



Request for City Council Committee Action From the Department of Finance

Date: November 6, 2007
To: Ways & Means/Budget Committee
Subject: Change to Financial Policies: Encumbrances

Recommendation

1. Amend the City's Financial Policies to allow the encumbrance of funds and its appropriation by departments for purchases of goods and services for which there is a signed purchase order or contract to carry over into the following fiscal year.
2. Eliminate special authority for prepayment for technology projects.
3. Eliminate "encumbrance" from reappropriation authority and replace it with a valid "commitment."
4. Direct Finance Officer, or designee, to review open commitments at year-end before allowing them to carry over into the following fiscal year.

Previous Directives

City Charter, Article V, Encumbrances of Funds
Pre-payment of Technology language

Prepared or Submitted by Chuck Elliott x2621 and Heather Johnston x2918

Approved by: Patrick P. Born, Finance Officer _____
Steven Bosacker, City Coordinator _____

Presenter in Committee: Chuck Elliott, Controller

Financial Impact

This would impact resources within existing departmental appropriations and be applicable to all funds.

Background/Supporting Information

Chapter 15, Section 4 of the City Charter provides the authority for the Finance Officer to encumber funds against the moneys appropriated to each department under the jurisdiction of the City Council, provided that the total encumbrances do not exceed the total sum appropriated by the City Council to any department. M.C.O. section 16.360 allows for the release of any portion of such charges by the Finance Officer when changing circumstances require. It has been the City's practice to release these encumbrances at the end of each fiscal year.

This policy change would allow for the encumbrance of funds for which a contract has been signed or a purchase order executed to carry forward into the next fiscal year. The Finance Officer, or designee, is responsible for certifying that an encumbrance is valid at the end of the fiscal year. Certain exceptions to the policy may be granted, especially in the case of project work done by Internal Service Funds where a signed contract or Purchase Order may not be present. Additionally, the Finance Officer, or designee, may reject appropriation carry over based on extenuating circumstances such as the financial health of the Fund. This policy would allow for a practice more consistent with standard accounting principles and eliminate the need for specialized treatment of funds such as those outlined in the prepayment for technology language.

Departments must continue to follow City procurement policies and procedures. This change in policy does not impact the requirement for a formal Request for Proposal for contracts over \$50,000.