Encumbrance Policies and Procedures

ENCUMBRANCE POLICIES AND PROCEDURES (FOR PURCHASE ORDERS, PAYROLL, PCARD, CONTRACTS, LAND ACQUISITION, AND INCOMPLETE PROJECT ENCUMBRANCES FOR CAPITAL IMPROVEMENT PROJECTS)

NEW MATERIALS – AUGUST AND SEPTEMBER 2010

1. *DAGS General Purchase Order Process Specific to DAGS-Oahu Divisions*
2. *State of Hawaii General Purchasing Order Cycle Flowchart*
3. *August 24, 2010 Memorandum, Administrative Services Office (ASO) New Contract Encumbrance Processing Procedures*

HIGHLIGHTS OF THIS SECTION

1. Encumbrances generally are obligations in the form of purchase orders, contracts, or other such commitments that do not become liabilities until performance of the conditions stated in the commitment. For example, when we place an order and a purchase order is issued, it becomes our obligation to acquire the goods, services, or construction from that vendor. After the vendor provides us with the goods, services, or construction, it becomes a liability until the vendor is paid.
2. For financial reporting purposes, recording of encumbrances properly reflect the obligations of the State as of a particular date. It informs readers of the State's financial statements that funds have been set aside to honor the commitment to purchase the goods, services, or construction from the vendor.
3. By encumbering the funds, the operating and Capital Improvement Project (CIP) appropriations/allotments will not be reverted (quarterly reversions of operating funds) or lapsed at the statutorily lapsed date.
4. The following table summarizes the types and methods of encumbrances, the required documentations, and the approximate submission deadlines to the DAGS-Administrative Services Office:

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Types and Methods of Recording Encumbrances	Required Documentation	Deadline to the Administrative Services Office (ASO)
Purchase order (PO) (Also refer to Section IV – Early Cancellation of Prior Year Operating Fund	1.) Typed PO, 2) with supporting documentation/approvals if applicable, and 3) valid vendor code established in FAMIS.	1) Submitted at time of ordering of goods and services and construction, or 2) Monthly – the 24th of each month except for June, or 3) June, fiscal year ending – Approx. 7 to 8 working days before June 30.

Claims Encumbrance)		
Payroll	List detailing the employees last four digits of social security number and amount. ASO to prepare list and Encumbrance Advice, SAFORM C-06	ASO to prepare and submit to DAGS-Accounting Division by the due date of July 15 as a blanket encumbrance.
Purchasing Card (pCard)	ASO will submit the documentation from PVS Net (transaction date, post date, vendor, amount, appropriation, and location code) provided there is sufficient allotment (cash, if necessary) using Encumbrance Advice, SAFORM C-06	Fiscal year end only, ASO to prepare and submit to DAGS-Accounting Division by the due date of July 15 as a blanket encumbrance.
Contract (Except for the Public Works Division and the State Procurement Office)	1) Checklist Transmittal Form-original, 2) Transmittal Memorandum-original, 3) Batch Slip-original, 4) Contract Input-original + 4 copies, 5) Fully executed contract, use AG forms-copy, 6) attach appropriate checklist items including compliance documents, 7) necessary approvals, and 8) sufficient appropriation/allotment (cash, if necessary).	1) Monthly – the 24th of each month except for June, 2) June, fiscal year ending – Approx. 5 working days before June 30.
Land acquisition	If applicable to DAGS as a blanket encumbrance, see below for detailed explanation	If applicable, submit to DAGS-Accounting Division by the due date of July 15 as a blanket encumbrance.
Incomplete project for CIP appropriations	Applicable to DAGS-Public Works Division only as a blanket encumbrance, refer to detailed explanation section below	Applicable to DAGS-Public Works Division only as a blanket encumbrance, refer to detailed explanation section below
<u>Method of Encumbrance</u> Blanket (Also refer to: Section IV – Early Cancellation of Prior Years Operating Fund Claims Encumbrance and Section V – Early	Encumbrance Advice, SAFORM, C-06 with 1) For Payroll – ASO prepares detail list of payroll information (last four digits of social security number and amount), 2) For pCard – ASO to prepare documentation, 3) For unexecuted contracts, refer to section III.E. below for required documentation for blanket claims encumbrance for different types of contracts and 4) For CIP appropriations – Signed statement including evidence that the conditions in items II.F.1. and II.F.2. are met, cost categories breakdown, Act	1) Quarterly – For payroll only, ASO to prepare and submit to DAGS-Accounting Division by the due date. 2) June, fiscal year ending – Approx. July 10 from Divisions or ASO to prepare and submit to DAGS-Accounting Division by the due date of July 15.

