

**FINANCIAL MANAGEMENT FOR
GEORGIA LOCAL UNITS
OF ADMINISTRATION**

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NATURE AND PURPOSE

What are financial policies? Why should school boards adopt them? Are there obstacles to developing financial policies? How are they developed? This chapter examines these questions about financial policies.

WHAT ARE FINANCIAL POLICIES?

Financial policies are the rules that govern financial decisions of an LUA. They are guidelines or a plan of action for decisions as they relate to financial matters. School boards adopt these policies and follow them when making financial decisions for their school system. Once school boards adopt financial policies, most subsequent financial decisions are simplified because the school board has already deliberated over most of the financial issues when developing financial policies.

LUAs should adopt financial policies that cover at least the following topics:

- Operating and Capital budgets
- Capital Assets
- Revenues
- Cash and Investments
- Fund Balance
- Purchasing
- Debt
- Accounting, Auditing, and Financial Reporting

The school board establishes policies with a concentration on long-term financial sustainability. Effective financial policies will be clear, specific, and comprehensive. They will answer the questions of “who, what, when, and where” that will guide all financial decisions. The LUA’s administration will support these policies by establishing financial procedures that answer the question of “how” staff actions will adhere to the adopted policies.

WHY ADOPT FINANCIAL POLICIES?

Many LUAs have financial policies, however, their school boards may not have formally adopted them. Often these policies result from "past histories." For example, the LUA's property tax rate might not have been changed for a number of years, even though the LUA has no written policy that limits increasing the tax rate. The tax-paying citizen may assume that the school boards position is not to raise property taxes. Similarly, a Board may have informal policies that they have discussed and agreed to in principle, but they may never have been written down and formally adopted.

School boards should adopt financial policies for a variety of reasons, including:

- Policies provide school boards opportunities to review their present approach to financial management from a long-range view point. School boards tend to be "annually oriented" in their financial planning due to the nature of the "annual" budget process. However, developing and adopting financial policies requires school boards to conduct financial planning on a more long-range basis and promotes a more strategic approach to financial management.
- Policies provide an educational process for the school board. Because most school boards have a heavy workload, they normally discuss specific financial issues on a sporadic basis. The development and regular review of these policies educates school boards about all facets of financial management.
- Policies improve credibility and public confidence. If the public is aware that the school board has adopted meaningful financial policies, they should feel confident that the school board is providing sound financial management for their LUA.
- Policies can define roles and responsibilities and establish boundaries. Strong financial policies will establish appropriate limits on actions that staff members may take, and significantly reduce the risk of fraud, waste, and abuse.
- Policies save time and energy for both the school board and the LUA's administrative staff. Strong financial policies allow the LUA's administration to move ahead with financial matters following policies adopted by the board, rather than wait for decisions from the school board.
- Policies provide continuity for the LUA and its school board members. As newly elected school board members take office, there should not be major changes in the financial management of the LUA because of the existence of financial policies. Of course, this doesn't mean that the newly elected board members can't or shouldn't change the policies, rather, existing financial policies promote necessary continuity for LUAs.
- Policies provide a basis for coping with fiscal emergencies. Revenue shortfalls and emergencies requiring unanticipated expenditures can have a severe impact on an LUA unless financial plans and policies have been established to handle them. Financial policies are critical for an LUA to remain solvent.

OBSTACLES TO DEVELOPING FINANCIAL POLICIES

Unfortunately, school boards may encounter a few obstacles when developing financial policies. Often, school boards may be resistant to developing long-range financial plans. As indicated earlier, school boards are annually oriented because of the annual budget cycle. School boards might feel that developing a long-range financial plan has no benefit because so many things can change over a long period of time.

In addition, some school boards might be reluctant to reveal too much information about a particular topic (e.g., increasing property taxes). There is no question that as financial policies are developed, many important issues will be discussed in public meetings. When developing financial policies, the positions of each of the school board members on specific issues will be discussed.

Finally, one of the major drawbacks when developing financial policies is that the task is time-consuming for both board members and staff. Usually, development requires a number of special meetings or work sessions, and maintaining policies will usually require attention throughout the year.

HOW TO DEVELOP FINANCIAL POLICIES

There are a variety of necessary steps for school boards to complete before they can adopt financial policies. As the school board is responsible for the overall governance of the LUA, they are responsible for establishing and adopting the system's financial policies. However, it is likely that the LUA's administration is going to do significant work on the project. The LUA's administration's first step is to receive the "go ahead" from the school board to begin the development and drafting of financial policies. The LUA's administration might present the school board with a position paper which includes most of the topics this chapter refers to. For example, the position paper might include:

- The definition of financial policies.
- The purpose and benefits of financial policies.
- A review of the obstacles to developing financial policies.
- The types of financial policies with samples for each topical area.
- The methods of developing financial policies.
- Strategies for using financial policies.

Once the school board approves the plan and chooses the areas for policies, the LUA's administration should begin drafting policies consistent with other adopted policies as necessary. A good way to begin is to review policies adopted by other LUAs. Many Georgia LUAs

have formally adopted financial policies posted on the district's website. Another suggested source for obtaining model financial policies may be the Association of School Business Officials (ASBO). Information on ASBO is available online at <https://asbointl.org/>.

Another potential source of sample policies is the Government Finance Officers Association (GFOA). This organization has published a book called *Financial Policies* that outlines how to develop and implement financial policies. GFOA has also posted a variety of samples from city, county, and school governments online at <http://www.gfoa.org/financialpolicies>.

After the LUA administration drafts the policies, the school board should devote as many work sessions as necessary to review these policies before approval. This process will be educational for the school boards, and can be time-consuming.

The school board might decide to hold a public hearing on the policies to allow for citizen input. Finally, the policies should be formally adopted by the school board. All financial policies should be reviewed and edited or affirmed periodically. Some school boards may choose to review all financial policies annually, while others may prefer to review policies after newly elected school board members take office. Another option may be to establish a schedule for review, where portions of the policy manual are reviewed each year on a rotating basis, with all policies receiving edits or affirmations every two or three years.

CONCLUSION

The importance of financial policies cannot be overemphasized. Georgia statutes and the Georgia Department of Education do provide specific guidance regarding some of the issues that will be addressed in financial policies. However, every effort should be made by the LUA administration and its school board to adopt meaningful financial policies. Upon adoption, both the LUA administration and the school board must follow their adopted policies. The LUA administration will need to train appropriate staff and develop procedures to support the policies.