Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT: Accounting and Reporting **DIVISION:** Chief Financial Office	**Number:** 20.20.00 **Effective date**: July 1, 2012
Chapter: Budgetary Accounting and Reporting **Part:** Encumbrances **Section:**	
APPROVED: George Naughton, Chief Financial Officer	Signature on file

PURPOSE: This policy provides guidance on accounting and financial reporting for encumbrances.

AUTHORITY:
ORS 293.590
ORS 291.015
ORS 293.075
NCGA Statement No. 1
GASB Statement No. 54

APPLICABILITY: This policy applies to all state agencies included in the State's annual financial statements, except for those agencies specifically exempted by OAM Policy 01.05.00.

DEFINITIONS: A **pre-encumbrance** represents intent to purchase goods or services.

An **encumbrance** represents a formal commitment to purchase goods or services within the current biennium.

POLICY:

101. Agency management must ensure the proper accounting and reporting of encumbrances.

102. Except as noted in 103 through 106, agencies may record pre-encumbrances and encumbrances. The original recording of a pre-encumbrance or an encumbrance may be an estimated amount, which can differ from the eventual actual cost.

103. Agencies must not encumber transactions resulting in charges to the following expenditure categories:

- salaries and wages
- reimbursements
- interagency charges
- special payments
- debt service
- lease payments (unless payments are in arrears)

104. Agencies must not encumber biennial or annual expenditures (such as rent, utilities, or any other recurring expenditures) in advance. Record these on a monthly basis in the month that the expenditure actually occurs.

105. Pre-encumbrance or encumbrance of the following types of transactions is not required:

- Purchases of goods or services that do not require a purchase order, signed contract, or other related legal commitment

- Planned and consummated spending commitments when the total purchase is less than $5,000. However, agencies may at their discretion pre-encumber or encumber spending commitments which amount to less than $5,000.

106. Agencies must not encumber contracts associated with grants, loans, leases, or capital construction. Disclose these as commitments in the notes to the financial statements. See OAM 15.80.00 for more information on commitments. Use professional judgment in considering whether to encumber certain other long-term contracts that extend well beyond the length of an individual biennium.

107. Transactions entered in the Relational Statewide Accounting and Reporting System (**R*STARS**) may or may not affect data on the appropriation table based on the transaction code used. Budgetary controls use the balances on the appropriation table to determine whether budgets are exceeded, therefore, agency accounting personnel must be alert to how accruals and encumbrances are posted in the R*STARS financial tables.

PROCEDURES:

108. Generally, the statewide spending process, including encumbrance accounting, involves these steps:

   a. Establish spending plans and establish expenditure appropriation accounts upon approval of budgets.

   b. Issue purchase requisitions to initiate plans to incur expenditures and **record pre-encumbrances**.

   c. Issue purchase orders and authorize contracts to commit to incur expenditures, **liquidate pre-encumbrances and record encumbrances**. Report remaining appropriation balances net of encumbrances.

   d. Record actual expenditures and related liabilities, and **liquidate encumbrances** after the completion of services or the receipt of goods. Report remaining appropriation balances net of expenditures.

   e. Pay vendors and liquidate related liabilities.

109. Agencies may record pre-encumbrances for larger purchases that will remain outstanding for a relatively long period. Record pre-encumbrances only after a signed purchase requisition is in place to formalize the plan to commit to purchase goods or services.

110. If a purchase requisition is not required, as in the case of a personal services contract, record an encumbrance as the original entry. However, agencies may record a pre-encumbrance even though a purchase requisition was not required.

111. When encumbrance accounting is used, record an encumbrance after issuing a purchase order or signing a contract for the purchase of goods or services.

112. Record encumbrances in R*STARS using t-code 204 if the item was previously pre-encumbered, and t-code 203 if it was not. T-code 204 liquidates the pre-encumbrance.

113. Cancel encumbrances that are no longer valid using t-code 206.

114. When goods or services have been received or provided and the invoice has been received, record an expenditure and accounts payable in R*STARS using t-code 225, which establishes a voucher payable and liquidates the encumbrance.

115. When the receipt of goods or the provision of services is complete by calendar date June 30, but the invoice is not available, accrue an accounts payable using t-code 437 and reverse the encumbrance using t-code 931R. Since both of these t-codes auto-reverse and do not affect the appropriation table in R*STARS, the document supported encumbrance will remain on the books in the next fiscal year for budget purposes.

116. To charge obligations against a prior biennial appropriation, the service must be performed or supplies received by calendar date June 30 and the vendor paid by December 31. The agency must record an expenditure (accrued liability) by the close of month 13 in R*STARS, but has until December 31 to pay the obligation out of prior biennial funds.

117. Eliminate encumbrances that are still recorded in R*STARS at the end of the biennium (after June 30) for financial reporting purposes using t-code 931R during month 13. T-code 931 will auto-reverse, providing agencies with the remainder of the lapse period to liquidate, cancel, or move the encumbrances forward.

Moving Encumbrances Forward at Appropriation Year End

118. If at the end of a biennium goods or services for an encumbered spending commitment have <u>not</u> been received by June 30, cancel the encumbrance (or balance of the encumbrance for partially fulfilled contracts), and re-established it in the new biennium.

Reporting Encumbrances at Fiscal Year End

119. For GAAP financial reporting purposes, outstanding encumbrances are not expenditures. At the end of a fiscal year, outstanding encumbrances represent estimated expenditures that would result if unperformed spending commitments in process at year-end were completed.

120. Encumbrance accounting applies to all fund types for control purposes. The budgetary schedule presented in the State's **Comprehensive Annual Financial Report** includes encumbrances with actual cash expenditures; however, the financial statements do not.

Disclosure Requirements

121. The notes to the financial statements disclose significant encumbrances by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments.