

# **Financial Policy Manual**

**City of Holyoke**

**Financial Policies & Procedures  
For Selected Financial Transactions  
and Events**

Revised 4/2018

This document is intended to provide guidance to all employees regarding various financial issues for which questions seem to arise on a fairly regular basis. As such, only selected items which are of the broadest interest are addressed. Revisions of this document will be issued periodically as new items are added and existing items are deleted or amended. The foundations for these policies and procedures are derived from various sources, including local ordinances, state laws, generally accepted accounting and auditing procedures, and acceptable business practices for governmental organizations. All of this is done to ensure the protection and best use of available public resources for beneficial public purposes.

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## **Travel (Forms)**

The Travel Ordinance is a comprehensive law and does not lend itself well to a descriptive discussion of its implementation and use; therefore, please refer directly to the actual ordinance. The complete text may be found either in the manually updated Code of Ordinances binder in your office or at the Office of the City Clerk, or online at:

<http://www.municode.com/library/MA/Holyoke>

Search for: Chapter 2, Section 2-48 (Travel Policy).

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The forms referred to in the Travel Ordinance are consolidated into one form by the title **Travel Authorization, Advance & Expense Voucher**. This form is included in the Forms section at the end of this manual.

In lieu of providing the detailed itemized *meal* receipt from a restaurant for reimbursement, special attestation language has been added to the signature area at the bottom of the **Travel Authorization, Advance & Expense Voucher**. READ IT CAREFULLY AND UNDERSTAND IT WHEN SIGNING THIS FORM FOR TRAVEL EXPENSE REIMBURSEMENTS. This language *does not eliminate* the requirement of a “valid receipt”, as provided in the city’s Travel Ordinance; rather, it merely allows employees to provide for reimbursement the form of receipt made available to the employee by any given restaurant. *Detailed itemized original receipts are still required for expenses related to transportation, hotels and phone charges for which reimbursement is sought.* This language also allows the city to ignore the *form of payment* (i.e., cash, credit card, etc.); therefore, only the vendor receipts are necessary to be provided for reimbursement. Canceled checks, credit card statements, debit card statements, etc., are not required to qualify for reimbursement.

## **Expense Reimbursement Other Than Travel (Forms)**

For personal reimbursement of any business related expenses *other than travel*, use the **Business Expense Reimbursement Voucher**. Complete this form and attach the detailed itemized original receipts to it for submission for reimbursement. This form provides all employees with a consistent method of applying for business expense reimbursements and clarifies the business purpose of the request.

Bear in mind that such reimbursements should be very infrequent. The first attempt to procure any goods and services should always be via the Purchasing Department. In this way, purchases can be made by the city rather than by you.

The **Business Expense Reimbursement Voucher** is included in the Forms section at the end of this manual.

## **Education & Training**

The cost of an educational or training course, conference, seminar, educational materials, etc., must be charged to an Education & Training line-item within your department budget. If no such line item exists for your department, one will be created for you upon request. If you are charging such costs to a grant or other special Fund under your administrative control, a specific line-item in the Fund is normally not necessary. Select an appropriate expense account (e.g.: Purchase of Service; Other Charges & Expenses) to charge such costs in these special Funds.

Note that the costs of travel (meals, transportation, overnight accommodations, etc.) which may be associated with an education/training activity must not be combined with the education/training costs (and visa versa). There are separate accounting and authorization regulations regarding travel. Please refer to the Travel section of this manual for the Travel Ordinance and associated comments and forms.

On occasions when it is impossible to distinguish the costs of the education activity from the travel costs (which may occur in education/training “packages”), the package is to be considered as all travel. This is because the preponderance of the cost of the package will likely be the travel costs. Please refer to the Travel section of this manual for the Travel Ordinance and associated comments and forms.

## **Fiscal Year-end Procedures**

The city's fiscal year (FY) runs from July 1 through June 30, thus crossing over calendar years. For example, FY2001 starts on July 1, 2000 and ends on June 30, 2001. The financial accounting records of the city must be finalized (closed), for each fiscal year ending June 30, by a reasonable time thereafter. Specific internal year-end deadlines and related instructions are distributed by the Office of the City Auditor each year, usually by mid-May.

Following is a PREVIOUSLY ISSUED year-end instruction memo. It is reproduced here for **general reference purposes only**, since the **dates will change from year to year**. The general requirements as detailed within the memo normally do not change.

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**TO:** Departments  
**FROM:** City Auditor  
**SUBJECT:** Year-end Accounting Deadlines & Instructions  
**DATE:** May

Following are certain deadlines, of which you must be aware, relating to year-end closing of your department's **General Fund budget and all Special Funds**, which some of you administer. The computerized financial accounting and reporting system is extremely date sensitive; therefore, no adjustments to these deadlines are available.

