Encumbrance Workgroup Topics

Our goal is to develop guidance for agencies on best practices to prepare for converting encumbrance data to FLP. In addition, A&A would like to collect information about how agencies would like to use/manage encumbrances in the future. Please note that until we have additional information about HOW FLP will work, we cannot develop policy or confirm recommendations.

# Legacy data

What would we expect to convert?

* DEP encumbers true obligations for appropriations received in GAA. Plan to convert every dime because these are commitments.
* FWC encumbers obligations. Timing of implementation will determine what obligations remain.
* HSMV will convert all encumbrances that are for commodities not received. They do encumber for multi-year encumbrances. Some encumbrances are January to December. Depending on timing of implementation, they may have partial encumbrances that will need to have additional encumbrance balance set up after go-live.
* DOH generally deletes all outstanding encumbrances from prior year. Exceptions are biomedical and COVID where they have a revert and re-appropriate process. They have to allow those obligations to roll, but they remove the “C” because they now have active current FY budget. Talked to Florida PALM due to timing issues.
* DOH and HSMV also encumbrance for IT Projects (and other large Projects) without full release.
* GR and FCO are only released at 25% and 20% respectively, so often there are encumbrances over the amount of release.
* FCO encumbrances do roll forward past the Carry Forward process.

What assumptions do we have about encumbrance conversion?

Assumption: Only open encumbrances with a balance that we expect to pay against in FLP.

What critical data elements will need to be converted?

* Task 324 will help inform this.

What data cleansing procedures does your agency currently use for the Encumbrance Subsidiary file?

* FWC has started a cleanup effort due to AOD.
* DEP has budget projection meetings throughout the year. Look at FY and 19-month projection. Focus on justifying the unobligated amounts. Budget office looks at budget overall, F&A handles the encumbrances.
* DBPR does a quarterly spending plan for each Division and meet to discuss needs for the remaining year. Making sure budget is available and aligning where needed.
* Multiple Divisions share a single TF, so this helps make sure they have needs met.
* FWC also has multiple Divisions that share TFs. Each Division is budget driven. Offices get monthly reports, SAB, Trans Hist, encumbrance reports, to see where spending is. They can do change orders or request release.
* DOH does a monthly spending plan that also looks at encumbrances. One has a roll up of BE/CAT. Another shows ORG/OCA. They also have daily encumbrance report that shows period of no-activity. Budget works with programs to make sure payments are being made. May need to reduce blanket POs. That allows them to use budget for other things. Numbers come from last activity date. Original amount, paid amount, and last activity are tracked.
* HSMV has a very similar process by Division. Some Divisions have very large expenditures. Salary rate changes this year is impacting budget.
* DEP has a contract recon quarterly. Look at all obligations related to contracts to track non-activity. Weekly report regarding over-obligations. Over-committed or encumbered in the wrong place. Budget coordinators look at RDS and other reports to review transactions and encumbrances so that things can be corrected as needed. If disbursements are in the wrong place, the encumbrance may be too. Multiple agencies use this process.
* HSMV at year end, the F&A office will review for amount encumbered, goods received, remaining balances. Typically, May-June timeframe.
* Contract close-out needs some policy. 😊
* Most agencies have manual encumbrances where the encumbrance number is re-used in the next year. Will Florida PALM allow a number to be re-used?
* DOR has an encumbrance report that is sent to programs daily to review and request corrections.
* AOD does have an issue where the encumbrance date may be updated if funds are added, and this is causing items received prior to have an issue.

What is the frequency at which your agency reviews and manages encumbrance data?

* Monthly and some daily.

How does your agency plan to identify encumbrances that should not be converted?

* With all of the tools and resources, there could still be records that are not current.
* FWC starts looking at encumbrances in March, April and May. Give the Divisions instructions on what to do. At year-end review Encumbrances without activity.
* DEP makes tools available to the Divisions, but it is their responsibility.

What lessons have you learned through other projects (object code standardization) that could be applied here?

* Having an activity report is important. Will help focus on encumbrances that need to be paid or deleted.
* We all have many things to look at and we are often not given sufficient time to do a thorough analysis, but they do the best.
* Knowing how the system works will help us better prepare.
* Software implementations are HARD.

Has your agency started planning for encumbrance data conversion?

What best practices could we share with all agencies for managing encumbrance data to prepare for conversion?

* Know what tools and reports we have and use them.
* Identify what will not be converted and avoid establishing new records that won’t be converted.
* Clean up items that consume budget and will not be used.

What existing policy is helpful?

* DEP has some policy standardizing the description on encumbrances so that external users could identify encumbrance reason. Has set some consistency in naming convention of Projects and Grants to identify the program it belongs to.
* DEP encumbers all POs. Helps the budget office identify committed and non-committed. Only settlement agreements are not encumbered. Some, such as utilities are estimated amounts.

Where are there current policy gaps?

* FWC has obligations (Wex, Verizon, etc.) that are monthly items that are unencumbered. They would like to have obligations encumbered. Will we have to have an encumbrance to set up a payable for carry forward budget?
* Currently an encumbrance has a specific ORG, but you may not have known the specific ORG. So, then you end up with a negative balance. If Florida PALM would allow you to encumber at a higher level and spend at a lower level, that would help.
* Wex gets encumbered at one level and paid at that level and the reallocated.
* Policy considerations need to allow for different agency needs.
* HSMV cannot estimate a Wex bill due to the large number of variations that factor into that.

Does your agency use encumbrances to manage budget? If so at what level?

* FWC uses the encumbrances and considers ORG L5 as well as the fund.
* DEP uses to review committee and non-committed.
* DBPR uses to see what is not obligated and what is available to move to other areas.
* HSMV would like further clarification on what can and cannot be used on PCard. Can reoccurring charges be used or not? Can they get help applying procurement guidelines to Agency Plan?
* PCard is a payment method not a procurement method. DOH requires procurement for all PCard purchases.

# Future State

The Florida PALM Project has confirmed that all encumbrances will consume budget. There has also been discussion about whether encumbrances will be mandatory for all PO or requisitions. Would it make sense to make encumbrances mandatory over a dollar amount threshold?

* DEP tried a threshold for payables, but then in an audit, they had a finding. The finding was that it was a liability at 6/30 and that they amount was not the determining factor. The activity still got them the finding. A current year payable should have been established.
* This may be a discussion to have with Auditors.
* HSMV sets up POs but not always the encumbrance. Depends on the amount and if it is one time.

If yes, what threshold would you recommend?

* HSMV thresholds depends on division. Could be $5000 or $50.
* DOH has an internal threshold of when a PO or encumbrance less than $35,000.00 they let the program set that up. For PCard they have a tool that shows negatives, so they can move the charge to the right place.

Florida PALM will allow for true general ledger accounting for encumbrances. What recommendations does your agency have for encumbrance accounting management and policy? Such as, remaining balances and under-estimated encumbrances.

* When a payment is made against an encumbrance and then the payment is not approved, how will the encumbrance be reestablished? What about when the payment is not made against the encumbrance? How do we tie the encumbrance release and payment together? What are the mechanisms that Florida PALM will use to keep things in sync?
* What about when there is a contract and how will FACTS be updated?
* When a payment is made, and it gets held due to levy, will there be a way to redirect and not have to re-issue payment to DOR?
* Lifecycle of obligation to payment with a payable created while cash depletion is being done adds complexity.
* What are the controls and edits in place, and what capacity is there to override? What are hard stops vs. warnings?