitments of other government entities
    - relying on the same tax base
  - \* Demographic and economic trends affecting the community

A dog is loved by old and young; he wags his tail and not his tongue.

# Investment Policies

- As in S.C., many states control basic investment authority through statutes
- Most counties delegate the authority to County Treasurer
- Section 12-45-220 Investments by county treasurers

SECTION 12-45-220. Investments by county treasurers.

(A) A county treasurer may invest or reinvest any sum of money not necessary for current expenses in:

(1) obligations of the United States and its agencies;

(2) general obligations of this State or any of its political subdivisions;

(3) savings and loan associations if their deposits are insured by an agency of the federal government;

(4) certificates of deposit where the certificates are collaterally secured by securities of type described in items (1) and (2) of this subsection held by the third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, but the collateral is not required to the extent the certificates of deposit are insured by an agency of the federal government; or

(5) no load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that county treasurer, if the particular portfolio of the investment company or investment trust in which the investment is (i) limited to obligations described in items (1) and (2) of this subsection, and (ii) have among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method. The portfolio may also consist of repurchase agreements when collateralized by obligations described in items (1) and (2) of this subsection.

(B) The governing body may delegate the investment authority provided above to the county treasurer who shall assume full responsibility for the investment transactions until the delegation of authority terminates or is revoked.

(C) The State Treasurer may assist local governments in investing funds that are temporarily in excess of operating needs.

(D) All interest and other earnings, when collected, must be added to the fund and paid out as other funds of the same sort are paid.



# Public Budgeting

GFOA Awards Program

# Two Main Programs

Distinguished Budget  
Presentation Award (Budget  
Awards Program)

Certificate of Achievement for  
Excellence in Financial  
Reporting (CAFR Program)

# Budget Awards Program - Purpose

Established in 1984

Encourage and assist state/local gov'ts to prepare budget docs of very highest quality

Reflect guidelines est by National Advisory Council on State and Local Budgeting as well as GFOA's best practices on budgeting

To recognize gov'ts that succeed in these goals



# Budget Awards Program

Open to any type of government at either state or local level that makes available to general public an operating budget document

May submit either proposed or approved budget

Must be received within 90 days of the date when the budget was proposed/adopted

Reviewed by GFOA staff and by outside reviewers with experience in public-sector budgeting

# Budget Awards Program

Must submit multiple copies of  
the budget document

Application form with fee

Submit detailed criteria  
location guide

# Budget Awards Program

27 Criteria, grouped into 4 categories

Rated as either Not Proficient, Proficient, or Outstanding

To receive the award, must be rated either proficient or outstanding by at least 2 of the 3 reviewers for all four basic categories, as well as for 14 of the 27 specific criteria identified as “mandatory”

# CAFR Program

Established in 1945

To encourage and assist state/local governments to go beyond the minimum requirements of generally accepted accounting principles

To prepare CAFR that evidence the spirit of transparency and full disclosure

To recognize gov'ts that succeed in these goals

# CAFR Program

Submit multiple copies of the report, within 6 months of year-end

Application, plus any responses to previous year's reviewer's comments

Fee

Reviewed by GFOA staff and the GFOA Special Review Committee (SRC) which comprises individuals with expertise in public-sector financial reporting

# CAFR Program

Checklist designed to determine compliance with both GAAP and policy as established by the SRC

Reviewers never selected from same state as the CAFR being examined or from the same auditing firm that performed the independent audit

Checklist is 78 pages, found on [www.gfoa.org](http://www.gfoa.org)

Click on awards program and then on checklist

# FINAL ITEMS

Communicating with Your Finance Professionals



If your dog thinks you're the greatest person in the world, don't seek a second opinion.