- **June 9**- Last day to submit fiscal year budget transfer requests which require *both mayoral and City Council approval*. If you need clarification as to which types of transfers require such approval, please refer to your **Fiscal Policies Manual**. (Due to the timing of the final fiscal year 2004 City Council meeting (6/15) and other logistical issues at this time of the fiscal year, *budget transfer requests relating to the fiscal year submitted after June 9, will not be able to be honored.*)  
**Review your budget carefully.** If you anticipate a shortfall that needs to be covered by a City Council transfer and you need to find a source of funding, you must contact the mayor.

- **June 30** - Last day of the fiscal year. Any expenditures incurred or purchase orders initiated after this date (*except as noted in the discussion of July 12, below*) will be considered as financial activity relating to next fiscal year. Also, all cash receipts pertaining to the current fiscal year must be deposited with the Treasurer by the end of this day in order for those receipts to be credited to this fiscal year. If you wait until July 1 to deposit receipts with the Treasurer, such receipts will be credited to the next fiscal year.
  
- **July 7** - Last day to submit fiscal year budget transfer requests which require *approval of the Mayor only*. If you need clarification as to which types of transfers require such approval, please refer to your **Fiscal Policies Manual**.
  
- **July 12** - Last day that invoices relating to this fiscal year will be accepted for regular processing. **THE DEADLINE FOR SUBMISSION ON THIS DAY IS 12:00 NOON.** This includes:
  - invoices expected to be received from the vendor by your department for which no purchase order exists. When you receive such an invoice, subject to the advance approval of the Chief Procurement Officer, initiate a requisition and submit it to the Purchasing Department by NOON July 12 (*the requisition will be dated in July, but properly charged to the previous fiscal year.*) To assure receiving an invoice prior to the July 12 deadline, you may wish to personally contact vendors who have a propensity toward late billing.
  
  - charges for which invoices may not be required (e.g., auto allowances). Requisitions for payments of these types of charges which relate to the previous fiscal year must be submitted by NOON July 12.





Please be aware that invoices received for processing after NOON on July 12, which relate to previous fiscal year activity will be returned to either you or the vendor. In order to pay these bills, you will be required to request the permission of the mayor to seek, from within your upcoming fiscal year department budget, an appropriation from the City Council. This will then require that a financial order be placed on the council's agenda. The council will, most likely, refer this order to the Finance Committee. You will probably be called before this committee to explain the situation. The Finance Committee will consider your request and make an appropriate recommendation to the full council for its consideration and vote. (Note that this is the same process used when a department's budget is over-spent for a given fiscal year where such deficit is to be borne by the succeeding budget.) **This process takes 6 to 8 weeks to complete and is not in anyone's best interest. There also exists a high probability that such requests will be denied.** In this case, vendors will not be paid due to a lack of appropriation and you may be held personally liable for payment.

Budget amounts are not carried over to the next fiscal year by request; rather, budget amounts carried over must be committed by purchase order in accordance with the guidelines presented above. **Please note that active purchase orders (and the related budget amounts) which remain open at the end of June will automatically be carried over into the next year,** so you need not pressure vendors to send invoices relating to these purchase orders. They will be processed and paid in the normal time frame. Budget amounts committed by purchase order as of June 30 qualify for carryover and will occur automatically. Please call a representative of the City Auditor's Office if you have any questions regarding this practice.

\* \* \* \* \*

**You should read these instructions carefully and take nothing for granted.** The critical need to obtain generally better and more timely financial information has forced everyone to manage departmental budgets and other funds more rigidly and consistently than ever before. Meeting the deadlines discussed above is a crucial part of this evolving fiscal management process. ***If you have any comments or questions about these dates or the procedures as outlined, please contact a representative of the City Auditor's Office;*** however, please be aware before you call that any requests for extensions will be, respectfully, denied.

## **Paying Invoices and Committing Money for Future Payment**

Each annual appropriations (spending) budget is representative of **legal** authorizations to commit and spend money substantially for the purposes intended by line-item description **over a specific period of time (July 1 - June 30)**. In general, goods and services must, therefore, be **received and accepted** during this period of time in order to legally charge them to the line-item appropriations budgeted for that period of time. There is one, and only one, exception to this “received and accepted” timing restriction - the open purchase order.

A purchase order is a legal and accounting method used to encumber (commit) an appropriation, or part thereof, for a specific activity (1) which has yet to actually occur on an **accepted** quote, bid or request for proposal (RFP), **or** (2) where the goods/services have been received and accepted but the invoice to be used for payment is in-transit.

Following are examples which should help explain most, if not all, of the situations which can occur with invoice payment and purchase order encumbrance.

