# SUBJECT

Statewide Encumbrance Policy

# PURPOSE

This statewide encumbrance policy became effective January 1, 2017 and is required for all agencies unless specifically exempted by statute. This policy documents the requirements for encumbrances and the exceptions for certain types of payments.

# AUTHORITATIVE REFERENCES

K.S.A. 75-3728 K.S.A. 75-3730 K.S.A. 75-3025

K.S.A. 75-3026 K.S.A. 76-769 K.S.A. 76-770

K.S.A. 75-3728 requires the Director of Accounts and Reports (Department of Administration) to formulate a system of central accounting that provides records showing at all times the unliquidated obligations, actual balances on hand and the unencumbered balances of allotments or appropriations for each state agency.

The current accounting system, Statewide Management, Accounting & Reporting Tool (SMART), provides for recording of encumbrances via purchase orders, travel authorizations and General Ledger (GL) encumbrance journals. Encumbrances are not recorded in the General Ledger but are recorded in Commitment Control as budgetary transactions providing for the record of unliquidated obligations and the unencumbered budget balances for each state agency at the fund and budget unit level.

The Department is also required by K.S.A. 75-3730 to certify that a sufficient unencumbered balance is available before an obligation can be incurred or payment made against any fund, allotment or appropriation. The Audit Services Team in the Office of Accounts and Reports is responsible for the pre-audit of payment vouchers submitted by agencies. Delegated audit agreements are in place for each agency granting them the responsibility for the pre-audit of payment vouchers within the agency’s delegated audit authority. The Audit Services Team retains responsibility for the pre-audit of payment vouchers above the agency’s delegated audit authority.

Each state agency is responsible for ensuring no obligations are incurred and no funds are expended in excess of available appropriations. K.S.A. 75-3025 and K.S.A. 75-3026 provide penalties for the misuse of agency funds in incurring obligations in excess of amounts expressly authorized by law. Agencies should be aware of their responsibilities under these statutes. The system controls in SMART are designed to prevent expenditures and obligations recorded via encumbrances from exceeding appropriations established by law. However, the system controls cannot be effective for obligations incurred by the agency for which no encumbrance is recorded in SMART. Further, if not all obligations are recorded as encumbrances in SMART, agency fiscal staff must have processes in place to monitor available appropriations for obligations not recorded as encumbrances in SMART.

NOTE: K.S.A. 76-769 exempts the Regents’ Institutions from certain statutes governing statewide procurement. K.S.A. 76-770 exempts the Regents’ Institutions from utilizing the SMART Procurement Modules and the Travel and Expenses Module thus the SMART encumbering process.

# GENERAL INFORMATION

This policy is intended to identify obligations required to be encumbered and obligations not required to be encumbered. By encumbering all obligations, this policy, along with the full use of SMART functionality will allow for:

* Aiding the ability of agency fiscal offices to know (1) all agency obligations, and (2) the uncommitted balances of the agency appropriations and expenditure limitations authorized by the legislature at any point in time
* Identifying goods ordered but not delivered
* Matching goods delivered against what was ordered
* Identifying goods that have been delivered but not yet invoiced
* Providing for purchase invoice matching and reconciliation
* Providing control for back-ordered items due from suppliers
* Identifying financial commitments otherwise not recorded in SMART

Obligations are required to be encumbered pursuant to Policy Manual (PM) 14,002 Fiscal Year Closing Including Fiscal Year Determination.

* Obligations shall be encumbered no later than the service date or the order date. A requisition date subsequent to the service date or the order date will result in an audit finding.
* A grace period is allowed during the month of July to allow agencies time to enter encumbrances for the new fiscal year. No audit findings will be issued during July based on a comparison of the requisition date to either the service date or order date.

**Obligations required to be encumbered:**

Purchase Orders for –

* Commodities
* Goods
* Capital Outlay
* Services
* Maintenance
* Vehicles
* Equipment Rental
* Lease of Land
* Building Rental
* Construction

NOTE: Obligations are required to be encumbered regardless of whether the item is over or under delegated purchasing authority, is on or off statewide/agency contracts, does or does not require a prior authorization.

**Other obligations required to be encumbered:**

* Administrative expenses paid from federal funds
* Credit Card Purchases – Procurement Cards (P-Cards) and other Credit Cards using statewide/agency contracts or when a prior authorization is required or as required for fiscal year end reporting obligations
* Emergency purchases as described under the Prior Authorization Training Documentation of the Office of Procurement and Contracts
* Other purchases as may be determined by the Secretary of Administration

Travel Authorizations paid through the Travel and Expenses module:

* All out of state, and international travel events
* Any June (or prior month) travel event that will not be reimbursed to the employee prior to the fiscal year end SMART cutoff date
* Other travel as may be determined by the Secretary of Administration

GL Encumbrances for:

* Transactions that are not yet complete at fiscal year-end and the supplier is not yet known; for example, a bid event for procurement that is not complete by fiscal year end, where the supplier is not yet known
* Anticipated travel at fiscal year-end and the traveler is not yet known
* Anticipated reimbursable expenses to be paid through the Travel and Expenses module that occur at fiscal year-end and the payee is not yet known

*NOTE: Once the supplier is identified, the GL Encumbrance journal is reduced, and a Purchase Order (PO) is created. See SMART Job Aid* [*https://smartweb.ks.gov/training/General\_Ledger*](https://smartweb.ks.gov/training/General_Ledger)

**Obligations NOT required to be encumbered but are optional for agency budget management, unless required by the Office of Procurement and Contracts:**

