

Financial Management Series Number 1

Basics of Local Government Financial Management

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Official's Responsibility

- **Local government officials have a fiduciary responsibility to manage public funds in the most responsible manner their abilities and the local situation allow**
- **Misuse of public funds is the most frequent cause for public official indictments**

Budgets

- **All levels of local government in Wisconsin are required by statute to produce and manage a budget**
- **Operating on only an appropriation ordinance, as is still legal in Illinois and some other states, is prohibited in Wisconsin**

Budgets

The preparation and approval of a budget is probably the single most important duty of local government officials because it determines what services will be provided, to what extent they will be provided, and how they will be funded. This affects every citizen in their community.

Budgets

- **Line Item Budgets are the norm in Wisconsin**
- **While not expressly prohibited, Program Budgets are virtually unheard of**
- **Line Item Budgets provide a level of detail the public demands and local officials require for decision-making**

Line Item Budgets

Provide detail about past, present, and projected expenditures for each department according to line codes recommended by the Government Accounting Standards Board

Program Budgets

- Provide little detail other than total revenue and total expenditures for that fund or account
- Assume the staff will stay within those limits
- Much easier to misuse public funds
- Easier to apply performance measurement methodology

Fund Accounting

- **Local government accounting is Fund Accounting**
- **All revenues and expenditures must be assigned to a specific fund**
- **GASB guidelines**

Funds

- **Revenues**
- **General Fund**
- **Special Revenue Funds**
- **Debt Service Fund**
- **Capital Fund**
- **Proprietary/Enterprise Funds**
- **Fiduciary Funds**

Revenues

All incoming funds from any source are included in revenues

In Wisconsin, revenues primarily come from three sources:

- **Property taxes**
- **State shared revenues**
- **Fines and fees for services**

Expenditures

All funds expended by a local government must appear in one of the fund other than Revenue

Restricted funds

Some funds are considered “Restricted”

Restricted funds include:

Proprietary Funds

Fiduciary Funds

Enterprise Funds

Special Revenue Funds

Restricted Funds

- Can only be used for the restricted purpose for which they exist
- Cannot be used to cover deficiencies in the General Fund
- Can be borrowed from to assist General Fund **ONLY** by resolution with payback plan

Deficit Spending

- **Wisconsin local government cannot operate in a deficit mode**
- **If insufficient funds exist to cover expenses, local governments must borrow to cover those deficiencies**

Cash Flows

- **Cash flows must always be considered when local governments expend funds**
- **Budgeted for does not mean the money is available**
- **Property taxes come in two payments**
- **State shared revenues come in two payments**

Cash Flows

Major purchases or expenditures must be scheduled to coincide with points when cash is available unless borrowing is planned or a sufficient reserve exists to cover the expenditure

Reserve

- **Maintaining a General Fund reserve or Contingency Fund is essential to cover unplanned expenditures or when an expenditure cannot wait for a revenue payment**
- **A common rule for General Fund reserve or Contingency is six (6) month's normal operating expenditures**

Undesignated or “Slush” Funds

- In local governments, all incoming revenue must be shown in budget documents and assigned to a fund
- All expenditures must be accounted for under the budget
- “Slush Funds” are not allowable

Audits

Annual audits are required for counties, municipalities, and some towns.

An audit is an independent assessment of your government's external and internal budgetary controls

Generally conducted by an independent public accounting firm

Audits

Audit findings may be unqualified or qualified

Unqualified audits mean there were no irregularities found in your methodology or accounting procedures

Qualified audits mean there are concerns with your practices which should be rectified

Audits

A good audit, preferably unqualified, is a necessity when attempting to incur debt at a reasonable interest rate

Required by most lenders and bond agencies

Debt

- **Borrowing money for major purchases and projects is as essential for most local governments as it is for the average citizen**
- **Borrowing should be according to a plan (capital improvement, strategic, etc.) and managed**

Performance Budgets

Performance budgets focus on missions, goals, and objectives to explain why money is being spent and provide a way to allocate resources to achieve specific results

PBB is intended to be a management tool for program improvement, not a “carrot and stick” methodology used to “punish” departments for not meeting goals

References

“Management Policies in Local Government Finance” Fifth Edition, ICMA University, International City/County Management Association, Aronson & Schwartz, 2004