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Purchase Order Date: **8 / 15**  
Date Goods Rec'd / Service Provided: **9 / 30**  
Invoice Date: **10 / 2**  
Date Invoice Rec'd: **10 / 15**

This transaction assumes that a purchase was made by the Purchasing Department based on a quote, bid or RFP. A purchase order was issued at the time of the award to the vendor. All of the activity for this transaction occurred during one current fiscal year. The invoice received in the current fiscal year will be applied against the purchase order that was issued in the same current fiscal year. This scenario is representative of what is normally expected based on the award of a quote, bid or RFP during a current fiscal year and all of the goods and services relating to that award are provided to the city within the same fiscal year.

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Purchase Order Date: **5 / 15**  
Date Goods Rec'd / Service Provided: **6 / 28**  
Invoice Date: **6 / 30**  
Date Invoice Rec'd: **7 / 5**

This transaction assumes that a purchase was made by the Purchasing Department based on a quote, bid or RFP. A purchase order was issued at the time of the award to the vendor. The goods and services were provided in the current fiscal year; therefore, these

costs must be charged to that year, regardless of the invoice date or the date the invoice was received by the city. This can be accomplished in either of two ways:

- (1) Process for payment the invoice that was received on 7/5 before the cut-off date for processing invoices relating to the previous fiscal year. This cut-off date is indicated in the fiscal year-end instructions and deadlines memo. (See **Fiscal Year-end Procedures** in this manual for reference to the cut-off date.) In this way, the purchase order will be liquidated and the invoice (actually paid in July) will be charged to the year ending June 30, thus completing the transaction with no carryovers of any kind to the next fiscal year.
- (2) Leave open, at year-end, the purchase order that is committing the money for the purpose for which the invoice was issued. Process for payment the invoice that was received on 7/5 anytime (within a reasonable time period) after receipt of the invoice. Leaving open the purchase order at year-end allows the city auditor to make appropriate accounting adjustments that treats the open purchase order as if it was actually expended and charged to the year it was issued. This option is available only because a purchase order committing the money existed and is open at the end of the fiscal year. The budget money associated with this purchase order, along with the purchase order commitment itself, will automatically carry over to the next fiscal year; therefore, the net effect on the next fiscal year is \$-0-.

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Purchase Order Date: **No purchase order outstanding.**

Date Goods Rec'd / Service Provided: **9 / 30**

Invoice Date: **10 / 2**

Date Invoice Rec'd: **10 / 15**

This transaction assumes that a purchase was made directly by the department receiving the goods or services without committing the money in the budget line-item to a purchase order at the time of purchase commitment to the vendor. The only recognition in the city's accounting records of this type of transaction will occur upon processing for payment of the invoice by the receiving department. Examples of this might include costs for newspaper advertisements, educational seminars, or certain types of insurance premiums. These types of transactions are necessary at times, but should be executed sparingly. Contact the Purchasing Department if you need clarification on whether any given transaction you are considering handling in this manner qualifies for such treatment.

Assuming timely processing of the invoice when received, this entire transaction was executed in the one current fiscal year . No further special handling is necessary.

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Purchase Order Date: **No purchase order outstanding.**

Date Goods Rec'd / Service Provided: **6 / 28**

Invoice Date: **6 / 30**

Date Invoice Rec'd: **7 / 5**

This transaction assumes that a purchase was made directly by the department receiving the goods or services without committing the money in the budget line-item to a purchase order at the time of purchase commitment to the vendor. The only recognition in the city's accounting records of this type of transaction will occur upon processing for payment of the invoice by the receiving department. Examples of this might include costs for newspaper advertisements, educational seminars, or certain types of insurance premiums. These types of transactions are necessary at times, but should be executed sparingly. Contact the Purchasing Department if you need clarification on whether any given transaction you are considering handling in this manner qualifies for such treatment.

Due to the fact that NO purchase order exists for this transaction, there is only one method available to handle it. Process for payment the invoice that was received on 7/5 before the cut-off date for processing invoices relating to the previous fiscal year. This cut-off date is indicated in the fiscal year-end instructions and deadlines memo. (See **Fiscal Year-end Procedures** in this manual for reference to the cut-off date and an explanation of the consequences and procedures necessary should the cut-off date be missed.)

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Purchase Order Date: **No purchase order outstanding.**

Date Goods Rec'd / Service Provided: **6 / 28**

Invoice Date: **6 / 30**

Date Invoice Rec'd: **7 / 20**

This transaction assumes that a purchase was made directly by the department receiving the goods or services without committing the money in the budget line-item to a purchase order at the time of purchase commitment to the vendor. The only recognition in the city's accounting records of this type of transaction will occur upon processing for payment of the invoice by the receiving department. Examples of this might include costs for newspaper advertisements, educational seminars, or certain types of insurance premiums. These types of transactions are necessary at times, but should be executed sparingly. Contact the Purchasing Department if you need clarification on whether any given transaction you are considering handling in this manner qualifies for such treatment.

