

BEST Practices



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A Message from Auditor of State Betty Montgomery

As you may be aware, I have conducted 15 rounds of Regional Advisory Boards in the first 15 months of my administration. As a direct result of our frank discussions, we decided to prepare this document for your review and, we hope, your guidance.

In an effort to continuously improve government services and enhance operational efficiency and effectiveness, we are pleased to present *Best Practices*. The first in a series of newsletters, we are striving through this publication to highlight commendable practices from around Ohio as well as recommended practices from nationally recognized organizations. These "best practices" may be used by your organization to guide process improvement initiatives in a number of areas, ranging from financial management to strategic decision-making.

Each newsletter will include sample policies and procedures that, if implemented, can foster operational continuity and enhance accountability. **These policies and procedures, however, are not one-size-fits-all, nor should they be interpreted as mandated standards.** Rather, they are being provided as a resource in case you wish to develop or retool your organization's policies and procedures.

The Auditor of State's Office believes that *Best Practices* can serve as a management tool in your efforts to strengthen operations and improve service delivery. As recommended practices are customized to address the needs of your organization and ultimately implemented, I hope this publication will help in your efforts to promote the confidence of Ohioans in their local and state governments.

Sincerely,

Betty Montgomery
Ohio Auditor of State

Forecasting from the Inside Out

Why Forecast?

Forecasting is a key component in determining future operations, problems, and opportunities. Good financial forecasts benefit governments by enabling decision-makers to:

- Develop an understanding of available funding;
- Evaluate financial risk;
- Assess the likelihood that services can be sustained;
- Assess the level at which capital investment can be made;
- Identify future commitments and resource demands; and
- Identify the key variables that cause changes in the level of revenue and expenditures.



Governments at all levels find forecasting beneficial in determining available resources and developing budgeted expenditure amounts. Most public entities use forecasts that extend three to five years beyond the current budget period, although some entities use 10-year forecasts. In any case, the forecast should be monitored and updated on a regular basis.

The National Advisory on State and Local Budgeting (NACSLB) and Government Financial Officers Association (GFOA) offer publications explaining the importance of forecasting and how state and local governments can forecast effectively. In Ohio, the state legislature recognizes the value and benefits of five-year forecasts as school districts are required to prepare and submit forecasts to the Ohio Department of Education (ODE) on an annual basis.

Methods of Forecasting

Governments use either quantitative or qualitative methods, or a combination of both to develop forecasts. Qualitative methods are more intuitive and are based on the following types of information:

- **Judgmental** — based on “good sense” or a decision made through discerning and evaluating. For example, a city auditor uses prior experience to project the impact of an increase in income tax revenue.
- **Consensus** — based on collective opinion or general accord. For example, a management discussion is used to determine the service level and corresponding cost impact of a policy to limit garbage collection.
- **Expert** — based on the advice of an expert. For example, a township clerk uses a State Employee Relations Board report on benefit costs to project future cost increases.

Quantitative methods include any of the following types of information:

- **Trend Analysis** — compares historical information to forecast percentage changes. For instance, in prior years, step and cost-of-living increases were about 4 percent for village employees. This percentage change is used to project future wage increases.

- **Multiple Regression Analysis** — uses chosen factors to determine the forecasted percentage change. For instance, a regression analysis is used to identify the health care cost reductions resulting from a wellness program instituted by a state agency.
- **Time-Series Analysis** — uses the average percentage change during specific time periods. For instance, over the past 10 years, police and fire department costs have increased at twice the rate of population growth. If the population is expected to increase at 3 percent annually, the costs for public safety may increase at 6 percent annually.

While entities may use either of these methods, research has shown that combining qualitative and quantitative methods improves forecasting accuracy. Regardless of which method or combination of methods is used to develop a forecast, the following steps should always be followed:

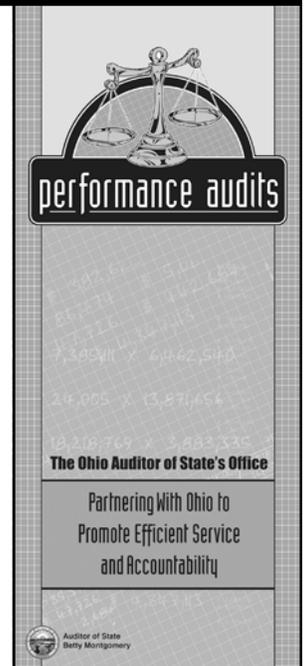
1. Establish a base year.
2. Assess revenue and expenditure growth trends.
3. Clearly specify underlying assumptions.
4. Select a forecasting method.
5. Assess the reliability and validity of the data used to determine assumptions.
6. Monitor actual revenue and expenditure levels against the forecast and explain variances.
7. Update the forecast based on changes.

