

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

1. Purpose. The purpose of this section is to describe the policy and procedure under which encumbrances may be recorded in the central accounting records by DAGS Accounting Division.
2. Scope. This section applies to encumbrances of all funds, including capital improvement projects (CIP) appropriations. The specific types of encumbrances recognized as obligations and commitments of the State include:
  - (a) Contract encumbrances.
  - (b) Purchase order encumbrances.
  - (c) Payroll encumbrances for time worked.
  - (d) Encumbrances for land acquisition.
  - (e) Incomplete project encumbrances for CIP Appropriations.
3. Encumbrances Generally. 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. 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 or 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.
4. Contract Encumbrances.
  - (a) Contract encumbrances are 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.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- (b) A contract encumbrance is supported by any of the following:
- (1) A copy of a written contract (either competitively bid or not competitively bid) that is fully executed or that is in the process of being fully executed. If the contract is submitted as support for a contract encumbrance as of a particular date, it must be fully executed, or in the process of being fully executed, as of that date. Refer to item 11(a) for submission deadlines.
  - (2) Evidence that bids for a competitively bid contract have been received and that award of the contract has been made or is imminent. If information on such contract is submitted as support for a contract encumbrance as of a particular date, the bids must have been opened as of that date. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.
  - (3) Evidence that award of a contract is contemplated under provisions of Section 103-23, HAWAII REVISED STATUTES, as a result of not receiving any bids for a contract after advertising for bids. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.

5. Purchase Order Encumbrances.

- (a) Purchase order encumbrances are obligations incurred through issuance of a purchase order authorizing the delivery of goods or the rendering of services for a stated payment. The purchase order encumbrance is recorded by transaction code 621.
- (b) A purchase order encumbrance is supported by a copy of an issued purchase order signed by the ordering agency. Refer to item 11(b)(1) for submission deadlines.

6. Payroll Encumbrances for Time Worked.

- (a) 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.
- (b) A payroll encumbrance for time worked is supported by the employing agency's signed statement detailing the employees' names and/or social security numbers and the amounts due to each of the employees but unpaid as of a particular recording date. The support for approval of a payroll encumbrance is the employing agency's signed statement. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE7. Encumbrances for Land Acquisition.

(a) Encumbrances for land acquisition 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 contract or purchase order.
- (4) A commitment to relocate the tenants who occupy the land which has been purchased.

(b) An encumbrance for land acquisition is supported by any of the following:

- (1) A contract for which an encumbrance could be recorded under item 4(b).
- (2) A purchase order for which an encumbrance could be recorded under item 5(b).
- (3) A copy of the expending agency's offer to the landowner, in the case of encumbrance under item 7(a)(1). If a copy of a written offer is submitted as support for an encumbrance as of a particular date, the offer must be signed by such date. The copy of the expending agency's offer must be accompanied by the expending agency's signed statement that the offer remains open to acceptance as of the particular encumbrance-recording date. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.
- (4) A copy of court documents indicating that land acquisition is under litigation, in the case of encumbrance under item 7(a)(2). Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.
- (5) The expending agency's signed statement that there is a commitment to acquire land as a necessary element in completion of a project for which funds are encumbered under contract or purchase order. The support for approval of the encumbrance is the expending agency's signed statement. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- (6) A copy of a letter from the Attorney General (AG) indicating the probable settlement amount, in the case of encumbrance under items 7(a)(1) and 7(a)(2). If a copy of the AG's letter is submitted as support for an encumbrance as of a particular date, the letter must be signed by such date. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.
- (7) A letter from the expending agency indicating the names of the tenants to be relocated and the estimated cost for such relocation, in the case of encumbrance under item 7(a)(4). If such letter is submitted as support for an encumbrance as of a particular date, such letter must be signed by such date. Refer to items 9(c) or 9(d) for the blanket encumbrance method of recording the information relative to this support.

8. Incomplete Project Encumbrances for CIP Appropriations.

- (a) With regard to encumbrance determinations under these instructions, and in accordance with the description of encumbrances generally as contained in item 3 of these instructions, encumbrances of estimated project costs may be recorded without executing a written agreement or issuing a purchase order if both of 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 of a project, 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 Sec. 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 CIP encumbrances for a specific cost element do not include other cost elements of a project, where the State's commitment exists only for that specific cost element.)
- (b) Categories of costs for which incomplete project encumbrances may be recorded are:
  - (1) Personal services of State employees, if the personal services are required to meet the State's commitment in item 8(a)(1).
  - (2) Personal services of non-State providers, if the personal services are required to meet the State's commitment in item 8(a)(1).

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- (3) Other current expenses necessary for the personal services described in items 8(b)(1) and 8(b)(2) to be performed.
- (4) Contract construction, equipment acquisition, and other capital outlay required to meet the State's commitment in item 8(a)(1).
- (c) Incomplete project encumbrances are supported by the employing agency's signed statement incorporating the following information:
  - (1) Evidence that the conditions in item 8(a) are met.
  - (2) Details of costs by categories in item 8(b).