Due to the fact that NO purchase order exists for this transaction, and the invoice could not be processed before the cut-off date for processing invoices relating to the previous fiscal year, this transaction is now considered prior-year / unencumbered. It is too late to charge this invoice to the correct fiscal year. To pay this invoice from your new fiscal year budget, perform the following procedure:

- (1) Photocopy the invoice(s) needing attention. Be sure to hold on to the original invoices. You will need them later.
- (2) Prepare a cover letter addressed to the mayor explaining why you have a prior-year / unencumbered invoice and that you are seeking permission to pay the invoice from the current new-year budget. Also indicate the account number you will charge. Attach the photocopy of the invoice(s) to the letter.
- (3) If the mayor agrees to your request, the mayor will sign the letter indicating such approval and pass the package of information on to the city auditor who will place the request on the next available city council agenda. The city council will vote on the request. A two-thirds majority is required for passage.
- (4) If approved by the city council, you may then process the original invoices still in your possession in the normal fashion.

This process takes 6 to 8 weeks to complete and is not in anyone's best interest. There also exists a **high probability** that such requests will be denied. In this case, vendors will not be paid due to a lack of appropriation.

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Upon approaching the cut-off date for processing invoices for the fiscal year about to be closed-out, department personnel are responsible for determining whether there were any goods or services provided in that year for which a purchase order has not been issued or the invoice for such goods or services has not yet been received. For such situations where receipt of the invoice prior to the cut-off date is questionable and a purchase order does not exist for the targeted transaction, a requisition (to be converted to a purchase order by the Purchasing Dept.) should be prepared so as to encumber the cost in the period in which the goods or services were provided. Attach an explanatory note to the requisition upon forwarding to the Purchasing Dept. for conversion to a purchase order. This situation should occur relatively infrequently. Because such requisitions will not be accompanied by an actual quote, bid, RFP or invoice, each will be closely scrutinized and may be denied if inadequate or inappropriate explanation is provided.

## **Paying Original Unaltered Invoices Only (Forms)**

**Original invoices submitted by vendors are the primary source document for the payment for goods and services provided to the city.** This rule is the first defense against duplicate payments or certain types of fraud. An invoice should minimally contain the following attributes:

- Vendor name and address.
- Date of the invoice.
- Quantity, description and dollar value of the goods/services provided.
- Date(s) when the goods/services were provided.

Original invoices as issued by vendors must not be altered (cross out, erasure, “white-out”, etc.) by the receiving city department. These will not be accepted for payment, **except where the quantity and/or dollar value to be paid is changed to less than** that listed on the original invoice. Generally, if any item on an original invoice issued by a vendor needs correction, **it is up to the vendor to cancel the originally issued invoice and issue a new corrected original.**

Currently vendors are increasingly tendering pdf versions of invoices by email. These are acceptable as original invoices, subject to the requirements outlined above.

There are some rare occasions when an original invoice may not be obtainable. For example, the original invoice is lost or destroyed and the vendor may only have a file copy available or may be able to produce only a photocopy of the original. In these rare circumstances, the form with the (lengthy) title **“Attestation Regarding Payment of Photo-copied or Otherwise Non-original Invoices”** must be completed and submitted with the document serving as the invoice .

Rev. 4/2017

## **Budget Transfers (Forms)**

Changes to budget line-item appropriation amounts originally voted by the city council are sometimes necessary. Massachusetts General Laws and local charter provisions recognize this need and allow for this to occur under a specific hierarchical methodology.

The appropriations budget for any given department is divided into three main **classifications**:

- **Personal Services** (more commonly known as wages and salaries).
- **Expenses.**
- **Capital Outlay.**

Within each classification are the individual line-items relating to it. Subsequent to the original annual appropriation vote by the city council (usually occurring in June to be effective July 1), a department may decide, for whatever reason, to transfer money appropriated to a line-item within its budget to a different line-item within its budget. There are two ways to accomplish this:

- Transfer between line-items **within** a classification. (**Form TR-1** - see below.)
- Transfer between line-items **between** classifications. (**Form TR-2** - see below.)

**Form TR-1** \* is to be used when you are requesting a transfer *within one appropriation classification*. (Example: Transfer from Office Supplies to Postage - this is *within* the classification of Expenses.) Please mark (X) the appropriate classification and complete the rest of the form. Be sure to use complete account numbers. The account name may be abbreviated as you see fit. Submit to the mayor for signature approval. For transfers occurring within a classification, only the mayor's approval is necessary (NOTE: For any budget transfers in to or out from In-state or Out-of-state Travel, refer to the **Travel Ordinance, Paragraph (1) Budgets**. This ordinance is included in this manual.)

