SECTION:	IV Encumbrances	**EFFECTIVE DATE:**	July 1, 1993
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CANCELLATION OF PRIOR YEAR ENCUMBRANCES

Rules regarding canceling prior year encumbrances differ by type of appropriation. If encumbrance and allotment authority have been carried over from the previous fiscal year, the funds can be used for the encumbered purpose only. If a residual encumbrance balance exits after payment is made during the current year, the encumbrance should be canceled as follows:

Annual Appropriation   The encumbrance lapses at the end of the current fiscal year.

Biennial Appropriation

   1st year: The encumbrance lapses at the end of the biennium.
   2nd year: Encumbrance carryovers from first year of biennium can be canceled at any time during second year of biennium.

Continuing Appropriation   The encumbrance can be canceled at any time.

Outstanding encumbrances on the encumbrance cutoff reports for June should be carefully reviewed in order to determine whether any of the items on the SCO's record should be liquidated.

When liquidating prior year encumbrances carried forward from appropriations which, by definition, lapse at the close of the fiscal year in which the encumbrance was created, all unused funds must be lapsed and cannot be used for other program purposes. The SCO can lapse funds only during the year end closing process, therefore, agencies should only liquidate actual amounts expended during the fiscal year. Any remaining balances after the final payment has been made, should be liquidated during the month of July. In addition, carry-forward funds can only be used for their specific planned purpose. Any changes in plans (items and/or services) should result in lapsing of the funds. Conditions such as vendor's inability to deliver may result in a change in vendors without necessitating the lapsing of funds provided the goods and intended purpose remain the same. In such cases, an explanation of the change should be submitted with the transaction.

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