Refer to item 9(d) for the blanket encumbrance method of recording the information relative to this support.

9. Blanket Encumbrances.

- (a) "Blanket encumbrance" as referred to in this encumbrance policy and procedure is a method of recording encumbrances other than a contract encumbrance described under item 4(b)(1) and a purchase order encumbrance described under item 5(b).
- (b) 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. The blanket encumbrance is recorded by transaction code 623 with the appropriate object codes.
- (c) A blanket encumbrance for operating appropriations is supported by the following:
  - (1) A detail list as required under item 6(b) for payroll encumbrances or a list of those encumbrances recorded under the provisions of items 4(b)(2), 4(b)(3), and 7 as applicable, entered into by the end of that quarter.
  - (2) As a summary of each list, complete and submit an ENCUMBRANCE ADVICE, SAFORM C-06 (original and one copy). In order to assure correctness of the amount to be encumbered, the detail listing must agree with the summary listing on the ENCUMBRANCE ADVICE, in total.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- (3) 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; for example, year-end payroll encumbrances for appropriation account, G-84-008-M, will have an Advice Number of Ø G 8 4 Ø Ø 8 M.

Refer to item 11(b)(2) for submission deadlines.

- (d) A blanket encumbrance for CIP appropriations is supported by the following:

- (1) A detail list with the following information:

- Act and item number of the appropriation.
- Appropriation title.
- Appropriation symbol.
- Dollar amount of the claims encumbrance. The stated dollar amount must include a detailed listing of the projected expenditures segregated by the categories identified in item 8(b).
- Reason or justification for the claims encumbrance. This must include identification of the types of encumbrance involved by reference to item 4(b) through 8, and the identification of related project appropriations and contracts (Contractor name and Contract No., if available).

- (2) As a summary of each list, complete an ENCUMBRANCE ADVICE, SAFORM C-06 (original and one copy). In order to assure correctness of the amount to be encumbered, the detail listing must agree with the summary listing of the ENCUMBRANCE ADVICE, SAFORM C-06, in total.

Refer to item 11(b)(3) for submission deadlines.

10. Allotment Prerequisite to Encumbrance Approval. No encumbrance can be recorded against an appropriation as of the end of a quarter or other fiscal period, or as of a particular lapse date, unless an allotment of the appropriation signed by the applicable approving authority has been received by the Comptroller as of that date. An expending agency's request for an allotment should therefore be submitted in ample time to allow for receipt by the Comptroller by that date or by the end of any extension period granted by the Comptroller.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

11. Submission Deadlines. All encumbrance documents of this encumbrance policy and procedure must be submitted to DAGS Accounting Division by the following submission deadlines\*.

(a) Contract Encumbrance. In the case of an encumbrance under item 4(b)(1) of this policy and procedure, copies of contracts and agreements entered into by the end of the quarter, and chargeable to that quarter, must be submitted in a timely manner throughout the quarter, so as to avoid unnecessary backlogs at quarter-end and year-end periods, but no later than the 10th day after the end of a quarter and the 15th day after the end of the fiscal year.

(b) Claims Encumbrances.

- (1) Purchase Order Encumbrances. In the case of an encumbrance under item 5(b) against all appropriations, the encumbrance should be submitted for recordation at the time the obligation is incurred. The month-end submission deadline is no later than the 5th day after the end of a month, except for quarter-end, which is the 10th day after the end of a quarter, and for the fiscal year-end, which is the 15th day after the end of the fiscal year.
- (2) Blanket Encumbrance for Operating Appropriations. In the case of an encumbrance under item 9(c), the deadline for submitting the ENCUMBRANCE ADVICES (original and one copy) with supporting documentation is no later than the 10th day after the end of a quarter, and the 15th day after the end of a fiscal year.
- (3) Blanket Encumbrance for CIP Appropriations. In the case of an encumbrance under item 9(d), the ENCUMBRANCE ADVICES and supporting documentation are due no later than the 15th day after the lapse date of the CIP appropriation.

\* If the scheduled submission date falls on a Saturday, the due date becomes the preceding Friday; if the scheduled submission date falls on a Sunday or a holiday, the due date becomes the next workday. Departments and agencies are required to clear the Error File for claims encumbrances within the specified submission deadlines.

12. Liquidation of Encumbrances.

(a) Contract Encumbrances.

(1) Processing Rules.

- The appropriation symbol and allotment category are never overridden in liquidating or reversing a contract encumbrance.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- The major object code may be overridden, but subject to the condition that the new major object code is in the same allotment category as the one being overridden.
- The vendor number may be overridden only if it matches either the vendor number or assignee number related to the contract encumbrance in the Contract Ledger Table.
- The minor object, activity, cost center, project number/phase, and vendor number suffix codes may be overridden.
- Expenditures against a contract encumbrance must never exceed the encumbered amount.

(2) Cancellation of Unrequired Balances. Departments and agencies must prepare and submit the CONTRACT INPUT, SAFORM C-41, and the UNREQUIRED CONTRACT ENCUMBRANCE ADVICE, SAFORM C-07, to cancel any unrequired contract balance.

