MEMORANDUM

DATE: April 1, 2019
TO: Business Officers and General Ledger Financial Reporting Users
FROM: Steve Romont, Director of Accounting & Financial Reporting
       Carolyn Gritton, Assistant Director, Accounting & Financial Reporting

RE: Encumbrance Recording and Review for Closing Fiscal Year 2019 Guidelines

As we approach the end of the fiscal year, careful planning will be required in order to prevent overdrafts in State Appropriated expense accounts and to close all accounts for the fiscal year on a timely and efficient basis. To assist with planning, we have prepared the following for encumbrance recording, review and correction guidelines.

GENERAL INFORMATION
An Encumbrance represents a contingent liability or commitment that will be recorded as an expense in the future from the following sub-system sources and Journal IDs:

- Monthly payroll (9ENCMPAY) for the months remaining in the fiscal year for non-grant (500/510) accounts. For grant accounts, it is based on the budget end date, the appointment date or the end of the fiscal year depending on the type of award.
- Purchases made from Purchase orders (9PURCHENC) or eBuy orders (9ENCEPAY01)
- Build UI jobs performed by Facilities Management (9ENCFMCP)
- F & A (90305SCF1 & 90305STNF1) on grant accounts, which are automatically calculated based on the other encumbrance journals posted that month.

When an encumbrance is recorded, the free balance is reduced as the purpose of encumbrance accounting is avoiding budget overspending, predicting cash outflow and as a general planning tool. Encumbrances are important in determining how much funds are available to be spent.

For the monthly encumbrance journals listed below, these journals are reversed each month and the encumbrance is recalculated to adjust for any expenditures or changes that occurred during the month. Reversal journal details are not included in the TDR or other General Ledger detail reports but are included in balances for Encumbrances and Free Balance in General Ledger summary reports. For the daily Purchase order journal, any invoices received on a PO to record expenditures or changes that occurred on that day are reflected in the next day’s 9PURCHENC journal.

ENCUMBRANCE RECORDING, TIMING & GENERAL LEDGER REPORTS IMPACT

Daily: Encumbrances are recorded to the General Ledger on a daily basis for Purchase orders.

Monthly: Encumbrances generated from the following sub-systems are recorded to the General Ledger at the end of each month: Monthly Payroll, eBuy orders, Facilities Management jobs and F&A costs.

Fiscal Year-End Only: For fiscal year-end reporting purposes ONLY, Accounting and Financial Reporting posts journal entries through on 9ENCDATENT to remove Purchasing blanket order and contract encumbrance
transactions. This journal is posted and appears on the regular June Close (period 12) TDR. Blanket orders (PO's starting with B000*) and contracts (PO's starting with C000*) represent estimates of annual purchases for either low dollar, regularly purchased goods and/or services or multiple, repetitive purchases of goods and services that have been competitively bid or have a pricing contract. These encumbrances are removed for year-end reporting because it represents an estimate of purchases for a period greater than one month, which should not be a factor when calculating the year-end free balance. These encumbrances are then reposted for the new fiscal year in July (period 1) to allow purchases to be processed and appear on the July Transaction Detail Report (TDR).

These encumbrance transactions appear in the Encumbrances and Account Balance sections of the daily TDR the day after the journal posts, and impacts the Free Balance. The encumbrances also appear on the monthly TDR and impact the Account Balances for the period just closed.

MONTHLY RECONCILIATION & YEAR-END CLOSE CORRECTIONS

Monthly verification reconciliation of encumbrances is important and should be done throughout the year as part of the regular TDR review and reconciliation process that is part of completing and meeting the policy for Monthly Review of Transactions and Accounts.

If encumbrance amounts are not accurate for a transaction, the Department is responsible for working with the central unit that is the source of the transaction to make the correction or to remove the encumbrance from their sub-system so it does not post to the General Ledger. If this is not done timely, the encumbrance will remain on the TDR through fiscal year-end close and must be corrected or removed in the new fiscal year.

The following process must be followed to request removal or adjustment to a specific encumbrance to impact fiscal year-end General Ledger Reports:

- **Purchase Orders and eBuy transactions**: Contact the appropriate Purchasing Agent by 4:30 PM June 26, 2019 to close or adjust the PO to impact period 12 reports.
- **Build UI transactions**: Contact Jason Ciha in Facilities Management by 4:30 PM June 21, 2019 for evaluation and possible updates to Build UI to impact period 12 reports.
- **Payroll transactions**: Contact Terri Hein in the Payroll Office by 4:30 PM June 18, 2019 (1 week prior to cutoff) for evaluation to impact period 12 reports, based on the May 31st journal. Only select grant accounts are encumbered for the June 30th journal.
- **F & A transactions**: Contact Angie Klein in the Grant Accounting Office for questions.
- **After the deadlines above related to Purchasing and eBuy** encumbrances are past, this process must be followed to potentially impact Preliminary close (period 13) General Ledger reports:
  - Requests for corrections to encumbrance amounts that meet the criteria above (i.e., only for new charges in June) must be emailed to Carolyn Gritton in Accounting and Financial Reporting no later than 4:00pm on July 9th, 2019. Requests will be evaluated and a decision made on a case-by-case basis if a correcting entry will be processed. Consideration is only given for errors that occur during the June accounting period and are on appropriated funds (050-060, 187-239).
  - **NOTE**: You must also must contact the Purchasing agent to request the PO be closed or adjusted in Purchasing, which impacts the new fiscal year reports.