**Form TR-2** \* is to be used when you are requesting a transfer *between two or more appropriation classifications*. (Example: Transfer from Clerk-Typist Salary to Office Supplies - this is *between* the classifications of Personal Services and Expenses.) Please mark (X) the appropriate classifications and complete the rest of the form. Be sure to use complete account numbers. The account name may be abbreviated as you see fit. Submit to the mayor for signature approval. Immediately after I receive a Form TR-2 showing the mayor's signature of approval, I will file a financial order to be taken up by the city council. For transfers occurring between classifications, the mayor's approval and a favorable vote of 2/3 of the city council are necessary. (NOTE: For any budget transfers in to or out from In-state or Out-of-state Travel, refer to the **Travel Ordinance, Paragraph (1) Budgets**. This ordinance is included in this manual.)

As you can see, the form you use determines the action that is taken on your request; therefore, it is important that the correct form is completed for the type of transfer you wish to execute. If the incorrect transfer request form is submitted, it will be returned to you for corrective action.

\* Form numbers appear in the lower left corner of each form.



There may be times when a department may need to increase funding to a new or an existing line-item within its budget and such additional funding is not available in any other line-item within its budget. For this “new money” funding, the department head must write to the mayor describing the purpose for the requested funds, the amount of money requested and the line-item name and number to which it is to be appropriated. This request must be signed by the requesting department head. Upon receipt of the request, the mayor will signify on the request whether or not it is approved. If approved, the mayor will also signify the source to use to fund the request and forward this approved request to the city auditor who will file a financial order to be taken up by the city council. For new money funding requests, the mayor's approval and a favorable vote of 2/3 of the city council are necessary.

## **Capital Outlay Defined**

Generally speaking, a capital asset is **tangible** property of **significant value** with an estimated **life of more than three years**. Whether an item is tangible and will endure for more than three years are relatively objective determinations and require no further definition. **Significant value** is a much more subjective attribute and is defined for the City of Holyoke as being **\$10,000 or more**. The significant value attribute is applied to the total of all similar items purchased at the same time. For example, 1 chair may cost \$250 when purchased separately and would not be considered for budgeting in or payment from the classification of Capital Outlay. (More specifically, this transaction would fall under the Expenses classification, Office Supplies budget line-item.) If 50 of these same chairs were purchased all at once by the department, the total value of the purchase (\$12,500) would be considered a capital purchase and must be charged to a line-item account under the Capital Outlay classification.

Rev. 10/2016

## **Financing Capital Purchases**

General practice had been to bundle lease/installment sales arrangements with the purchasing bids for certain capital goods and projects. This has been deemed to be inappropriate due to the fact that the lease/installment sales arrangements are a financing type of activity (separate from the purchase activity) which should be under the direct control of the city treasurer.

The following procedures shall henceforth be used:

### **PROCUREMENT**

1. The bidding/proposal process conducted through the Procurement Office shall constitute acquiring price and performance information without regard to the method of paying for the capital goods or projects.

### **FINANCING**

1. Prior to starting the procurement process for capital goods or projects, the method of financing such purchase must be determined. Due to some overlapping authorities involved, this decision is to made jointly on a case-by-case basis by the department head seeking the purchase, mayor, city treasurer and city auditor. The methods of financing purchases are limited to the following:
  - a) full payment upon delivery;
  - b) non-cancelable capital lease or installment sales agreement of 2 or more years in duration;
  - c) long-term bonds.
2. In most cases, the funding request will greatly aid in the determination of the method of financing.
  - a) During annual budget preparation, the department head will request the estimated full purchase price of the capital goods or projects. Upon review of each department's budget, the method of financing for approved requests will be determined and the funding request will be adjusted based on the selected method.
  - b) When a department head determines during a fiscal year that a capital good or project is needed, a request for approval, with a cost estimate, must be forwarded to the mayor. The method of financing and source of funding will then be determined by the department head, mayor, city treasurer and city auditor.

3. The method of financing will also impact where the funding is ultimately placed.
  - a) If funding of the purchase price has been approved for full payment upon delivery with no extended payments, such funding appropriation shall go to a capital outlay account in the budget of the department making the purchase, from which full payment to a vendor will be made. No further financing action is necessary.
  - b) If funding is by a non-cancelable lease or installment sales agreement, the city treasurer will execute the financing agreement. The city treasurer will then include a new line item in his budget to account for the current and future obligations of the agreement. Necessary transfers from available funds or departmental capital outlay accounts will be placed before the city council to fund the current year's payment (if one is required under the agreement). Subsequent years' payments will be included in the city treasurer's budget thereby not requiring any further financial attention by the department receiving the benefits of the agreement.
  - c) If funding is by long-term bonds, no budgetary action is necessary by the benefit-receiving department.