# Communicating with your Finance Professionals

- Complexity of governmental finance makes it increasingly important to recruit degreed, credentialed finance professionals
- Auditing background a big plus
- First, know that finance professionals enjoy talking about county issues and are very open to dialogue
- Take some time to become familiar with the accounting terms used



# Communicating with your Finance Professionals

- If you don't understand something, stop the finance person and simply say, "what are you talking about"
- Caught up in the excitement of government finance and we forget that not everyone speaks our language
- A good finance person will be cognizant of that and will talk in plain language
- Beware the finance person that does not take the time to explain things

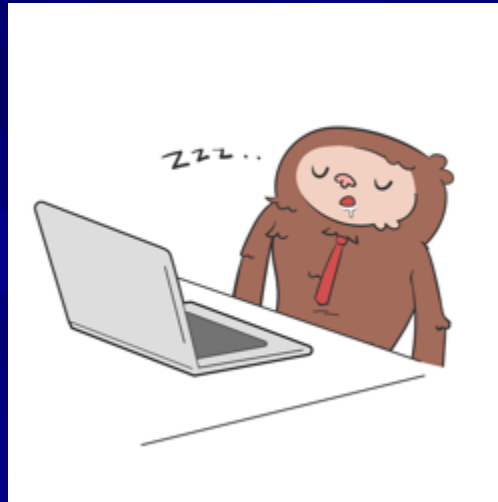
# Communicating with your Finance Professionals

- Respect the finance professional's time
- Call ahead, make an appointment and let them know what you wish to discuss, results in shorter meetings and more prepared staff
- Be mindful of the fact that your finance professional is not a politician
- Although a good finance person will certainly understand the political issues behind the financial ones

# Communicating with your Finance Professionals

- Respect the organization's structure and accepted practices
- Work through the City/County Administrator first and let him/her direct you to the appropriate staff person
- By bypassing the Administrator and going directly to staff you are putting that staffer in an uncomfortable position and may damage future relationships

# Wrap Up





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## What is Budgeting?

Budgeting is the tactical implementation of a business plan. To achieve the goals in a business strategic plan, we need some type of budget that finances the business plan, and sets measures and indicators of performance. We can then make changes along the way to ensure that we arrive at the company's goals.



# Wrap Up

## Translating Strategy into Targets and Budgets

There are four dimensions to consider when translating high-level strategy, such as mission, vision, and goals, into budgets.

1. Objectives are basically your goals, e.g., increasing the amount each customer spends at your retail store.
2. Then, you develop one or more strategies to achieve your goals. The company can increase customer spending through expanding product offerings, sourcing new suppliers, promotion, etc.
3. You need to track and evaluate the effectiveness of the strategies, using relevant measures. For example, you can measure the average weekly spending per customer and average price changes as inputs.
4. Finally, you should set targets that you would like to reach by the end of a certain period. The targets should be quantifiable and time-based, such as an increase in the volume of sales or an increase in the number of products sold.

# Goals of Public Budgeting

## **Goals of the Budgeting Process**

Budgeting is a critical process for any businesses in several ways.

### **1. Aids in the planning of actual operations**

The process gets managers to consider how conditions may change and what steps they need to take, while also allowing managers to understand how to address problems when they arise.

### **2. Co-ordinates the activities of the organization**

Budgeting encourages managers to build relationships with the other parts of the operation and understand how the various departments and teams interact with each other and how they all support the overall organization.

### **3. Communicating plans to various managers**

Communicating plans to managers is an important social aspect of the process, which ensures that everyone gets a clear understanding of how they support the organization. It encourages communication of individual goals, plans, and initiatives, which all roll up together to support the growth of the business. It also ensures appropriate individuals are made accountable for implementing the budget.

# Goals of Public Budgeting

## **4. Motivates managers to strive to achieve the budget goals**

Budgeting gets managers to focus on participation in the budget process. It provides a challenge or target for individuals and managers by linking their compensation and performance relative to the budget.

## **5. Control activities**

Managers can compare actual spending with the budget to control financial activities.

## **6. Evaluate the performance of managers**

Budgeting provides a means of informing managers of how well they are performing in meeting targets they have set.





"Yea, though I walk through the valley of the shadow of death, I will fear no evil" Psalm 23

# Thank You for Your Time Today!



[ginasmithcpa@gmail.com](mailto:ginasmithcpa@gmail.com)

[smithgr@bambergcounty.sc.gov](mailto:smithgr@bambergcounty.sc.gov)

Just be glad you're not getting all the government you're paying for.