



WISCONSIN ACCOUNTING MANUAL

Department of Administration – State Controller’s Office

Section	04	ENCUMBRANCES	Effective Date	7/1/2015
Sub-section	03	Carryover of Encumbrances	Revision Date	3/31/2015
SAM Ref	4-7			

BACKGROUND

GENERAL CARRYOVER OF ENCUMBRANCES

Wisconsin Statute 16.52 (6) states,

"Except as authorized in s. 16.74, all purchase orders, contracts, or printing orders shall, before any liability is incurred thereon, be submitted to the secretary for his/her approval as to the legality of purpose and sufficiency of appropriated and allotted funds thereof. In all cases the date of the contract or order governs the fiscal year to which the contract or order is chargeable, unless the secretary determines that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgetary intent. Upon such approval, the secretary shall immediately encumber all contracts or orders, and indicate the fiscal year to which they are chargeable."

Purchase orders that have not been closed by the end of the fiscal year will automatically be carried over to the following fiscal year. The budget authority related to these purchase orders will also be carried over to the next fiscal year. It is important that agencies review their outstanding purchase orders prior to year end and liquidate or close those purchase orders that do not meet the criteria in this section for carryover of encumbrances.

Note that carryover provisions that were originally issued/clarified in WiSMART Bulletin #220 have been incorporated into this policy section.

POLICIES

YEAR END ENCUMBRANCE POLICY

Encumbrances reserve current year budget to recognize the existence of legally enforceable commitments on unperformed contracts for goods or services. If the intent of the contract or order is to avoid lapse or circumvent budgetary intent then the current fiscal year funds may not be carried over to pay the contract or obligation even if a contract exists as of June 30th.

Budget authority that has been carried over from a previous fiscal year, related to carryover encumbrances, may only be used for the purpose of the encumbrance. If the expenditures related to the carryover encumbrance are less than the amount carried over the remaining carryover budget authority may not be recommitted or reused in the current fiscal year.

The last date that encumbrances will be accepted in the accounting system for any fiscal year is the last business day in May. For the remainder of this document, the last day encumbrances are accepted shall be



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referred to as the “encumbrance deadline”. Each year, the encumbrance deadline will be included on the State Controller’s Office Calendar.

Goods or services relating to normal operations of the agency that are expected to be received and consumed before June 30th can be encumbered to the current fiscal year by the encumbrance deadline. This includes items such as supplies, printing, copying, repairs, emergency situations and other services where the work will be performed or the goods received and consumed by June 30th.

Except in specific instances, noted elsewhere in this document, all encumbrances issued after the encumbrance deadline should be coded as transactions for the following fiscal year.

Any new or increased purchase orders entered after the encumbrance deadline require the approval of the State Controller’s Office. Agencies must submit written justification to the State Controller for approval of all current fiscal year purchase orders entered or increased after the encumbrance deadline. Upon approval of the written requests, the State Controller’s Office will authorize all approved purchase orders to process. Agencies that previously submitted requests and received approval to monitor and review their own purchase orders may continue to use those prior year waiver memos. These blanket waiver requests do not need to be submitted to the State Controller’s Office each year.

Agencies may continue to issue purchase orders during the month of June if they do so for the purpose of placing an order, but not encumbering funds on the State’s accounting system. For example, many fast turn-around orders (quick copy, mail, etc.) are initiated by means of a purchase order. The purchase order is used primarily to record the details of the order, such as order quantity and materials, but not necessarily to encumber funds. The work done is expected to be completed and consumed in June. In these instances, the purchase order can be used to place the order but no encumbering of funds should be done. When the work is completed in June, a direct charge can be transacted to charge the expense to the current fiscal year. If the work is not completed until July, the direct charge should be to the following fiscal year.

EXCEPTIONS TO THE GENERAL ENCUMBRANCE POLICY

The following exceptions to the general encumbrance policy are provided:

1. Badger State Industries. As in past years, orders for necessary items issued prior to the encumbrance deadline to Badger State Industries can be encumbered against current fiscal year funds even if the items are not expected to be received by June 30th.
2. Special Circumstances. An agency may encounter an unforeseeable circumstance after the encumbrance deadline (but before June 30) which, if known by the encumbrance deadline would have resulted in a proper encumbrance. In these rare instances, a written request must be addressed to the State Controller describing the unique circumstance.



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The State Controller will decide the eligibility for encumbering each item on a case-by-case basis.

3. Business Process. Agencies may have a unique ongoing business process, such as food purchase operations for institutions, that necessitates the creation of purchase orders subsequent to the encumbrance deadline. A written waiver request must be made to the State Controller describing the business process and stating the need to create purchase orders.

The State Controller will decide the eligibility for encumbering funds for each business process. If approved, all transactions recorded through the business process may be encumbered without further approval, provided the “budgetary intent” rule is not circumvented.

YEAR-END REVIEW OF ENCUMBRANCES

All encumbrances must meet the conditions below to be eligible for carryover to the next fiscal year, no matter when the encumbrance was issued (in the current fiscal year or a prior fiscal year). For example, if an agency has a recurring relationship with a vendor for contractual services, funds can be carried forward to the new fiscal year only to the extent necessary to pay for those services actually received on or before June 30th. Services received in July cannot be charged to an encumbrance carried over from the previous fiscal year.

