

# ENCUMBRANCES

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## AGENDA:

- What is an Encumbrance?
  - Why do Encumbrances Matter?
  - What Types of Encumbrances are There?
  - What Documents Create, Modify, or Remove Encumbrances?
  - How do We Identify Encumbrances?
  - What are the common encumbrance problems?
  - What encumbrance errors are removed by general accounting?
  - What Causes Encumbrance Errors?
  - How and Why do We Create Departmental Encumbrances?
  - What About Payroll Liens?
  - What are the main issues regarding encumbrances and fiscal closing?
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## WHAT IS AN ENCUMBRANCE?

Encumbrances, also called liens, are commitments of funds. They generally indicate the following:

- A commitment with an outside vendor to purchase services, supplies, or equipment
- A request to Purchasing to obtain services, supplies or equipment
- A commitment within your unit to expend funds for a specific purpose

## WHY DO ENCUMBRANCES MATTER?

Encumbrances affect your overall financial position – reflecting in your account and consolidation balances.

- Old debit liens keep you from spending available funds and they create remaining balances when removed, possibly in closed accounts.
- Credit liens can overstate your financial position and can lead to overspending.

### WHAT TYPES OF ENCUMBRANCES ARE THERE?

There are three types of encumbrances, and all are carried forward from one fiscal year to another.

- External encumbrance (**EX**). An official commitment with an entity outside the university to purchase something and pay for it. Once entered into, EX encumbrances might have financial consequences if you decide not to complete the transaction.
- Internal Encumbrance (**IE**). An unofficial commitment to either purchase something from an external entity (Purchase Requisition) or to set aside funds for the future (Departmental Encumbrance). Since these are internal commitments, they can be cancelled or reversed.
- Pre-encumbrance (**PE**). Tentative commitment or “place holder”. Does not appear on any ledgers unless query is set to “include pre-encumbrances”.

### WHAT DOCUMENTS CREATE, MODIFY, OR REMOVE ENCUMBRANCES?

All of the following documents create **EX** type encumbrances:

- Departmental Purchase Orders (DPO)
- Departmental Repair Orders (DRO)
- Non-Purchase Agreements (NPA)
- Purchase Orders (PO)

The following documents create **IE** type encumbrances:

- Departmental Encumbrances (DE)
- Purchase Requisitions (PR)

Only the DE document can be used to create **PE** type encumbrances.

The following documents remove or reduce encumbrances:

- Cancel/Close Departmental Purchase Orders (CDPO)
- Departmental Encumbrances (DE)
- Vendor Invoices (VI)

The Redistribute Purchasing Liens (RPL) document moves EX encumbrances from one account to another. **Note:** RPLs move encumbrances *only*, they do *not* affect expenses. If you pay a VI against the wrong account, you must correct that using an Error Correction (EC) or a Restricted Error Correction (REC) document.

## HOW DO WE IDENTIFY ENCUMBRANCES?

In Decision Support, Transaction Listing 2 report has encumbrances shown in the far right column. Detail for encumbrances is shown in the TL2 only in the month the encumbrance is established and in the month the encumbrance is removed.

For detail of all encumbrances, use the Current Encumbrance Balances (46) query in Decision Support. You can run it for an entire organization, or for specific accounts. Always check the “Group on Tracking #” box on the query screen, which will bring together and subtotal all lien activity at the individual purchase order level. The results will be in order by tracking number.

In Decision Support, the Open Purchasing Orders (138) report provides a listing of all purchase orders currently in “Open” status. For more specific detail, always use Encumbrance Summary by Tracking Number (200) report in conjunction with the Open Purchasing Orders report. Report 200 will provide the detail of accounts and actual lien amounts. You will always have items on the Open Purchasing Orders report that cannot be closed but that have no liens associated with them. In these cases print out the current D/S 138 report and write an explanation on it detailing your attempts to close the order. Sign, date, and keep the report in a file in the event of an Internal Audit visit.

In Transaction Processing Search for Documents, you can enter the purchase order number in the “Tracking Num” field and you will be returned all activity on that particular purchase order. Always use this type of search before initiating either an RPL or a CDPO document in order to make sure no other documents affecting the liens are in routing.

## WHAT ARE THE COMMON ENCUMBRANCE PROBLEMS?

Using the two encumbrance reports (46 and 200), review all your accounts and pay particular attention to any of the following:

- DPO liens from prior years (e.g. 3TRAP20013 where the 2 indicates fiscal year 2002) that you may not realize are still a lien against your account.
- Any DPO or DRO that appears in an encumbrance report without a tracking number. These cannot be used, as the system requires the Tracking Number when a VI is processed.
- Any UCD PO or NPA that you have completed using and believe should be closed. Always contact the buyer in Purchasing or the initiator of the NPA (usually Business Contracts, Capital Asset Accounting, or Extramural Accounting) and ask if they can close the PO or NPA.
- UCD Bookstore PO liens. These are Bookstore orders that were processed through Purchasing and require special handling to close. E-mail the original buyer on the order to advise them that the goods have been received and that the IB process is completed. The cancel PO process will remove the lien.
- Any PR that you believe has been replaced with a UCDPO but is still appearing as a lien.
- Any lien that is appearing on a PO, NPA, or DPO that has been closed.
- Pay particular attention to any lien with CR appearing after the amount. This is a credit lien which results in overstating your financial balance for that account and is always an error. We run a special program at year-end that removes all credit liens.