Common Problems and Associated Recommendations

The Performance Audit and Local Government Services divisions of the Auditor of State's Office have completed several assessments of forecasts created by municipal, county, and school governments. Some common problems and recommendations concerning financial forecasting and financial reporting are shown below.

Common Problems and Recommendations

- **Common Problem**
Few sound assumptions. Many forecasts do not contain adequate assumptions. Sometimes assumptions are based on unsupported or inaccurate information. As assumptions are the essence and most important determinant in developing useful financial forecasts, the entity should include detailed, sound assumptions in each forecast.
Common Recommendation
Create more detailed assumptions. Assumptions should be sufficiently detailed to allow the reader to understand the factors included in each line item of the forecast. Best practice forecasts are accompanied by explanations of each assumption which often include supporting documentation. Supporting documentation may include trend analyses, expert opinion, or other critical information.
- **Common Problem**
Overlooked cost drivers and revenue generators. Forecasts sometimes exclude important sources of revenue or costs. In some school districts, for example, forecasts reflect only



the net amount from open enrollment instead of reflecting the costs and revenue as separate items. Using net amounts limits the district's ability to capture open enrollment costs.

Common Recommendation

Include all revenues and expenditures. All revenues and expenditures that influence the fund should be included in the forecast. While this may require additional preparation on the part of the fiscal officer, the inclusion of all cost drivers ensures that no large costs escape the notice of decision-makers.

- **Common Problems**

Overly optimistic approach. Governments occasionally overstate revenues and understate expenditures in their forecasts. This may lead to a financial crisis as the result of operations is actually worse than forecasted amounts.

Overly conservative approach. Revenues are sometimes understated and expenditures are overstated in forecasts, making an entity's future financial picture appear unrealistically dire. This may lead to unnecessary increases in revenue or overly harsh, unnecessary expenditure reductions.

Common Recommendation

Ensure assumptions are reasonable. Forecasts should be reasonable — neither overly optimistic nor overly conservative. Using the best information available to develop a forecast ensures greater accuracy and, as a result, a better understanding of the entity's long-term financial health. Reasonable forecasts ensure that the entity is prepared for changes in revenue or expenditures.

Guidelines for Developing Effective Forecasts



General guidelines for forecasting are available from several sources including GFOA and the American Institute of Certified Public Accountants (AICPA). Best-practice guidelines include the following:

1. Forecasts should be prepared in good faith using the best information available at the time.
2. Forecasts should be prepared with care by qualified personnel using appropriate accounting principles.
3. Forecast information should be consistent with the long-range plans of the entity.
4. Assumptions should be appropriate and should include identified key factors that impact the entity.
5. The means to determine the effect of variations in major assumptions should be included in the forecast.
6. Forecasts should include adequate documentation of the financial forecasts and the process used to develop them.

7. The forecasting process should include regular reviews of variances, comparing forecasted amounts with actual results.
8. Adequate review and approval of forecasts by the responsible party at the appropriate levels of authority is an essential component of the forecasting process.

Best Practices in Financial Forecasting

“The very best financial presentation is one that’s well thought out and anticipates any questions ... answering them in advance.”

- *Sir Arthur Helps*



Best Practices — Ohio

Pickerington Local School District, Fairfield County, Ohio

www.pickerington.k12.oh.us, fp_i_utter@MECDC.org

Pickerington’s forecast includes detailed assumptions based on variables derived from economic factors as well as trend data. The forecast helped the

district reduce its expenditures and avoid a deficit in FYs 2001-02 and 2002-03. Please contact Treasurer Vince Utterback for more information.

