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| <b>OREGON ACCOUNTING MANUAL</b>  |   | Number<br>20.20.00.PO                    |
| Oregon Department of<br>Administrative Services<br>State Controller's Division |   | Effective Date<br>October 1, 2004        |
| Chapter  | <b>Budgetary Accounting and Reporting</b> | .1 OF .2                                 |
| Part   | <b>Encumbrances</b>                       |  |
| Section  |   | Approval<br><br>Signature on file at SCD |

Authority: [ORS 291.015](#)  
[ORS 293.075](#)  
NCGA Statement No. 1

### Benefits of Encumbrance Accounting

- .101 The State and its agencies can greatly enhance financial control and sound decision making through a uniform statewide encumbrance accounting system.
- .102 Encumbrance accounting provides early evidence of spending commitments and significantly reduces the risk to over obligate appropriations and other spending plans. Through effective use of information, encumbrance accounting helps agency managers to:
  - a. Monitor and control commitments to expend funds.
  - b. Forecast expenditures and cash needs.
  - c. Ensure and demonstrate compliance with spending plans, appropriated budgets, and other legal requirements.
  - d. Maximize investment earnings through accounting control of available funds.
  - e. Avoid duplicate orders and similar errors in the purchasing process.
  - f. Report spending commitments consistently across all agencies in accordance with generally accepted accounting principles and other reporting requirements.
- .103 With consistently applied accounting of pre-encumbrances and encumbrances, agencies can effectively monitor spending commitments and provide related budgetary control statewide in a timely manner.

### Standards of Encumbrance Accounting

- .104 Except as noted in .107 through .110, both planned spending commitments, which generate pre-encumbrances, and actual spending commitments, which generate encumbrances, may be recorded. The original recording of a pre-encumbrance or an encumbrance may be an estimated amount which can differ from the eventual actual cost.
- .105 A pre-encumbrance is recorded when a plan to commit to purchase goods or services is formalized by a signed purchase requisition.

- .106 If a purchase requisition is not required to be issued, as in the case of a personal services contract, an encumbrance is recorded as the original entry. However, agencies may choose to record a pre-encumbrance even though a purchase requisition is not issued.
- .107 When encumbrance accounting is used, an encumbrance is recorded at the time a purchase order is issued or a contract is signed for the purchase of goods or services. However, only contracts that relate to the purchase of goods or services should be encumbered. Purchases that do not require a purchase order or contract may be encumbered at the agency's discretion.
- .108 Transactions resulting in charges to the following expenditure categories should not be encumbered: salaries and wages, reimbursements, interagency charges, special payments, or debt service. Lease payments should not be encumbered unless payments are in arrears.
- .109 Biennial or annual expenditures (such as rent, utilities, or any other recurring expenditures) should not be encumbered in advance. These should be recorded on a monthly basis in the month that the expenditure actually occurs.
- .110 The following types of transactions are not required to be pre-encumbered or encumbered:
- a. Purchases of goods or services which do not require a purchase order, signed contract, or other related legal commitment.
  - b. Planned and consummated spending commitments when the total purchase is less than \$5,000. However, agencies may at their discretion pre-encumber or encumber spending commitments which amount to less than \$5,000.
  - c. Contracts associated with grants, loans, leases, or capital construction should not be encumbered. These are more appropriately disclosed as commitments in the notes to the financial statements. See **OAM 15 80 00** for more information on commitments. Professional judgment should be used in considering whether to encumber certain other long-term contracts that extend well beyond the length of an individual biennium.