Cancellation of Prior Years CIP Claims Encumbrance)	and item number of the appropriation, appropriation title, appropriation symbol, dollar amount, and reason or justification for the claims encumbrances,	

DETAILED EXPLANATION

I. Encumbrances

Generally, encumbrances are obligations in the form of purchase orders, contracts, or other such commitments that do not become liabilities until performance of the conditions stated in the commitment. By encumbering the funds, the operating and Capital Improvement Project (CIP) appropriations/allotments will not be reverted (quarterly reversions of operating funds) or lapsed at the statutorily lapsed date. The general features of encumbrances are:

A. Encumbrances reserve an appropriation (or a portion of an appropriation) to cover obligations or commitments that have been incurred against the appropriation.
B. Encumbrances are not firm liabilities, but are converted to liabilities upon performance of the acts required by the obligations or commitments (such as delivery of goods and services).
C. Encumbrance obligations or commitments are not merely anticipated future expenses, but are enforceable rights that bind the parties involved to complete a transaction based on proper performance of the acts called for by the obligation or commitment.

II. Various Types and Methods of Encumbrances

A. Purchase order encumbrances – Obligations incurred through issuance of a purchase order (PO) authorizing the delivery of goods or the rendering of services for a stated payment. The PO encumbrance is recorded by the transaction code 621. A PO encumbrance is supported by a copy of an issued purchase order signed by the ordering program, and any applicable supporting documentation/approvals.
B. Payroll encumbrances for time worked – Payroll encumbrances for time worked are actual liabilities to employees for time that has been worked but not paid for as of a particular recording date. A payroll encumbrance for time worked is supported by the department's/program's detailed list (ASO prepares list at year end based on the D-55, Individual Time Sheet) including the employees' last 4 digits of their social security numbers and the amounts due to each of the employees but unpaid as of a particular recording date.
C. Purchasing Card (pCard) – PCard encumbrances will be processed by the ASO for transactions posted in PVS Net with a transaction date of June 30 or prior and a post date of July or prior for lapsing operating accounts, provided there is sufficient allotment (and cash, if necessary) to cover the encumbrance. These transactions should be updated in PVS Net by July 10 to reflect the appropriate account information.
D. Contract encumbrances – Obligations incurred under a contractual agreement to pay for performance of acts required by the agreement. The initial contract encumbrance is recorded by transaction code 631. A contract encumbrance is supported by a fully executed contract.
E. Encumbrances for land acquisitions – Include any of the following:
    1. An obligation incurred as the result of a written offer to a landowner.
    2. An obligation incurred as the result of a court deposit on a land purchase.

3. A commitment to acquire land as a necessary element in completion of a project for which funds are encumbered under purchase order or contract.
4. A commitment to relocate the tenants who occupy the land which has been purchased.

An encumbrance for land acquisition is supported by either a) purchase order; b) contract; c) copy of a written offer; d) copy of court documents indicating that land acquisition is under litigation; e) signed statement that there is a commitment to acquire land as a necessary element in completion of a project that has been encumbered; f) copy of a letter from the Attorney General indicating the probable settlement amount; or g) copy of a letter from the expending agency including relocation information.

F. Incomplete project encumbrances for Capital Improvement Projects (CIP) Appropriations – Encumbrances of estimated project costs may be recorded without issuing a purchase order or executing a written agreement if both the following conditions are met:
   1. The appropriation to be charged with the encumbrances was made by the Legislature in terms of providing for completion of a project or a portion, and not in terms of providing for operations of a fiscal period.
   2. The encumbrance of the estimated project costs (including costs relating to works of art as provided in Section 103-8, HRS) for the specific cost element (plan, land acquisition, design, construction, and equipment) of an appropriation is necessary to fulfill a commitment of the State to another party who has enforceable rights against the State.

   Incomplete project encumbrances are supported by the programs signed statement incorporating the following information: a) Evidence that the conditions in 1. and 2. above are met and b) Details of costs by categories (personal services of State employees or non-State providers; other current expenses; and contract construction).