### WHAT ENCUMBRANCE ERRORS ARE REMOVED BY GENERAL ACCOUNTING?

General Accounting has the capability of removing lien errors but we are unable to change the status of an order from “open” to “closed.” The following is a list of the basic lien errors that can be cleared by General Accounting. Use the Lien Clearing Request form and instructions at <http://accounting.ucdavis.edu/GA/>. Be sure that your VI documents have a status of “A” in Transaction Processing before sending a Lien Clearing Request form.

- DPO and DRO documents with no Tracking Number
- DPO liens created on accounts that have expired
- Open UCD PO liens if Purchasing cannot close the order
- Any lien that is appearing on a PO, NPA, or DPO/DRO that has been closed
- PR liens when UCD PO has been created and failed to remove the PR lien
- Credit liens
- Departmental Encumbrances that cannot be removed by issuing another DE document by the department

### WHAT CAUSES ENCUMBRANCE ERRORS?

The following occurrences cause erroneous encumbrances:

- Completing a Cancel/Close Departmental Purchase Order (CDPO) or a Redistribute Purchasing Liens (RPL) while a Vendor Invoice (VI) is in routing
- A VI that was submitted at any time after a CDPO was processed or after a Departmental Purchase Order (DPO) was closed by a paid in full VI
- An RPL submitted while a Non-Purchasing Change Order (NPCO) is in routing
- An RPL approved after a DPO or Purchase Order (PO) was closed
- Changes made by an Account Manager while any purchasing document is in routing
- A Departmental Encumbrance (DE) manually reversed when it has an auto reversal date
- Templating VI documents captures the backscreen information and the receiptal date

These problems show how important it is to do your research before creating lien related transactions. Always check your original documents, and any related documents that may be in routing, before proceeding.

## HOW AND WHY DO WE CREATE DEPARTMENTAL ENCUMBRANCES?

Departmental encumbrances are internal rather than external encumbrances. They are created to designate funds for specific purposes, especially at year end. DE documents are IE or PE balance types.

The departmental encumbrance can be created with a reversal date, which is the source of the most common error with this document. Users will reverse a departmental encumbrance by creating a second DE document, without realizing that the original DE has a reversal date.

**Before reversing a departmental encumbrance, check the original document to make sure it did not have a reversal date.**

**When reversing a DE, use exactly the same tracking number used on the original DE.** A shortcut for reversing a DE that did not have a reversal date is to template the original and change the dollar amount, or insert a minus sign before the dollar amount. You will be required to enter a prior document number when reversing a DE.

One common error when templating the original DE document, either to create a new DE or to reverse the original, is failing to change the posting period to the current period. The posting period is based on *fiscal* year rather than *calendar* year. For example, period 03 is September, not March.

All departmental encumbrances should be cleaned up for the June preliminary ledger as the Year-end Departmental Encumbrance (YEDE) document cannot be used to remove a regular DE. Always review the DaFIS Decision Support Current Encumbrances (46) report to determine if you have DE documents that need to be cleared for fiscal closing.

## WHAT ABOUT PAYROLL LIENS?

Payroll liens are created from the employee appointment documents in the PPS system. They compute an amount as follows:

$$\% \text{ of appointment } \times \text{ pay rate } \times \text{ months employment } = \text{ lien on account}$$

These liens are reduced and reestablished monthly at the time payroll is entered into the general ledger. For example, “ESTAB AUG WAGE LIEN” will post as a credit at the end of August, and “ESTAB SEPT WAGE LIEN” will post as a debit at the end of August.

Payroll liens for general funds are removed from the June final to accurately reflect that current year general funds are not encumbered for future year payroll costs.

Payroll liens for contracts and grants are computed and posted for the duration of the contract/grant.

Payroll liens only appear on Transaction Listings, they are never on the 46 report.

For questions regarding Payroll liens:

Chris Marken, PPS Helpdesk (530) 752-7750, [clmarken@ucdavis.edu](mailto:clmarken@ucdavis.edu)

### WHAT ARE THE MAIN ISSUES REGARDING ENCUMBRANCES AND FISCAL CLOSING?

Check encumbrance reports to determine if there are lien errors and submit Lien Clearing Request forms by **June 13**.

Accounting runs a special program at year end to remove all credit liens before carrying forward the lien balances.

Remove all old Departmental Encumbrances that you don't want to appear on the June Final ledgers BEFORE the June prelim ledgers close on **July 3**. **You cannot clear a DE using a YEDE.**

Prepare YEDE (Year-End Departmental Encumbrance) documents to carry forward your obligated general funds balances, including a detailed explanation of why the funds are available and when they will be expended.

Use the reversal date of **8/1/08** on DE and YEDE documents if you want them to automatically reverse in 08-09. Otherwise prepare a DE document in the new fiscal year to reverse it.

### RESOURCES

Alyse DeFazio, General Accounting, (530) 752-2887, [acdefazio@ucdavis.edu](mailto:acdefazio@ucdavis.edu)

Lorie Champlin, General Accounting, (530) 757-8517, [lchamplin@ucdavis.edu](mailto:lchamplin@ucdavis.edu)

Accounting Website: <http://accounting.ucdavis.edu/>

Lien clearing information: <http://accounting.ucdavis.edu/GA/lieninfo.cfm>

Lien clearing request form: <http://accounting.ucdavis.edu/GA/lienhelp.cfm>

Class exercises: <http://dafis.ucdavis.edu/exercises/>

