



Fiscal Systems and Consulting Unit



DEPARTMENT OF FINANCE
STATE OF CALIFORNIA

ENCUMBRANCE AND ACCOUNTS PAYABLE RECONCILIATION

Month-End Training – April 2025

COURSE OBJECTIVE

To obtain the essential knowledge and skills necessary to perform the encumbrance and accounts payable reconciliation.

ENCUMBRANCE ACCOUNTING

- ❖ Statewide Policies and Procedures
- ❖ How Encumbrances Affect Appropriations
- ❖ How Encumbrances are Tracked in FI\$Cal
- ❖ Treatment of Encumbrances During Cost Allocation
- ❖ Treatment of Encumbrances at Year-End
- ❖ Reports and Queries
- ❖ Periodic Encumbrance Review Tips

STATEWIDE POLICIES AND PROCEDURES

- State Administrative Manual (SAM) Section 7901 – Reconciliations will be prepared monthly within 30 days of the preceding month, except for property reconciliations.
- SAM Section 8340 – Encumbrances are obligations of all or part of an appropriation. Outstanding encumbrances are the recognition of commitments related to unfulfilled purchase orders (PO) or outstanding contracts, which will subsequently be recognized as expenditures when goods and services are received.

STATEWIDE POLICIES AND PROCEDURES

- Encumbrance accounting helps departments avoid overspending by setting aside appropriations to meet anticipated expenses.
- When an encumbrance is posted to a department's financial records, the available appropriation is reduced by the encumbrance amount.
- By recording the estimated cost of POs and contracts as encumbrances, managers know the future impact of previous financial decisions.

HOW ENCUMBRANCES AFFECT APPROPRIATIONS

- Encumbrances reduce an appropriation balance.
- Expenditures not previously encumbered reduce an appropriation balance.
- Decreasing an encumbrance increases an appropriation balance.
- Expenditures previously encumbered do not affect the appropriation balance.

	Beginning Appropriation	Expenditures	Encumbrance	Appropriation Balance
Establish Original Appropriation	-10,000			-10,000
Encumbrance			5,000	-5,000
Expenditure (Not Encumbered)		1,000		-4,000
Decrease Encumbrance			-1,000	-5,000
Expenditure (Encumbered)		2,000	-2,000	-5,000
Summary	-10,000	3,000	2,000	-5,000

HOW ENCUMBRANCES ARE TRACKED IN FI\$CAL

- Individual commitments are encumbered in the PO Module within FI\$Cal. A system-generated 10-digit PO identification number is assigned when the PO is created and saved.
- Users with applicable roles, such as PO Buyer, can navigate the PO Inquiry page and view the actual PO (including the attachments in 'complete' status) and the PO document status. The navigation paths are:
 - Main Menu>Purchasing>Purchase Orders> Review PO Information>Purchase Orders
 - Main Menu>Purchasing>Purchase Orders> Review PO Information>Document Status

TREATMENT OF ENCUMBRANCES DURING COST ALLOCATION

- Encumbrances may be established in the clearing account to facilitate voucher payments.
- During the monthly cost allocation process, encumbrances are distributed to the ultimate funding based on the department's cost allocation.

TREATMENT OF ENCUMBRANCES AT YEAR-END

Reverting Appropriations

YE Encumbrance Liability
Reclassification

TREATMENT OF ENCUMBRANCES AT YEAR-END

Reverting Appropriations

Prior to the year-end closing process, outstanding encumbrances for reverting appropriations must be cleared to zero.

The State Controller's Office (SCO) Agency Reconciliation Report provides appropriation reversion dates. Identify reverting appropriations which contain any date within the fiscal year-end (commonly June 30) in the Reversion Date column.

YE Encumbrance Liability Reclassification

For year-end reporting purposes, departments are responsible for reclassifying encumbrances to the correct liability account based on the supplier.

REPORTS AND QUERIES

For Reconciliation:

- Final Budget Report, Report No. 6
 - Provides a summary status of appropriations, including expenditures, encumbrances, reimbursements, transfers, and balances as of a specified period for each appropriation.
 - Main Menu > FI\$Cal Processes > FI\$Cal Report > GL Reports > Final Budget Report
- Encumbrance Reclass Detailed Report
 - Data are from the C_DTL_ENC ledger with PO and General Ledger information tied to Report No. 6 and used to research outstanding PO with abnormal balance.
 - POs with zero balance are removed.
 - Main Menu > FI\$Cal Processes > FI\$Cal Report > PO Reports > Encumbrance Reclass Detail Rpt

REPORTS AND QUERIES

Report No. 6 Financial Elements – Regular Appropriations

Appropriations (A)	Displays the appropriation for each program or category.
Expenditures (B)	The cumulative fiscal year expenditures and allocated expenditures for the appropriation. Current Year normal balance is a Debit. Prior year balances may be either a Debit or Credit.
Encumbrances/Allocated Encumbrances (C)	The cumulative year-to-date encumbrances and allocated encumbrances posted to the appropriation. Normal balance is a Debit.
Prior Year Encumbrance Reversals (D)	Encumbrances at the end of the previous year, reversed in the subsequent year. This column contains zero for the first year of the appropriation. Normal balance is a Debit.
Budgetary Expenditures (E) = (B + C - D)	Total budgetary expenditures for the appropriation. Calculated as the sum of Expenditures and Encumbrances/Allocated Encumbrances minus Prior Year Encumbrance Reversals. Normal balance is a Debit. Prior year balances may be either a Debit or Credit.
Balance (F) = (A + E)	The unexpended and uncommitted remaining amount of the appropriation. The net of Appropriations and Budgetary Expenditures. Normal balance is a Credit.