G. Blanket Encumbrances – A method of recording encumbrances other than a purchase order and a contract. Blanket encumbrances are recorded in the central accounting records by DAGS Accounting Division only at the end of a quarter or fiscal year, and in the case of CIP appropriations as of the lapse date. It is recorded by transaction code 623 with the appropriate object codes.
   1. A blanket encumbrance for payroll is supported by a detail list of payroll information (last four digits of their social security number and amount) and the submission of an Encumbrance Advice, SAFORM C-06.
   2. A blanket encumbrance for pCard is supported by a detail list from PVS Net (transaction date, post date, vendor name, amount, appropriation, location code) and the submission of an Encumbrance Advice, SAFORM C-06.
   3. A blanket encumbrance for unexecuted contracts is supported by evidence for various types of procurement methods that by the end of a quarter or June 30 for the following:
      a. Competitively sealed bidding – bid tabulation sheets opened on or before the end of a quarter or June 30 that reflect all bidders and their proposed amounts
      b. Competitive sealed proposals – the intent to award letter containing the amount of the proposal dated on or before the end of the quarter or June 30
      c. Professional services – the intent to award letter containing the amount of the proposal dated on or before the end of the quarter or June 30 and the selection committee's ranking that is sent to the head

of the purchasing agency. If the ranking does not contain prices, the intent to award letter must contain the amount of the proposal

d. Sole source – the State Procurement Office's approved form (SPO-01) dated on or before the end of the quarter or June 30 which contains the vendor and the amount.

4. A blanket encumbrance for CIP appropriations is supported by the submission of the Act and item number of the appropriation; appropriation title; appropriation symbol; dollar amount; reason or justification for the claims encumbrances; and an Encumbrance Advice, SAFORM C-06.

IMPORTANT – No encumbrance can be recorded against an appropriation as of the end of a month, quarter or other fiscal period, or as of a particular lapse date, unless there are available funds (allotment and cash if applicable) in an operating account and for a CIP appropriation, unless there is sufficient allotment balance or the signed allotment has been received by the Comptroller as of that date.

Click on website link below for more information on the State of Hawaii Accounting Manual-Volume II, Section 470 at: http://aarc.hawaii.gov/accounting-manual/vol-II/Section%20470%20Encumbrance%20Policy%20and%20Procedure.pdf

III. Submission Deadlines to DAGS-Administrative Services Office (ASO)

Note: This section should not be confused with sections IV. and V. related to the extension of a prior years encumbrance

A. Purchase Order Encumbrances
   1. A PO should be prepared and submitted for recordation at the time the obligation is incurred, e.g., when the item is ordered and the purchase order is issued. The use of a confirming PO (issuance of a PO upon receipt of invoice) should be kept to a minimum.
   2. Deadline:
      a. Monthly – The 24th of each month (except for June, the fiscal year ending month) **with the appropriate supporting documentation/approvals.** Note: The vendor code must be established in FAMIS before the encumbrance can be recorded.
      b. Fiscal year ending – Approximately 7 to 8 working days before year end (June 30). Refer to current memo, "Deadline for Submission of Documents for Encumbrances and Payment for Fiscal Year Ending June 30, 20XX" issued by the ASO in early May for the actual deadline date. Note: The vendor code must be established in FAMIS before the encumbrance can be recorded.
   3. Required Documentation:
      a. A purchase order with a valid vendor code and the appropriate documentation e.g. SPO Form 10, T-204, Business Management Officer/Comptroller's approval, etc.

B. Payroll Encumbrances
   1. See below, section III.E., Blanket Encumbrance

C. PCard Encumbrances
   1. See below, section III.E., Blanket Encumbrance

D. Contract Encumbrances Except for the Public Works Division and the State Procurement Office
   1. Copies of contracts and agreements entered into and chargeable to that quarter or year

2. Deadline:
    a. Monthly – The 24th of each month (except for June, the fiscal year ending month) **with the appropriate supporting documentation/approvals.** Note: The vendor code must be established in FAMIS before the encumbrance can be recorded.
    b. Fiscal year ending – Approximately 5 working days before year end (June 30). Refer to current memo, "Deadline for Submission of Documents for Encumbrances and Payment For Fiscal Year Ending June 30, 20XX" issued by the ASO in early May for the actual deadline date.
3. Required Documentation:
    a. A fully executed contract (one copy of the fully executed contract + one or two copies of the first page of the contract if divisions/offices want extra copies) must be in a form approved by the State Attorney General with the required attachments. Use the appropriate AG-001 to 005 and AG-008 to 016 forms that is available on the State's website at: http://www4.hawaii.gov/StateForms/Internal/ShowInternal.cfm.
    b. Checklists of required attachments for various types of contracts - See attached ASO's memorandum dated August 24, 2010 at website link: http://dagsnet.higov.net/fiscal/pph/encmemo08-24-2010.pdf.
    c. Verify that the contract is a proper charge against the appropriation from which the funds are being encumbered and the funds availability should be checked prior to submitting encumbrance requests, since insufficient funding will result in processing delays.
    d. All required documents including necessary approvals are obtained prior to submission, e.g. Governors approval.
    e. **All completed contract encumbrance forms (including those being submitted to State Procurement Office, Purchasing and Supply Division per their request) with the contract documents, as applicable, should be routed through the ASO. This will allow ASO's review of the contract documents for completeness and for possible coding errors on the forms.**