City of Cincinnati, Ohio

www.cincinnati-oh.gov/cityfinance/pages/-5233-/

The City of Cincinnati develops an annual budget based on its six-year forecasts. It has received the Distinguished Budget Presentation Award (Budget Awards Program) from GFOA.

Best Practices — National

City of Portland, Oregon

www.portlandonline.com/omf/index.cfm?c=27951

The city of Portland has developed a financial outlook that reviews the city’s General Fund each accounting period. It includes an analysis of year-to-date fiscal data, estimates of budget changes, and a forecast to year-end. The city’s most up-to-date forecast can be found on its web site.

City of Sunnyvale, California

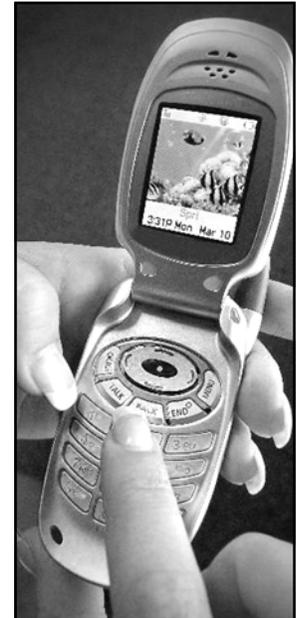
sunnyvale.ca.gov/Departments/Finance/

The city of Sunnyvale develops a 10-year allocation plan. This plan contains revenue and expenditure projections and a six-point action plan on how the city plans to reduce its budget in the upcoming fiscal years due to projected changes in its economy. The most up-to-date version of the city’s allocation plan can be found on its web site.

Cellular Phone Policies

Based on a review of cellular phone policies from various governmental entities in Ohio and in other states, there are several commonalities among them. Generally, the policies contain provisions specifically designed to contain costs, promote responsibility, foster accountability, and prevent the improper use of cellular phones. They often include **general purpose statements, definitions, and associated procedures to ensure the policies' sound implementation.** Several of the policies reviewed were fashioned using GFOA recommended practices and include the following controls to ensure the proper use of cellular phones:

- A condition that employees complete and sign an acknowledgement form, stating they understand and will comply with the formal policy.
- A requirement that employees complete and submit a signed acquisition/approval form to their supervisor. This step helps to ensure that sufficient funding is available and that employees have an official need for cellular phones.
- A provision stipulating that supervisors annually review an inventory of users to ensure designated employees continue to demonstrate a need for cellular phones.
- A statement in which the government reserves the right to audit/ review cellular phone bills to ensure their proper use (i.e., costs were incurred during the course of conducting government business, not for personal use). The policies usually stipulate that any detected abuse or misuse will result in corrective disciplinary action.
- A statement indicating that employees should make every effort to avoid using cellular phones for personal calls. While personal use is strongly discouraged, the government usually recognizes that it is sometimes inevitable.
- A requirement that employees reimburse the government for any personal calls. Additionally, employees must highlight personal calls on the monthly bill to delineate those costs which are not reimbursable.
- Examples of potential costs for which the government will not reimburse employees. These may include: roaming charges, long distance charges, costs for calling directory assistance, web usage and download fees, and any other charges above and beyond the regular monthly service charge.
- A rule that prohibits employees from using cellular phones while driving. This prohibition will help ensure the safety of employees while reducing government liability in case of an accident.



NOTE: Because cellular phone plans frequently offer “free” minutes, governments should be careful as to the plan chosen and the use of these “free” minutes. Furthermore, the issue of using government property for personal use is always of concern and should be addressed in the cellular phone policy. As an example, in the Auditor of State’s cellular phone policy, an employee using either a government-issued or personal cellular phone would only be reimbursed for business-related calls at a per minute rate. This rate, however, is calculated by adding the additional free minutes and recalculating the per minute cost with these additional minutes included. As another option, governments could implement a cap and require employees to pay for any calls that exceed a predetermined number of minutes or monthly charge.

Regardless of the level of restrictions placed on cellular phone users, governments have the latitude to develop policies that best fit their needs, provided they are for a proper public purpose (See AOS Bulletin 2004-002). Including these controls in a cellular phone policy, however, will undoubtedly help minimize risks associated with cellular phone use and help protect against abuse. The following cellular phone policies include varying levels of restrictions and controls.