REPORTS AND QUERIES

For Research:

- DFQ_PO_10_ENCUMBRANCE_DTL
 - Review detailed encumbrance/allocated encumbrance transactions, which ties to Report No. 6.
- DFQ_GL_01_JOURNAL_DETAIL
 - Review direct transfers that SCO Legacy brought in through the GL108 Legacy Transactions Interface tied to a PO and reclassified in the GL Module.
- DFQ_AP_02_VOUCHERS_LISTING
 - Review the revolving fund advance vouchers to pay suppliers' invoices tied to a PO for which the liquidation of PO encumbrance did not occur when processing the advance voucher.
 - Review the zero-dollar voucher to liquidate the PO encumbrance for direct transfers.

PERIODIC ENCUMBRANCE REVIEW TIPS

- Identify and research any differences between source documents and the PO document status.
- Abnormal PO balances should be identified, researched, and corrected immediately.
- Disencumber any remaining PO balances if the final payment has already been issued.
- Reverted Appropriations on or before June 30 cannot have outstanding payable or encumbrance documents.

PERIODIC ENCUMBRANCE REVIEW TIPS

- Purchase orders, contracts, and other procurement documents executed on or before 6/30/2025 and charged to fiscal year 2024 must be encumbered with the correct accounting date.
- All valid purchase orders for the reporting year must be dispatched and budget-checked.

ACCOUNTS PAYABLE ACCOUNTING

- ❖ Statewide Policies and Procedures
- ❖ Reports and Queries
- ❖ Periodic Accounts Payable Review Tips

STATEWIDE POLICIES AND PROCEDURES

- SAM Section 8422.10 – Departments shall monitor and review transactions to make sure claims and vouchers are proper and correct, and implement procedures designed to ensure timely, accurate, and cost-effective payment of obligations to vendors.

STATEWIDE POLICIES AND PROCEDURES

- Special attention should be given to the following:
 - Making timely payments and monitoring vendor due dates.
 - Evaluating vendor discounts.
 - Partial payments.
 - Prompt vendor notifications (disputes).
 - Document numbers.
 - Corrected invoices.
 - Utility services invoices.
 - DGS fleet service invoices.
 - Submitting invoices in FI\$Cal.
 - Submitting manual claims.

REPORTS AND QUERIES

For Research and Reconciliation:

- DFQ_AP_02_VOUCHERS_LISTING
 - Provides a history of vouchers processed in the Accounts Payable module.
 - Provides a detailed history of all supplier payments, including the dates, amounts, invoice number, invoice received to date, payment terms, payment date, and reference.
 - Helps identify payments that may have been missed or delayed, enabling better cash flow management and helping avoid late fees or penalties.
 - Assists in reconciling approved vouchers against the SCO Agency Reconciliation Report.
 - It can be used for internal analysis of spending trends and supplier relationships and for identifying cost-saving opportunities.
 - It provides a clear audit trail for internal controls, helping verify the legitimacy and accuracy of department transactions and payments.

REPORTS AND QUERIES

For Research and Reconciliation:

- DFQ_GL_06_REC_SCO_TAB_RUN
 - To research vouchers paid and corrections by SCO, SCO replenishment to the department's checking account, Department of General Services and Department of Technology direct transfers, and CalATERS Global expense reimbursement.
 - The SCO/FI\$Cal Document Extract extension must be run to populate this query.
- DFQ_GL_07_REC_ACCRUAL_OS_BAL
 - To reconcile outstanding accruals against the BUDLEGAL Trial Balance.
 - Displays outstanding accrual details from GL linked to sub-modules.
 - The SCO/FI\$Cal Document Extract extension must be run to populate this query.

PERIODIC ACCOUNTS PAYABLE REVIEW TIPS

- Review monthly supplier statements and regularly compare them to your internal records.
- Verify invoice details match against purchase orders and receipt of goods and services.
- Check that payment terms are accurately applied to ensure timely payments and avoid late payment penalties or missed discounts.
- Perform a reconciliation of the accounts payable ledger with the general ledger frequently (monthly).

PERIODIC ACCOUNTS PAYABLE REVIEW TIPS

- Investigate and resolve discrepancies found during the reconciliation process, such as duplicate payments or unrecorded credits.
- Maintain proper records of supplier invoices, purchase orders, payment confirmations, and communications.
- Regularly assess the impact of accounts payable on your cash flow.

QUESTIONS

Contact the FSCU Hotline.

Email: FSCUHotline@dof.ca.gov

Phone: (916) 324-0385

MAILING LISTS

Subscribe to the Department of Finance's FI\$Cal Resources for Accounting and Training mailing lists at <https://dof.ca.gov/departments-mailing-lists/>

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