

Notice Number

Date

LOCAL FINANCE NOTICECHRISTINE TODD WHITMAN
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DIRECTOR**IMPLEMENTATION OF THE FLEXIBLE CHART OF ACCOUNTS**

The long anticipated Flexible Chart Of Accounts (FCOA) has arrived! The project began in earnest two years ago for Municipal and County entities to provide a "common language" common to all municipal and county budgets. The common coding will ultimately lead to electronic filing of budgets rather than the historical, but now outdated, paper intensive system in place today. It's other benefits are a higher degree of comparability between government units, and it assists the Division in preparing it's Annual Report.

Under contract to the Division as part of our Financial Management Improvement Program, the Center for Government Service at Rutgers University developed the FCOA, tested it with over 30 pilot communities, provided outreach at numerous seminars, and since November of 1999 has provided training sessions at a variety of locations across the State.

A table of FCOA codes is also available on the Department of Community Affairs web site at the following address: <http://www.state.nj.us/dca/lgs/pages/fiscal/budmenu.htm>.

While the FCOA was designed as a coding system for a full accounting system, the Division is only requiring that a specific portion of each budget account number appear on the budget forms. The impact on the budget filed will vary from community to community but, the Chart was designed to limit the number of changes for each local unit. The FCOA was also designed to accommodate different forms of government and the growing frequency of Interlocal Services Agreements.

Because the only mandatory requirement of the FCOA project is that the budget be coded in accordance with the chart, the use of the FCOA for its underlying financial transactions is encouraged, but is optional. Eventually, the Division plans to adopt rules that will require the use of the FCOA in accounting transactions when accounting systems are replaced or significantly upgraded.

Using the FCOA for Budget Reporting**What Is Required**

With the issuance of this Notice, for Calendar Year 2000 and subsequent years, local government units (counties and municipalities) are required to code each revenue and appropriation budget line item on the State budget form with the appropriate FCOA 6 digit sequence. For example, Police Salary and Wages will be coded 25-240-1. Police Other Expenses will be coded 25-240-2. The codes are to appear in the first column to the right of the appropriate titles, in the column marked "Do Not Write Here." The budget forms were printed before the FCOA was finalized. Future forms will have that column marked as "FCOA."

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What is NOT Required

- Local units are not required to adopt the FCOA for internal record keeping.
- There is **no** requirement to alter Appropriation line item titles. For example, if your community titles the “police dispatch” function as “Communications” the title can remain the same as long as the proper coding is used. This is a key element: like items do not have to be retitled – the number is the critical element.
- Addressing an existing line item that includes: more than one FCOA defined purpose. If the purposes are significant in cost (i.e., includes costs of full time employees), the old account should show a “\$0” appropriation for CY 2000, and new line items established for CY 2000, with “\$0” shown for Prior Year 1999. For example, take a line item called “Administration and Executive” that includes costs of the governing body, municipal clerk and administrator. This should be broken into “General Administration (20-100-x), Mayor and Council (20-110-x), and Municipal Clerk (20-120-x). In this case, “x” represents a “1” for salaries and wages and a “2” for other expenses.

Other Requirements

- For the time being, each local unit will be required to provide coding for each line item in the **Introduced** copy of the budget that is filed with the Division. **Budgets not coded will be considered incomplete and will be returned.**
- Utility costs such as electric and telephone are required to occupy individual line items, and not be included in the line items of individual department or agencies. The Division recognizes that this may require changes in practices for some local units and the effect of the change received a good deal of discussion during development. As a result, this approach is required and should not result in any loss of internal controls, as other mechanisms are available to permit cost accounting that results from allocating utility costs to the appropriate agency account. The Budget Message should be used to explain to the public this change and how it affects individual line items.

Useful Guidance

The following are useful tips to follow when preparing your budget with FCOA codes:

- **Line items that do not exactly fit coding are to be coded to the closest primary function that applies.** For example, if your government offers a mental health outreach program, it would be charged to the functional area that most closely fits the function of the program. For example, if the primary goal or function the program is mental health services, the charge would be to health services, even if some of the function overlaps to other (such as social services) functional areas.
- The same account code may appear more than once in the budget document. For example, if the organization splits the legal budget for the Police Department into Patrol, Detectives and Administration, all three may continue to appear on the budget document, and they would all have the same police function code.

- Employees who perform several tasks that are spread among several FCOA line item descriptions **do not** have to be split among the different functions, but are to be charged to the function that takes the majority of effort (good judgment should be used to address those cases where the split is 50-50). Local units will not be required to maintain detailed breakdowns and documentation of time spent and charges to the various functional area of expense.
- In the case of the Communications/Dispatch/911 function, regardless of the agency that operates the system (Police, Fire, or regional service) the employees and related costs are to be charged to the appropriate FCOA account (25-250-x) for individuals and costs related to the activity. When temporary assignments of other staff are used to fill sick and vacation time (i.e. a system maintained by the police department may use sworn officers as fill-in's or backup) those costs do not have to be charged here but to the department where the individual was budgeted (this does not preclude a cost accounting for this purpose, but it is not required).
- Loss of comparability of data between the current and prior years: Resolutions to change text and title, account name changes, and transfers of charges to reflect account changes are **not** authorized for the prior year. For example, the changes in utility cost allocations noted above. If in the past the local unit charged electricity to Public Works the budget years of 1999 and 2000 will no longer be comparable. **1999 budget year amounts are not to be changed to reflect the FCOA.** Nor are comparative numbers for "new" budget accounts to have a 1999 amounts reflected. Any reporting, crosswalks, and explanations of the movement of expenditures should be reflected in the budget message during the conversion year.
- Changes in title wording may be made without Division approval if there are no other changes in the composition of the line item. For example, if in the prior year there was a lint item called "trash collection," and for the 2000 budget the governing body would like to title the account "solid waste collection," that may be done without Division approval by placing the new title first followed by the old title in parenthesis, i.e., Solid Waste Collection (Trash Collection).
- Only account numbers that have descriptions may be used. For example, in the FCOA table, account number 30-410 is Accumulated Leave Compensation, and account numbers 30-411 through 30-419 are not used. **Do not use them** on budget forms submitted to the Division. If the FCOA is implemented in the accounting system, they may have internal use, but the Division reserves the need to assign them to a purpose in the future.

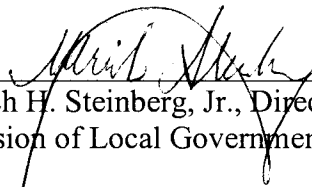
Conclusion

The Division appreciates that the implementation of the system and the changes it makes in presentation of budget information may cause some concern to elected officials. Local officials are urged to use the Budget Message to explain the requirement for the change by the State and to use the Message to provide necessary breakdowns and crosswalks to show the effect of the change. These changes are not expected to, nor should they, result in any new direct costs to local governments, as the required changes (placing codes on budget forms) are all within the routine responsibilities of the Chief Financial Officer as part of normal business.

The adoption of the FCOA is the first in what will be an exciting series of changes over the next several years to update our system of fiscal oversight of local governments. The prospect of electronic submission and review of budgets is an exciting one with benefits to local officials and to the public. We are looking forward to a successful implementation of the FCOA as the first step along this long path.

Local finance officials who have not attended a free Rutgers' Center for Government Services FCOA training program should contact them at 732-932-3640 ext. 632 for a schedule. These programs are the best way to learn about the FCOA and is the way to get a printed copy of the entire manual.

Questions about implementing the chart can be directed to the Bureau of Financial Regulation and Assistance at (609) 292-4806 or e-mailed to the Division at dlgs@dca.state.nj.us.



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