Sample Cellular Phone Policies — Ohio

City of Cincinnati

www.gfoa.org/services/dfi/samples/TRG-Cincinnati-Cell-Phone-Policy.pdf

The City of Cincinnati's Department of Public Services has developed a telephone usage policy that is recognized by the GFOA and incorporates the use of cellular phones, Nextel phones, pagers, and desk phones. The policy is relatively brief and includes a number of controls such as limiting the length of calls to no more than eight minutes.

Wyandot County General Health District

www.auditor.state.oh.us/publications/bestpractices/wyandotcounty.pdf

The primary function of the district's cellular phone policy is to provide redundant communications capabilities during emergency response activities. Correspondingly, the policy was drafted using a neighboring county's cellular phone policy (Marion County). The policy includes a list of charges for which users are responsible (e.g., roaming charges) as well as a policy acknowledgement form.

Sheffield Village

www.auditor.state.oh.us/publications/bestpractices/sheffieldvillage.pdf

Sheffield Village specifies its cellular phone policy via ordinance as passed by its legislative authority, village council. To monitor cellular phone use and to ensure they are used solely for village-related business, the clerk-treasurer requested the cellular phone company to submit detailed bills which show the number of calls made, minutes used, and phone numbers called.

Sample Cellular Phone Policies — National

Sedgwick County, Kansas

www.ksgfoa.com/documents/sedgwick%20cell%20phone%20policy.pdf

Sedgwick County's cellular phone policy is the most thorough of those reviewed and contains numerous procedural guidelines for employees to follow. For example, the policy specifies the manner in which eligibility is determined as well as ways by which user accounts may be modified.

City of Pleasanton, California

www.csmfo.org/download/index.cfm?fuseaction=download&cid=145

The City of Pleasanton's cellular phone and pager policy is relatively straightforward and easy to follow. This policy is distinct in that it addresses the use of personal cellular phones for business purposes.

City of Santa Maria, California

www.csmfo.org/download/index.cfm?fuseaction=download&cid=121

The cellular phone and pager policy in place at the City of Santa Maria includes a combined authorization request and acknowledgement form. This form requires employees to formally justify the need for the requested equipment and to officially acknowledge their understanding of the policy via signature.

Travel Policies

Most governments recognize that travel and related business expenses are an integral and necessary component of operations. Whether attending professional conferences, training, or formal meetings, employees must sometimes travel outside their normal commute to conduct official business. Generally, governments agree to pay for reasonable, essential travel expenses incurred by employees in the performance of their official duties.



To help manage and facilitate travel request and reimbursement processes, governments establish travel policies. Most travel policies contain **purpose statements, background sections, a scope description (i.e., authorized travelers and coverage area), key definitions, and associated procedures**. Travel policies are often complex and include varying levels of restrictions depending on the needs and will of the governing authority.

Based on a review of travel policies from several governments in Ohio and in other states, most contain similar controls to prevent abuses, foster accountability, and ensure appropriate levels of reimbursement. They typically cover transportation, lodging, meals, and other incidental expenses. Common provisions found in travel policies include:

General

- A requirement that employees obtain pre-approval for estimated travel expenses. Policies often require employees to submit an authorization form to their supervisor which can be used in determining the most appropriate means of payment (e.g., cash advance, credit card, or receipt-based reimbursement). See also, Atty. Gen. Op. 2003-029 which discusses the need for county officers and employees to obtain prior approval for attending association meetings or conventions.
- A statement indicating that the policy does not intend to address every issue, exception, or contingency that may arise in the course of travel.
- A statement indicating that employees exercise the same care in incurring travel expenses that a prudent person would exercise if traveling on personal business and expending personal funds.
- A statement indicating that employees will be held responsible for unauthorized costs and additional expenses incurred for personal preference or convenience.
- A requirement that employees must substantiate travel expenses with original receipts, or if a per diem meal amount is provided, employees are responsible for expenses above and beyond the per diem.