This process may appear complex, but it does allow for better control over how certain financial resources are allocated and ultimately paid out.

Please contact the city treasurer or city auditor when you have questions regarding the implementation of this policy.

## **Grant Acceptance & Administration**

Massachusetts General Laws Chapter 44 § 53A, states, in part:

An officer or department of any city or town . . . may accept grants or gifts of funds from the federal government and from a charitable foundation, a private corporation, or an individual, or from the commonwealth, a county or municipality or an agency thereof, and . . . may expend such funds for the purposes of such grant or gift . . . with the approval of the mayor and city council. . .

The following instructions are provided to ensure compliance with this law:

Upon receipt of the award document (contract) from the grantor, the department head must submit the document, with a cover letter of explanation, to the mayor. In the cover letter, request the mayor to indicate acceptance (or rejection) and forward this paperwork to the city auditor who will file the requisite financial order for placement on the next available city council agenda. Upon passage of the order to accept, the city auditor will create the appropriate accounts (normally in a new fund) in the city's financial records and administration of the grant provisions may begin.

Grant award documents that are merely notices of continuation of a grant previously awarded and accepted by the city council require no further action by the city council.

Copies of all grant or gift award documents must be filed with the city auditor, whether new or continuing.

## **Purchasing Goods & Services**

Please refer to the Purchasing Department all questions regarding the purchasing of goods and services for your department.

## **Annual Budget Process**

Following is a synopsis of the annual budget process:

- In December, the city auditor provides next-fiscal-year budget request forms to each department.
- Departments complete the budget request forms and return them to the city auditor by late January.
- The city auditor analyzes requests and makes adjustments as deemed appropriate.
- Completed request forms, as adjusted by the city auditor and entered in the city's computerized budget system, are presented to the mayor in February.
- The mayor establishes and executes a budget review process between February and late March.
- Based on the budget review process, the mayor makes adjustments deemed appropriate and submits the adjusted budget requests to the city auditor. This forms the basis for the mayor's budget proposal to the city council.
- The city auditor makes a final review of the mayor's budget proposal and prepares and files the official published mayoral proposal for city council action near the end of April.
- The city council must act to adopt a fiscal year budget within 45 days of receipt of the mayor's proposal. The annual vote by the city council normally occurs in mid-June for the budget to be effective on July 1.

## **Revenues (Forms)**

Revenues (receipts) are received in two basic forms: (A) cash/checks and (B) deposits wired directly into city bank accounts. Each is described below. Identification of where the deposited money is to be credited is accomplished by Revenue Codes, also described later in this policy.

**(A) Cash/Checks.** Departments that provide goods and services for a fee receive cash or checks as the primary form of payment. These receipts must be deposited at the Office of the City Treasurer using the following **daily procedure**:

(1) Receipts must be summarized and proven against:

- supporting cash register tapes;
- the tally of pre-numbered licenses, permits, etc.;
- log books, or any other internal mechanism used to track departmental activity for which payment from an end-user is required.

These records and proofs should be kept on file for at least three years.

(2) Complete the form entitled “Schedule of Departmental Payments to the Treasurer.” It is also recommended that somewhere on this form, a summary be included indicating a breakdown of the amount of cash and checks represented by the deposit. Make two (2) photocopies of the completed form.

- Submit one copy to the City Auditor.
- Obtain a signature on one copy from the representative of the City Treasurer’s office who accepts your deposit. This signed copy serves as your receipt and should be kept in your file for at least three years.
- Leave the original form, along with any other pertinent documentation, with the deposited money at the City Treasurer’s office.

**(B) Deposits wired directly into city bank accounts.** Most distributions from the State and federal governments to the city are electronically wired into city bank accounts. Upon notice from the respective bank, the City Treasurer’s office sends to many departments a fax of the bank notice for identification by the department as to where to credit the wired deposit (i.e., which Revenue Code should be used to place it in the correct Fund and revenue account). Once identified, the department is to write the Revenue Code, and any other helpful information regarding the deposit, on the fax and fax it back to the offices of the City Treasurer and City Auditor.