Agencies should establish a procedure to review all encumbrances. This review is necessary to ensure compliance with the guidelines established in this manual.

Reverting Appropriation Authority for Prior Year Encumbrances (Applies to all annual and biennial appropriations regardless of fund source)

Agencies will again be required to revert to the originating fund, budget authority that has been released by canceling all or a portion of prior year encumbrances, or by liquidating prior year encumbrances for less than the original amount. The amount to be reverted is the remaining unliquidated balance amount, or the amount remaining prior to cancellation.

CARRYOVER ENCUMBRANCE PROVISIONS

These guidelines are intended to clarify some of the situations that have caused problems in the past when determining what is eligible for an encumbrance at the end of the fiscal year.

1. Purchase orders or encumbrance of funds for "Sundry Vendors", "Misc. Vendors", "Vendors Unknown", etc. are not allowed for carryover to the subsequent fiscal year. There must be a



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contract or order with a known vendor/party as of the encumbrance deadline in order for funds to be carried over to the subsequent fiscal year.

2. If an agency has a program where a number of payments are made to many payees, a single purchase order or encumbrance may be issued to "Vendors Listed Here-in". If a specific list of payees and a valid obligation (liability) exists as of the encumbrance deadline this item may be carried over to the subsequent fiscal year.
3. Agencies that are involved in a bid process where no specific vendor has been selected by the encumbrance deadline may not encumber current fiscal year funds for this purpose.
4. It is not acceptable to encumber the balance in the appropriation for carryover to the next fiscal year unless a valid obligation to specific vendors exists. For example, GPR appropriations used as matching funds for federal programs may not automatically be carried over to the subsequent fiscal year to match the federal fiscal year.
5. All blanket orders must be liquidated at the end of the fiscal year.
6. Agencies should consider routinely closing small purchase orders at the end of each fiscal year. These items often result from failure to fully liquidate a purchase order when no remaining obligation exists. Routine closing of these purchase orders eliminates unnecessary encumbrances and the need to evaluate each small dollar purchase order.
7. Any purchase orders having no activity in the past 12 months should be canceled at fiscal year end.
8. Appropriations that have specific statutory authority to carryover funds to the subsequent fiscal year may do so in accordance with the specific statutory provision by means of an encumbrance.
9. Funds carried over to a subsequent fiscal year may only be used for the purpose carried over. Balances remaining on prior year purchase orders after liquidation of the actual cost incurred should be liquidated at the end of the fiscal year (during July) and may not be used to cover overdrafts in the current year. These amounts must be lapsed if the appropriation requires lapsing of unused balances.
10. Encumbrance carryover for non-aid contracts with vendors having a recurring contractual relationship with an agency should be limited to the amounts needed to pay for goods or services actually provided by the vendor before July 1.
11. For personal contractual services, encumbrances can be carried forward if two-thirds of the services (in terms of dollar amounts) are provided by June 10 or if services are entirely completed during the period June through August.
12. Capital outlay items not received by June 30th will only be carried forward if included in an approved budget but delivery was delayed by the vendor. If not budgeted for this fiscal year, the purchase must be specifically approved and documented by the assigned DOA budget analyst.



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13. Supplies (i.e., stamps, printing, office supplies, etc.) purchased in excess of normal quantities ordered throughout the year must be justified.

14. Interagency transactions including General Services billing should be completed and closed in the fiscal year to which they pertain to the maximum extent possible. This is the responsibility of the encumbering agent.

15. For equipment rentals and lease purchases only the value of services received for the fiscal year can be charged to that year. Anticipation of future years' expense should not be charged to current year appropriations.

16. For aid to localities, other entities or individuals:
 - a. Categorical aids intended to be recurring or paid in a specified year or biennium may not be carried forward unless payment was held for a reason outside the control of the agency.

 - b. Reimbursement aids can be carried forward only to the extent necessary to reimburse for goods or services provided by the grantee before June 30, or to fulfill terms of a grant or aid contract that has a defined ending date. Grants may remain open beyond that fiscal year if circumstances (i.e., court proceedings, etc.) outside the agencies control require it. Calendar year contracts will not be carried into the fiscal year after their ending date unless circumstances beyond the agency's control require the encumbrance.

 - c. Construction type aids can be carried forward if an executed contract or award provides a definite ending date to fulfill terms of an agreement.

 - d. Unearned funds from such grants shall lapse.

17. For non-aid contracts with governmental and private organizations:
 - a. Funds may be carried forward only to the extent necessary to reimburse for goods or services provided by the contractor before June 30th where an ongoing program or contractor relationship is involved. Services provided by the vendor on or after July 1 should not be charged to the carryover encumbrance even if a balance remains.

 - b. Funding may be carried forward for a non-continuing program or contractor relationship to the end of the grant year beyond the fiscal year ending.



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- c. Funding for calendar (or other than June 30) contracts will not be carried into the fiscal year after their ending date unless circumstances beyond the agency's control require the encumbrance.
- d. Unearned funds from such contracts shall lapse.