E. <u>Blanket Encumbrances</u>

<u>Payroll Encumbrances</u>

1. Deadline
    a. Quarterly – If applicable, ASO will process the encumbrance request to DAGS-Accounting Division as a blanket encumbrance by the due date.
    b. Fiscal year ending – If applicable, ASO will process the encumbrance request to DAGS-Accounting Division as a blanket encumbrance by July 15.
2. Required Documentation:
    a. ASO to submit payroll encumbrance
        - Encumbrance Advice, SAFORM, C-06
        - A detail list of payroll information (last four digits of social security number and amount) for time worked and unpaid as of the particular recording date. The detailed list must agree with the summary listing on the Encumbrance Advice, in total.
        - For the year-end payroll encumbrances only, payroll encumbrances for each appropriation account must be established on a separate Encumbrance Advice (original and

one copy) with the Advice Number based on the appropriation account symbol.

PCard Encumbrances

1. Deadline
    a. Monthly – Not applicable
    b. Fiscal year ending – ASO will process the encumbrance request to DAGS-Accounting Division as a blanket encumbrance by July 15, provided there is sufficient allotment (and cash, if necessary) to cover the encumbrance.
2. Required Documentation:
    a. Encumbrance Advice, SAFORM, C-06
    b. ASO to submit pCard encumbrance and these transactions should be updated by the programs in PVS Net by July 10 to reflect the appropriate account information.

Unexecuted Contracts – When a contract or agreement is not fully executed before 5 working days before yearend (June 30) and therefore cannot meet the normal ASO's contract encumbrance deadline, the following methods of source selection may be included as a blanket encumbrance provided certain documentations are submitted:

a. Competitive sealed bidding
b. Competitive sealed proposals
c. Professional services
d. Sole source procurement

1. Deadline:
    a. Quarterly – Generally not applicable, but may be submitted on a case-by-case basis, approximately five working days after quarter ending month except for June.
    b. Fiscal year ending – Approximately July 10. Refer to current memo, "Encumbrance Submission Deadline Comptroller's Memorandum No. 20XX-XX" issued by the ASO in late May or early June for the actual deadline date.
2. Required Documentation:
    a. Encumbrance Advice, SAFORM C-06
    b. Competitive sealed bidding – 1) Bid tabulation sheets opened on or before the end of a quarter or June 30 that reflect all bidders and their proposed amounts **or** 2) Recommendations of contract awards for bids opened on or before the end of the quarter or June 30 will be accepted.
    c. Competitive sealed proposals – The intent to award letter containing the amount of the proposal dated on or before the end of the quarter or June 30.
    d. Professional services – The intent to award letter dated on or before the end of the quarter or June 30 and the selection committee's ranking that is sent to the Comptroller (head of the purchasing agency). If the ranking does not contain prices, the intent to award letter must contain the amount of the proposal.
    e. Sole source – State Procurement Office's approved form (SPO-01) dated on or before the end of the quarter or June 30 which contains the vendor and the amount.

CIP Appropriations

1. Deadline:

a. Monthly – Not applicable
b. Fiscal year ending – Approximately July 10. Refer to current memo, "Encumbrance Submission Deadline Comptroller's Memorandum No. 20XX-XX" issued by the ASO in late May or early June for the actual deadline date.

2. Required Documentation:
   a. Encumbrance Advice, SAFORM C-06
   b. A signed statement incorporating the following information:
      i. Evidence that the conditions in item II.F.1. and II.F.2 are met
      ii. Details of cost by categories (personal services of State employees or non-State providers; other current expenses; and contract construction).
   c. A detail list of the Act and item number of the appropriation; appropriation title; appropriation symbol; dollar amount; and reason or justification for the claims encumbrances.

