

Accounting & Financial Reporting

MEMORANDUM

DATE: March 8, 2023
TO: Business Officers and General Ledger Financial Reporting Users
FROM: Steve Romont, Director, Accounting & Financial Reporting
Carolyn Gritton, Assistant Director, Accounting & Financial Reporting
RE: Encumbrance Recording and Review for Closing Fiscal Year 2023 Guidelines

To assist with planning for closing the fiscal year, we have prepared the following information 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)**
- **BuildUI** 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 the available, or unspent, funds.

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. Details for the reversal journals 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 daily 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 Reporting Purposes Only: For fiscal year-end reporting purposes ONLY, Accounting and Financial Reporting posts entries using journal ID **9ENCDAENT** to remove Purchasing blanket order and contract encumbrance transactions. This journal is posted and appears on the regular June Close (period 12) Transaction Detail Report (TDR) and other General Ledger transaction detail reports, as well as impacting balance reports. 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,

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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 to the General Ledger for the new fiscal year in July (period 1) to allow purchases to be processed and appear on July reports.

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

MONTHLY RECONCILIATION & YEAR-END CLOSE CORRECTIONS

Monthly 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 compliance expectations for the [Monthly Review of Transactions and Accounts policy](#).

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 General Ledger reports 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 Purchasing Operations at purch-pos@uiowa.edu by **4:30 PM June 29, 2023** to close or adjust the PO to impact period 12 reports.
- **BuildUI transactions:** Contact Jason Ciha in Facilities Management by **4:30 PM June 23, 2023** for evaluation and possible updates to BuildUI to impact period 12 reports.
- **Payroll transactions:** Contact Terri Hein in Payroll Services by **4:30 PM June 19, 2023** (1 week prior to cutoff) for evaluation of impact to 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, the following process must be followed to potentially impact Preliminary close (period 13) General Ledger reports:**
 - Requests for corrections to encumbrance amounts must be emailed to Accounting and Financial Reporting at as-efr@uiowa.edu no later than **4:00pm on July 12th, 2023**. 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, 190-239).
 - **NOTE:** You must also contact Purchasing Operations to request the PO be closed or adjusted in Purchasing, which impacts the next fiscal year reports.