- A list and corresponding description of unauthorized expenses (e.g., alcohol, movies, supplemental insurance on rental cars, or fines for traffic violations). Expenses related to entertaining a guest are sometimes reimbursable with prior approval from the governing authority. See Auditor of State Bulletin 2003-005 which addresses the prohibition of expenditure of public funds for alcoholic beverages and Atty. Gen. Op. 82-006 on the expenditure of public funds for the purchase of meals, refreshments, and other amenities (flowers, token retirement gifts, or meritorious service awards). Both the Bulletin and the Opinion require the legislative authority (e.g., county prosecutors, judges, auditors, engineers, etc.) to have written policies in place prior to making justifiable expenditures.

Transportation

- A provision stipulating that the use of air, train, bus, or private vehicle shall be selected on the basis of the most reasonable and appropriate method — taking into account distance, time, and total costs.
- A requirement that government-owned vehicles be used in place of private vehicles whenever practical, while travelers are encouraged to carpool to the same function. In addition, there may be other limitations or procedures that should be followed when using government-owned vehicles (e.g., specific approval is required for traveling in a state vehicle out-of-state under state insurance/liability requirements). Note: The next issue of this newsletter will include sample policies on the use of government-owned vehicles.
- A stipulation that travelers be reimbursed for actual miles driven in their private vehicle at a pre-established rate approved by the governing authority (e.g., Standard Federal Mileage Rate as set by the Internal Revenue Service), less their commute.
- A provision that employees may use a private vehicle only if the owner is insured under a liability policy that complies with Ohio Revised Code (ORC) Section 4509.51.
- A requirement that the employee authorized for travel maintain a valid driver's license.
- A requirement that the employee regularly using the government vehicles notify the public employer if the employee has been cited for certain listed traffic violations. Additionally, the policy may indicate that the employer will annually check to determine if new traffic violations (particularly DUI, reckless operation, etc.) have been committed by the employee during the year.
- A statement indicating that reimbursements for rental cars are authorized only if their use is more economical than any other type of transportation.
- Some political subdivisions require that mileage for travel not exceed the cost of one reasonably-priced airline ticket to the destination.
- A statement indicating that any gasoline, damages, needed service, or repairs to private vehicles are the responsibility of the employee, as these costs are included in the per mile cost reimbursement.
- Limits on reimbursable miscellaneous transportation expenses such as parking or taxi fares.

Lodging

- A stipulation that overnight lodging is only reimbursable outside a predefined number of miles or travel time from the employee's residence or official headquarters (e.g., 100 miles or 2 hours of travel time).
- A requirement that travelers request and accept a single room at the "government rate," if available.
- Maximum reimbursement rates for in-state and out-of-state hotel rooms (including taxes and fees). For example, the maximum reimbursement rate for employees as set by the Ohio Office of Budget and Management is \$75.00 for in-state accommodations.
- A provision detailing the types of reasonable miscellaneous expenses that will be reimbursed during extended periods of travel (e.g., dry cleaning, laundry services, and personal telephone calls). Receipts are often required for miscellaneous expenses in excess of \$1.00 and reimbursement limits are usually placed on telephone calls.

Meals

- A stipulation that employees are only entitled to reimbursement for meal expenses incurred during an overnight stay and that such reimbursements require receipts.
- A provision prohibiting reimbursement for meals within a predefined number of miles from the employee's residence or official headquarters. This provision does not apply to meals included as part of registration fees for conferences or seminars.
- A meals-only per diem allowance may be established, or prorated reimbursement limits may be set for breakfast, lunch, and dinner.
- A provision requiring reimbursement for gratuities not to exceed 15 percent of the purchased meal.
- A provision stipulating that if meals are included in registration fees, duplicate meals shall not be reimbursed.
- A provision that alcohol expenditures will not be reimbursed.

Although not always stipulated in travel policies, governments implement corresponding accounting and internal auditing procedures to ensure the appropriateness of travel-related expenses. For example, governments verify the accuracy of requested reimbursement amounts by tabulating travel receipts. Generally though, travel policies themselves are intended to provide equitable, consistent, and fair standards for reimbursement, while maintaining effective control over these expenses.

To reiterate, governments are able to develop policies that most appropriately suit their needs. The number and variety of restrictions and controls included in a travel policy, for example, is a determination of each respective government (See AOS Bulletin 2004-002 which addresses appropriate "legislative authority" in connection with the expenditure of public funds for a proper public purpose. See also Atty. Gen. Op. 2003-029 which specifically addresses the ability of county officers, boards, and departments to establish their own travel policies). The following sample travel policies include varying levels of restrictions and control procedures.