IV. Operating Fund – Annual Review in December – Early Cancellation of Prior Year Operating Fund Claims Encumbrances (Refer to the attached Comptroller's Memorandum No. 2007-26, dated November 21, 2007 for details at website link: http://hawaii.gov/dags/cm/memo/CM2007-26.pdf)

A. All prior year operating funds claims encumbrances (purchase orders, blankets, and payroll blankets) recorded as of June 30 of the prior fiscal year will be cancelled and the related appropriation balance lapsed, if the encumbrances have not been expended by the close of business of December 31, 20XX (six months after end of prior fiscal year) except for the following:
   1. An encumbrance will be considered active and will be automatically extended if it meets <u>both</u> of the following conditions:
      a. Last activity date of the encumbrance is after August 1, 20XX
      b. The total payment against the encumbrance is more than 50% of the encumbrance.
B. Any claims encumbrance not meeting both conditions as of December 31, 20XX (six months after end of prior fiscal year) will be considered inactive and will be cancelled.
C. Encumbrances that are paid by journal vouchers using transaction code 804 will not be automatically extended even if both conditions are met. Therefore you must request an extension for these encumbrances.
D. Extension requests must also be submitted for federal and trust fund encumbrances that do not meet both conditions above, but whose conditions of funding prohibit cancellation of the encumbrances.
E. Submission Requirements to Extend Encumbrances Not Meeting the Above Criteria:
   1. Requests submitted to the Comptroller through DAGS Accounting Division (not the Administrative Services Office) by mid-December, approximately by the 10th working day in December. Refer to the most current Comptrollers Memorandum issued in November for the actual deadline.

   2. Include the following approved/disapproved signature sections in the memo:

      ○ APPROVAL ○ DISAPPROVED

      _____
      WAYNE M. HORIE, DAGS Accounting Division Administrator

      Dated: _____

○ APPROVAL ○ DISAPPROVED

_____
RUSS K. SAITO, State Comptroller

Dated: _____

3. Include an encumbrance listing that is by fund, followed by appropriation account number in numerical order, purchase order number or encumbrance advice number (blanket) and applicable suffix (in numerical order), vendor name, balance amount, and the reason for the extension.

V. CIP Funds – Extension On or Before April 30 – Cancellation of Prior Years Claims (Non-Contract) Encumbrances In All CIP Appropriations (Refer to the attached Special Distribution Memorandum No. 2008-4, dated April 14, 2008 for details)

A. All prior years CIP claims (non-contract) encumbrances that have remaining balances outstanding past their appropriation lapse dates will be cancelled unless an extension of time is requested and granted by the State Comptroller/DAGS-Accounting Division. Requests for extension are due to the ASO approximately two to four working days before April 30 for submission to the DAGS Accounting Division by April 30, 20XX.
B. All CIP claim encumbrances not requested for extension will be cancelled.
C. Requests to extend CIP claim encumbrances for State personnel will not be allowed if these payroll costs are budgeted in the current year's CIP staff costs appropriations.
D. CIP claims encumbrances can only be extended for <u>three years</u> after the lapse date of the appropriation.
E. Submission Requirements
   1. Requests submitted to the ASO approximately two to four working days before April 30. A memorandum requesting an extension to the Comptroller through DAGS Accounting Division is required. Include the following approved/disapproved signature sections in the memorandum:

○ APPROVAL ○ DISAPPROVED

_____
WAYNE M. HORIE, DAGS Accounting Division Administrator

Dated: _____

○ APPROVAL ○ DISAPPROVED

_____
RUSS K. SAITO, State Comptroller

Dated: _____

2. For CIP Purchase Order Encumbrance – An extension list must be submitted with the memorandum and shall include in the following order: fund, appropriation symbol (in numerical order), purchase order number and suffix (in numerical order), vendor name, balance amount, and the reason for the extension.
3. For CIP Blanket Encumbrance – In addition to the memorandum, a detail list provided by DAGS-Accounting Division must be completed/updated to include the most recent balance that is required and also not required. Refer to sample (WHO8 – Blanket Claims Encumbrance Recorded in FAMIS Against CIP Appropriation Accounts)

VI. Contact Information for Help for DAGS' Divisions/Offices/Attached Agencies Users Only

DAGS-Administrative Services Office

Accountant V at 586-0701 or Accountant Clerk V at 586-0672

VII. Attachments Download Now

A. ASO's May 13, 2008 Memo with Comptroller's Memorandum No. 2008-08
B. ASO's May 7, 2008 Memo
C. Comptroller's Memorandum No. 2008-0
D. Special Distribution Memorandum No. 2008-03
E. ASO's November 23, 2007 Memo with Comptroller's Memorandum No. 2007-26
F. ASO's May 17, 2005 Memo with Comptroller's Memorandum No. 2005-12. **Refer to ASO's memorandum dated August 24, 2010 for new DAGS' internal contract procedures.**
G. ASO's May 28, 2004 Memo
H. Sample form prepared by the Accounting Division for the extension of CIP Blanket Claims Encumbrance
I. State of Hawaii Accounting Manual, Section 470: Encumbrance Policy and Procedure