* Transactions less than $500 which are **paid** within 10 business days of the actual invoice date. *NOTE: The* ***paid*** *date is defined as the SMART accounting date found on the voucher payments tab.* 
  + Agencies shall not split any invoice by generating multiple vouchers in order to avoid the $500 threshold.
* Out-of-state travel where the supplier is not known until five business days prior to the travel occurring.
* Payments of monthly or periodically billed utilities; however, payments for work related to utilities infrastructure must be encumbered.
* Credit Card Purchases – Procurement Cards (P-Cards) and other Credit Cards when a statewide/agency contract is not used or when a prior authorization is not required.
* Recording petty cash and imprest fund expenditures in SMART.
* Payments of other local funds held outside the state treasury such as Canteen, Work Therapy, Benefit, Trust, and Employee Use.
* State agency interfunds.
* Payments of program grants from federal/state-aid funds or private fund sources:
  + When a payment is made to another state of Kansas agency where the disbursing agency receives no direct service or tangible asset or,
  + When a payment is made to a non-state agency where the disbursing agency receives no direct service or tangible asset.

Examples of program payments to recipients where the disbursing agency receives no direct service or tangible asset:

* KPERS Retiree Payments
* Department of Education School District Payments
* Department for Children and Families LIEAP Payments
* Kansas Lottery Winner Payments
* Kansas Department of Health and Environment MMIS Title XIX Payments
* Attorney General Crime Victim Payments
* Kansas Department of Revenue Tax Refund Payments
* Payroll expenditures and remittance of taxes, deductions and garnishments
* Single Pay voucher payments

**Releasing outstanding encumbrances:**

Each state agency is responsible for reviewing unliquidated encumbrances to determine if all obligations/invoices have been met/paid. Encumbrances should be reviewed on an ongoing basis to identify encumbrances that should be released.

No later than June 1st of each fiscal year, state agencies must review and release unliquidated encumbrances as necessary if all obligations/invoices have been met/paid, but encumbrances **more than three years old** must be closed. This includes:

* Purchase Orders
* Travel Authorizations
* GL Encumbrances

Note: Funds that remain encumbered after June 30th of any fiscal year are not eligible for reappropriation. Obligations/invoices must be matched to the appropriate fiscal year in accordance with Policy Manual Filing PM 14,002 Fiscal Year Close Including Fiscal Year Determination.

If there is a reason the encumbrance should remain open beyond three years, agencies must submit a completed GL\_017A Open Encumbrance Extension Justification Request to the agency budget analyst within the Division of the Budget for consideration with notification to the Central Responsibilities Team at [arpaycycle@ks.gov](mailto:arpaycycle@ks.gov). Encumbrances that remain open beyond the three-year limitation may be automatically closed if proper justification has not been obtained and included with the encumbrance in the accounting system.

For agencies with multi-year, long-term projects that use a consistent chartfield combination for all projects, GL\_017B Open Encumbrance Extension Exemption Request may be used to submit justification for exemption of specific chartfield combinations from the three-year open encumbrance timeline. Agencies utilizing GL\_017B must have internal controls in place to monitor the open encumbrances and ensure appropriate closure.

**USEFUL LINKS AND RESOURCES**

Office of Accounts and Reports:

Informational Circular 16-A-020 [Capturing Contract Spend Data in SMART](https://admin.ks.gov/resources/informational-circulars/informational-circulars---accounting/fy2016---accounting-info-circs)

Informational Circular 17-A-004 [Statewide Encumbrance Policy](https://admin.ks.gov/resources/informational-circulars/informational-circulars---accounting/fy2017---accounting-info-circs)

Informational Circular 17-A-004 [Best Practices - Statewide Encumbrance Policy](https://admin.ks.gov/docs/default-source/cfo/documents-to-support-policy-manual/best-practices---statewide-encumbrance-policy-10-2016.docx?sfvrsn=6)

Informational Circular 17-A-014 [Statewide Encumbrance Policy - Supplement](https://admin.ks.gov/resources/informational-circulars/informational-circulars---accounting/fy2017---accounting-info-circs)

Informational Circular 18-A-003 [Statewide Encumbrance Policy - Amended](https://admin.ks.gov/resources/informational-circulars/informational-circulars---accounting/fy2018---accounting-info-circs)

Informational Circular 19-A-007 [Statewide Encumbrance Policy - Amended](https://admin.ks.gov/resources/informational-circulars/informational-circulars---accounting/fy2019---accounting-info-circs)

Statewide Encumbrance Best Practice [10,300 Statewide Best Practices](https://admin.ks.gov/media/documents/10300_Best_Practices_D49550A38E614.docx)

[PM 14,002 Fiscal Year Closing Including Fiscal Year Determination](https://admin.ks.gov/offices/accounts-reports/state-agencies/finance/policy-manual)

Office of Procurement and Contracts:

Procurement Resources – Informational Circulars, Policy and Procedure Manual, Forms, Training - [Procurement Resources | Kansas Department of Administration (ks.gov)](https://admin.ks.gov/offices/procurement-contracts/procurement-resources)

SMART Training documents:

* Purchasing, Requisitions – <https://smartweb.ks.gov/training/purchasing>
* Purchasing, Purchase Orders – <https://smartweb.ks.gov/training/purchasing>
* Travel & Expenses – <https://admin.ks.gov/offices/accounts-reports/state-employees/state-employees-travel-center>
* General Ledger, GL Journals – <https://smartweb.ks.gov/training/General_Ledger>

**CONTACT SOURCES**

Employees with questions should contact the appropriate personnel within their agency. Agency questions should be directed to:

Department of Administration

Office of Accounts and Reports

[Audit Services Team](https://admin.ks.gov/offices/oar/directory) (Email: [ARPreaudit@ks.gov](mailto:arpreaudit@ks.gov))