Sample Travel Policies — Ohio

The Ohio Office of Budget and Management (OBM)

http://www.obm.ohio.gov/Information/Manuals/obm_travel.pdf

For employees' ease of use, OBM's travel policy is available electronically and in a pamphlet. The policy includes pertinent requirements from ORC and the Ohio Administrative Code (OAC). Additionally, the policy contains special rules for conferences.

Dublin City School District

<http://www.neola.com/dublin-oh/> (Search for "travel")

Although virtually identical, the district maintains separate travel policies for classified and professional staff. Dublin's policy on job-related expenses (3440A and 4440A) requires employees to submit a completed Professional Meetings Form 10 days before the meeting date. Employees must also complete a Mileage Reimbursement Form. The form includes a mileage charge chart which enables employees to easily determine their allowable mileage for travel within the district.

City of Hudson

www.auditor.state.oh.us/publications/bestpractices/hudson.pdf

The City of Hudson's travel policy is relatively brief and easy to follow. To provide greater efficiency in processing meal reimbursements, the city reimburses employees on a per diem basis rather than requiring itemized receipts. The city has reportedly not experienced any problems related to employee travel.

Symmes Township, Hamilton County

www.auditor.state.oh.us/publications/bestpractices/symmes.pdf

Symmes Township, a home rule township, maintains an expense reimbursement policy that addresses employee travel and attendance at seminars and conferences. Similar to other policies reviewed, the township's policy requires employees to seek prior approval and submit a travel request form. The policy also stipulates that the township clerk or designee shall review all travel expense receipts before reimbursement.

Sample Travel Policies — National

Sedgwick County, Kansas

<http://www.ksgfoa.com/documents/sedgwick%20travel%20policy.pdf>

Of the travel policies reviewed, Sedgwick County's travel expense reimbursement policy is relatively thorough. The policy is notable in that it allows employees to choose their method of reimbursement for meals, whether on a per diem or actual cost (receipt) basis.

City of Tustin, California

<http://www.csmfo.org/download/index.cfm?fuseaction=download&cid=529>

The City of Tustin's travel and expense policy requires employees to complete a travel request form in which employees estimate their travel costs for approval. To facilitate the reconciliation process, the policy also requires employees to complete an expense statement form and attach reimbursable travel receipts.

City of Corona, California

<http://www.csmfo.org/download/index.cfm?fuseaction=download&cid=530>

Compared to other travel policies, the City of Corona's policy is easy to follow and logically structured for the traveler. For instance, the policy begins with procedures associated with planning an official trip and concludes with procedures on accounting and completing an expense form.

Coming Up in the Next Issue of

BEST Practices

The next issue of this newsletter will focus on purchasing programs and will include sample policies on the use of government-owned credit cards in connection with such programs. As a follow-up to the discussion on travel policies, the next newsletter will also include sample policies on government-owned vehicles.

If you would like your policies on the use of government-owned credit cards and vehicles to be featured as samples in the summer newsletter, please fax or e-mail them to the Auditor of State's Office at (614) 466-4490 or bestpractices@auditor.state.oh.us by August 31, 2004. Please include the necessary contact information should we have questions regarding policy development or implementation.

Finally, if you like this publication and if you think it will be of help to you, please contact us at (614) 466-4490 or bestpractices@auditor.state.oh.us and let us know. If there are other areas in the audit arena you wish us to highlight or if you have any comments, concerns, or questions, please let us know. Your opinions are very important to us.

Additional Resources

1. Auditor of State Bulletin 98-015.
2. "Guide for Prospective Financial Information" With Conforming Changes as of May 1, 2002 by the American Institute of Certified Public Accountants (AICPA). At www.aicpa.org.
3. *The Little Black Book of Budgets and Forecasts* by Michael C. Thomsett, 1988.
4. *Recommended Practices for State and Local Governments*. Government Finance Officers Association (GFOA) at www.gfoa.org/.
5. *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* by the National Advisory Council on State and Local Budgeting (NACSLB) and the GFOA.

NOTE: All of the outlined BEST PRACTICE examples are available on the Ohio Auditor of State's web site: www.auditor.state.oh.us