(b) Claims Encumbrances for Operating Appropriations.

(1) Processing Rules.

- The department and fiscal year are never overridden in liquidating or reversing a claims encumbrance.
- The fund, appropriation account, allotment category, and vendor may be overridden only if the following conditions are met: for operating appropriations subject to the quarterly allotment process, the encumbrance is against current year funds and the expenditure or adjustment transaction is posted in the same quarter in which the encumbrance was established; or for operating appropriations not subject to the quarterly allotment process, the expenditure or adjustment transaction is posted prior to the lapse date of the appropriation in which the encumbrance was established.

(2) Current Fiscal Year, Prior Quarter Funds.

- Blanket payroll encumbrances established at the end of the first, second, and third quarters and expended thereafter in the subsequent quarter are to be processed as direct (non-encumbered) expenditures and must be adjusted to reclassify the payroll expenditures to an expenditure against a blanket claims encumbrance with transaction code 663.



SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- Purchase order encumbrances established in the first, second, or third quarters and remaining unexpended will be carried forward to the subsequent quarters.

(3) Prior Fiscal Year Funds.

- All purchase order claims encumbrances recorded in an account for an appropriation made for the operations of a prior fiscal year should be expended using transaction code 241 by September 30 following the end of such fiscal year. If an encumbrance must be extended, a request must be submitted to the Comptroller in writing, stating the reasons the extension is required. If an encumbrance is not required, an adjusting entry to cancel the claims encumbrance must be prepared by departments and agencies using transaction code 661. The extension request and cancellation entry must be submitted to the Comptroller by the 10th day after the end of each quarter of a fiscal year. If this date of submission falls on a Saturday, the due date becomes the preceding Friday; if the date of submission falls on a Sunday or holiday, the due date becomes the next workday. No extension request is required for Revolving Funds, and Trust and Agency Funds.
- Blanket payroll encumbrances are to be processed as encumbered payroll payments. The preceding extension requirement for purchase order encumbrances for the prior fiscal year funds is also applicable for extension of blanket payroll encumbrances, except that the request also covers employees as well as purchase orders.
- Further extensions are not allowed for operating appropriations after the following specified periods, at which time the encumbrances will be cancelled and removed from the accounting records: State operating appropriations (excluding Revolving, and Trust and Agency Funds) - one year after lapse date of the appropriation and federal-funded operating appropriations - six years after lapse date of the appropriation.

(c) Claims Encumbrances for CIP Appropriations.(1) Processing Rules.

- The department and fiscal year are never overridden in liquidating or reversing a claims encumbrance.

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- The fund, appropriation account, major object code, and vendor may be overridden if the change is made prior to the lapse date of the CIP appropriation.
- After the appropriation lapse date, the major object code may be overridden when using transaction code 244.

(2) Blanket Claims Encumbrances.

- Blanket claims encumbrances established under item 4(b)(2) or 4(b)(3) must be converted to contract encumbrances.
- For purchase order blanket claims encumbrances, payments may be made against the blanket encumbrance using transaction code 244, or the blanket encumbrance may be converted to a purchase order encumbrance by using transaction code 663 to reduce the blanket encumbrance and transaction code 621 to establish the purchase order encumbrance. (A copy of the purchase order must be attached for support.)
- Payroll blanket claims encumbrances are to be processed as encumbered payroll payments. For payments processed through departmental CIP payroll clearance accounts, these payments are to be processed as direct (non-encumbered) payments. Subsequent transactions are required to reimburse the clearance account and to charge the appropriate payroll-encumbered CIP account.

(3) Extensions.

- If a blanket claims encumbrance must be extended, it must be submitted following the blanket encumbrance requirements specified under item 9(d)(1). If purchase order encumbrances must be extended, the request must also state the reasons the purchase order claims encumbrance extension is required.
- Departments have the option of either identifying each major cost category within an appropriation on the detail listing with the related advice and suffix numbers used on the original, approved ENCUMBRANCE ADVICE, SAFORM C-06, or using a copy of the original, approved ENCUMBRANCE ADVICE with the "estimated cost" lined or blanked out and updated with amount being requested for extension.

STATE OF HAWAII

Accounting Manual

Volume II: Budgetary Control Accounting  
Part 300 - 500: Expenditures

Page 470.11

SECTION 470: ENCUMBRANCE POLICY AND PROCEDURE

- Any request for extension of a CIP claims encumbrance is due on or before April 30th of each year following the lapse date. If such a deadline for submission falls on a Saturday, the due date becomes the preceding Friday; if the deadline for submission falls on a Sunday or a holiday, the due date becomes the next workday.
  - Further annual extensions are not allowed for CIP appropriations six years after the recordation (processing) date of the encumbrance, at which time the encumbrance will be cancelled and removed from the accounting records.
- (d) Specific Lapse Date Funds. Any encumbrance recorded in an account subject to a specific lapse date, other than an encumbrance recorded under the provisions of item 4(b)(1) of this policy and procedure, will be reversed and lapsed to the extent not expended within one year following such lapse date, unless otherwise extended by the Comptroller.