



Fiscal Systems and Consulting Unit



DEPARTMENT OF FINANCE  
STATE OF CALIFORNIA

# ENCUMBRANCE RECONCILIATION

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Month-End Close Training – February 2024

## **COURSE OBJECTIVE**

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To obtain the essential knowledge and skills necessary to perform the encumbrance 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

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- 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

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- 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

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- 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 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\_02\_ACTIVITY\_ACCTG\_ENTRY
  - Review encumbrance, expenditure, and remaining encumbrance amounts.
  - Data mirrors the PO Module Accounting Entries page.
- 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.

# QUESTIONS

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Contact the FSCU Hotline.

FSCU Hotline Phone: (916) 324-0385

Email: [FSCUHotline@dof.ca.gov](mailto:FSCUHotline@dof.ca.gov)

# SURVEY

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