

Question: *To give departments more leeway in spending, the town finance committee is looking at changes in the format of the annual budget. Historically, appropriations have been grouped and presented to town meeting in three categories: salaries, operating expenses, and capital. As an accountant, I am concerned about budget controls. On the other hand, approving annual appropriations by department would give managers greater budget flexibility during these difficult economic times. Can DLS provide any guidance?*

TA Response: Unlike cities, towns are not legally bound to any specific budget format. A more generic format does give greater flexibility to department heads, but allows less central control and also provides town meeting with sparse information on which to base its approval of the budget. Another concern is that the priorities established during the budget approval process may be unilaterally abandoned by department managers when money is used other than as initially intended. These priorities are known because the accountant's chart of accounts reflects the department head's initial budget request which is presented in line-item detail. However, if a town seeks to format line-items in its budget by department, rather than creating separate departmental line-items categories for salaries/wages, operating expenses and capital outlays, the following is suggested:

- 1) At the start of the fiscal year, encumber all salaries and wages. This may run counter to the purposes of a more general format, but it helps avoid instances when department heads, who have the broadest flexibility, have used funds for operating expenses, which were originally budgeted for employee compensation. Later in the fiscal year, they would file a request for additional money to cover salaries or wages. At that point, legal obligations will force the town to provide the additional money or to cut positions for the remainder of the fiscal year.
- 2) Use transfer request forms. This works easiest in combination with a requisition and purchase order (PO) system. If the requisition arrives and needs a line-item transfer to fund the proposed expenditure, require that it be accompanied by a transfer request form. The department head would indicate the "to and from" line-items and amount to be transferred on the form. The change is then reflected on monthly expenditure reports and the municipal record of expenditures is more precise.

Absent a PO system, department heads should be compelled to file a transfer request before a purchase is made. Alternatively, they would have to indicate how a purchase will be funded, i.e., a transfer request, when they submit the invoice.

Finally, there is certainty and stability in consistent rules, as opposed to rules that change depending on economic swings or times of the year. Ultimately, from the DLS perspective, the most practical balance of control and flexibility in towns is in the salaries/wages, operating expenses and capital outlays budget format for departments.