## Revenue Codes

Revenue Codes are used to specifically identify the revenue accounts in the city's accounting records to which a receipt is to be credited. Each department has previously received from the City Auditor's office listings of Revenue Codes related to the accounts and Fund entities over which it has control. Correct and timely identification of receipts by use of the proper Revenue Code is *vital* to the financial and operational viability of the city's General Fund and each of the hundreds of Special Funds (Grant Funds, Capital Project Funds, Enterprise Funds, etc.) maintained through the city's central accounting system. Call the Office of the City Auditor if you are ever unsure about which Revenue Code to use for any given receipt that you need to identify.

## **Miscellaneous Expenditures**

Over the years, we have received questions regarding payments to vendors and reimbursements to employees for certain special types of costs which are outside what one might consider a normal business expense. Some examples include: flowers or sympathy cards sent from a department, board or committee to the family of a deceased city employee; refreshments served at public functions; refreshments served to employees at staff meetings; costs incurred to conduct fundraising activities for a departmental function or project. This policy statement is an attempt to address as many of these special circumstances as reasonably possible and will likely evolve as more specific circumstances arise or if formal ordinances are adopted. If you come across a situation which is not specifically mentioned here, look through the others to see if another situation closely resembles yours. It is likely that it will apply to your circumstance. As always, before assuming that the answer to one situation applies to your new one, please confirm by calling the City Auditor, City Solicitor or Chief Procurement Officer prior to executing your transaction to avoid any possible misunderstanding. Most of this has been culled from cited writings in 2006 by a member of the MA Department of Revenue's (D.O.R.) legal division and aligns with best business and accounting practices and controls. We hope this is helpful.

### **Authority to Spend Solely for Public Purposes**

The authority for cities to spend money arises from Massachusetts General Laws (M.G.L.). In general, under M.G.L. Ch. 40 s. 5, the purposes for which cities are authorized to spend are not specified, but rather include any necessary expenditures arising from the exercise of their powers or functions.

Cities can spend only for public purposes. Public funds cannot be used for private purposes. Private organizations may receive public funds only when such organizations are contracted to provide goods and services to or on behalf of the city in promoting the city's various public purposes. Cities have the right to spend money for any purpose where the public good will be served, but not where the expenditure of money is directly for the private benefit of certain individuals. In some situations, the expenditure of public funds advances both public and private interests. If the dominant motive for the expenditure is a public one, incidental private benefits will not invalidate the expenditure. If, however, the dominant motive is to promote a private purpose, the expenditure will be invalid even if some public purpose is served. The Anti-Aid Amendment to the state Constitution further restricts this general interpretation with additional strict prohibitions, some of which are expounded upon in the section on fundraising, just prior to the conclusion of this statement.

### **What is a Public Purpose?**

According to the D.O.R., the question of what constitutes a permissible public purpose has been discussed in many court cases, none of which establish a universal definition. Generally, they tend to stress the certainty of benefits to the community. The basic test, therefore, is whether the expenditure is required for the general good of the inhabitants of the city.

### **Expenditure Types in Question**

Following is a list of expenditure types for which we have received questions regarding their allowance as a legitimate cost for payment using public money. This list is not all-inclusive, but represents the most common situations where clarification was sought.

***Gifts, Grants, Gratuities and Lobbying*** – Public money can only be spent for public purposes; therefore, cities have no power to appropriate money for gifts, grants or gratuities to persons or entities whose situations may appeal to the public sympathy, nor spend money to influence elections.

***Alcohol and Tobacco*** – State law specifically prohibits the use of public funds to purchase alcohol and tobacco (M.G.L. Ch. 44 s. 58). The ***only*** exception which has been allowed under specific advice from the D.O.R. is the purchase of these products for “compliance testing” for law enforcement or public health purposes. (Example: “Staging” purchases of alcohol or cigarettes by minors from local stores using money for under-age drinking or anti-smoking campaigns. These expenditures would be allowed because they are not for personal consumption but to ensure compliance with statutes and regulations.)

***Floral Arrangements for Funerals of Municipal Employees*** – It is not appropriate to pay for funeral flowers or sympathy cards using municipal funds. They must be covered by private donations and paid outside of the public arena. Such costs are incidental to the social relationships that employees develop during work and are not expenses made for public purposes, regardless of the fact that such relationships developed in conjunction with the conduct of departmental business.

***Plaques and Awards*** – Plaques, merit payments and other similar awards given to employees may be considered proper purpose for the expenditure of municipal funds if they are not excessive and are used to (a) encourage continuity of service or to (b) enhance efficiency and loyalty or to (c) promote productive performance. *The decision to incur such costs and the payments of such costs shall be under centralized control by and through the Mayor only.*

***Retirement Parties*** -- The expense of holding a retirement party must be covered by private donations and paid outside of the public arena because it is mostly an expression of support and appreciation from colleagues; however, paying for the reasonable cost of the dinner for the retiree may be deemed appropriate.

***Refreshments at Public Functions*** – Refreshments may be served at legitimate public functions such as ribbon-cutting ceremonies, opening day events, receptions, presentations and the like so long as they are modest and served to provide a benefit for the city by helping to keep the participants alert and receptive. The public function must be a department or municipal sponsored public event for authorized persons and related to the public purpose of the sponsor. If the function is open only to select groups or individuals, or spouses are in attendance, it is more likely to be considered a private celebration of primarily a social character and, therefore, not a motive for public purpose expenditure.

***Refreshments for Employees*** – Light refreshments may be served to officers or employees of the city or persons doing business with the city at official meetings or official events so long as they are modest and benefit the city by helping to keep the participants alert and receptive or by enhancing efficiency by avoiding loss of time and disruption were the participants to otherwise leave the premises. The official meeting must be a department or municipal sponsored meeting or event for authorized persons and related to the public purpose of the sponsor. Some examples of such costs which may be allowed include: coffee made available at a staff meeting; light refreshments provided to municipal project volunteers; light lunch at an all-day training program. As for general daily availability of office refreshments, only water may be purchased for this purpose because it is a life essential and the availability of convenient potable water in the building may be limited. If, for example, coffee grounds are purchased for later brewing, it may not be used for regular daily consumption by employees.

***Reimbursement to Employees Attending Events Not Sponsored by the City or One of Its Departments*** – Employees and officials may be reimbursed for the expenses of attending functions that directly relate to their public duties. The function must relate to and further the public purpose of the department for whom the representative is attending. If an employee, normally a department head, incurs an expense in the performance of official duties in the representation of his/her department, the expense is reimbursable. Thus, the cost of a department head's attendance at a retirement dinner or department party at which he/she is the official presenter of token gifts or awards, as a representative of his/her department, would be a legitimate municipal expense. If the event is arranged and funded by department employees or others, and attendance is optional, then the event would seem to be social and for private purposes rather than for public ones. In addition, if the event is outside of the city, and not related to the department or the city, the use of city money would not be appropriate.

***Expenses Incurred During Authorized City Business Travel*** – Reimbursement and payment of costs related to city business travel are fully covered by City Ordinance Chapter 2 Section 2-48 (Travel Policy). A copy of this ordinance may be obtained from the City Clerk's office or found online at

**<http://www.municode.com/Library/MA/Holyoke>**

or found in the Fiscal Policies Manual, a copy of which each office should possess.

***Department or General City Fundraising*** – City departments such as Parks and Recreation, Council on Aging, Public Library or the schools may want to raise money for a particular project. There is no law that specifically prohibits seeking financial donations or some other kind of financial support. Fundraising activities that go beyond applying for grants or simply soliciting donations by basic means (word of mouth, bulletin board flyers, small newspaper ads, etc.) are problematic, however, because they are seen as more in the nature of a profit activity. The appropriate practice is to have a private entity sponsor and conduct fundraising events and activities and turn over the net proceeds to the city as a grant or gift. The Anti-Aid Amendment to the state Constitution prohibits the use of municipal resources to assist a private group’s fundraising activities *even if the activities will benefit the city*. Public funds may not be used to assist a private organization’s fundraising activities, no matter how worthy or related the cause. For example, the city’s Council on Aging department cannot pay to print and mail a flyer by the Friends of the Council on Aging to promote a pot-luck supper which the Friends are holding to raise money for the Council on Aging. Sharing expenses of a city event co-sponsored by a city department and a private organization also raises Anti-Aid Amendment issues because the event is not under the exclusive control of the public officers. The city department could, however, enter into a contract with the private organization to run the event on its behalf.

### **Penalty**

A city employee who spends money on an expense which is deemed not for a public purpose will be held ***personally liable*** for the expenditure. In a case when an employee commits city money, receives goods or services and then submits an invoice payable to the vendor, the non-public purpose expenditure will be denied and the employee will be liable to pay the vendor directly. When an employee spends his/her own money and seeks a reimbursement for a non-public purpose, the request for reimbursement will be denied. *These consequences make it clear that when in doubt about the public purpose nature of a transaction, ask before committing or spending any resources.*

### **Conclusion**

When entering into a transaction which may not overtly appear to be exclusively for a public purpose, first refer to this policy for guidance. If it is still unclear to you if your proposed activity is characterized as that of serving a public purpose, please contact the City Auditor, City Solicitor or Chief Procurement Officer who will either provide you with a ruling or refer you to another authority. Also, **prudent judgment is necessary** when incurring such costs, **keeping modesty of amount always in mind**. Finally, since many of these types of transactions involve making a distinction between public and private purposes, **always think of the rules of ethics**, about which each employee has been educated by way of mandatory biennial online education and testing.