Policy Statement
In accordance with generally accepted accounting principles applicable to government, the District shall prescribe for the use of all agencies a uniform accounting system to insure compliance with all norms and conventions respecting the expenditure of and the accountability for public funds. One element of this system is the encumbrance method of accounting.

Reason for Policy
The encumbrance method of accounting is a budgetary tool that focuses on prospective expenditures. Encumbrances are purchase orders or other commitments for goods that have not been provided, or for services that have not been performed. Encumbrances become expenditures only when goods are actually provided or services are performed. In encumbrance accounting, encumbrances are formally recorded in the ledger as reductions to the budgetary accounts. Budgetary accounting combined with encumbrance accounting helps to ensure that total actual expenditures plus related commitments do not exceed budgets in a given year. Resolutions approved by the School Reform Commission (SRC) that contain a dollar amount (not to exceed) to a vendor for a specified time period is considered a legal obligation of the District. No school personnel are authorized to incur any indebtedness on behalf of the District, nor assume to bind the District in an amount in excess of the money appropriated, unless expressly authorized by the SRC.

Policy Requirements
Encumbrances for grants operate within two distinct financial tracks: the District fiscal year and the grant award period.

- **District Fiscal Year** – The District fiscal year is a 12 month period running from July 1st to June 30th of each year and a 60 day “lapse period” after June 30th where obligations incurred through June 30th are liquidated (paid) as vendor invoices are received. After the lapse period, encumbrances for non-grant funds are typically cancelled. From July through December the District performs a “Financial Close” for the year ended June 30th and produces a Consolidated Annual Financial Report (CAFR) that also includes financial statements related to grants based on a District fiscal year basis.

- **Grant Award Period** – Encumbrances are established against a grant award. The award often extends beyond a single District fiscal year and the liquidation (expensing) of encumbrances can occur at any time during the award period and after the end of the grant award during a “Liquidation Period” whereby prior obligations incurred during the award period can be paid. Grant award periods may last up to 27 months with another 90 days (typically) as a Liquidation Period meaning a grant encumbrance can be active and extend over potentially three District fiscal years. Encumbrances based on approved resolutions of the SRC are obligations of the District for the amount (not to exceed) to the vendor(s) specified. The potential reduction of an encumbrance based on program activity represents a de-obligation of commitment in whole or in part to the vendor, with the de-obligated amount made available to the grant for re-obligation or for carry forward.
Policy requirements related to grant encumbrances are as follows:

- Grant Program Managers (GPMs) and school personnel are responsible for the SRC Resolution authorizing the expenditure and are responsible for establishing and liquidating encumbrances as expenditures are made. See policy GP0800 Allowable Use of Funds and Adherence to Cost Circulars and related procedure on SRC Resolutions and Limited Contract Authority documents.

- Resolutions for multi-year grant contracts must indicate by fiscal year the anticipated amount to be expended. The GPM is responsible for encumbering the appropriate amount each year as a separate encumbrance and managing payments, encumbrances, and liquidations.

- A separate encumbrance for goods and services should be made each year for the goods to be purchased or services to be rendered in the fiscal year and be consistent with the Resolution. This is true regardless of whether the grant is multi-year or 12 month. This policy facilitates active resource planning and vendor management each fiscal year. Such resource management and planning on a District fiscal year basis allows for managers at all levels to more easily see and understand the resources available concurrent with their non-grant resources on a 12 month fiscal year basis.

- By operation, GPMs are responsible for estimating program activity and attendant obligations during the fiscal year, and actively engage vendors to receive and pay for services as close as possible to the activity, with heightened oversight and engagement with the vendors after June 30th of each year during the Lapse Period and annual Financial Close process. Grant Budget Analysts (GBAs) in Grant Fiscal Services (GFS) will also monitor encumbrance and payment activity to ensure compliance with this policy.

- There are two different methods of managing grant encumbrances during the Financial Close process (after June 30th of each year) depending on whether the encumbrance is from a 12 month grant award or a multi-year grant award:

  **12-Month Grant Awards**
  
  For 12-month grant awards ending June 30th, the encumbrance will remain open for liquidation during the District’s Financial Close period and will remain open through the grant's Liquidation period (varies by grant, typically 60 to 90 days). During this period, the GPM should be working to ensure any outstanding activity is paid to liquidate the encumbrance. The Grant Budget Analyst (GBA) will remind GPM of outstanding balances leading into the Financial Close and throughout the Close process. The GPM should also indicate well in advance of the end of the Liquidation period whether the encumbrance will be fully utilized and, if not, to disencumber some portion of the encumbrance as appropriate and to expend those funds on other grant compliant activities. Encumbrances not liquidated by expenditures during the Liquidation period will be canceled at the end of grant Liquidation Period and the unspent funds returned to the grantor (or not drawn down). If expenditures arrive after the Liquidation Period, those expenses cannot be paid from the grant. The return of grant funds or the payment of grant expenditures from a fund other than the grant will, in most cases, represent a management failure of the GPM.

  **Multi-Year Grant Awards**
  
  For multi-year grant awards, encumbrances shall be made for the 12 month period as described above, and will remain open for Liquidation during the two month "Lapse Period" post June 30th concurrent with the District’s yearly Financial Close period. The GPM shall
liquidate, through payments, as much as possible during the two-month lapse period with specific focus on contracted services. After the end of the two-month lapse period, all contracted service amounts should be liquidated by the end of September and open balances disencumbered with the encumbrance allowed to stay open by assurance from the GPM that an invoice is imminent. For goods, all encumbrances related to the prior fiscal year should be liquidated through payment or the encumbrance cancelled by December 31st. With rare exception, all prior FY encumbrances must be liquidated or cancelled by December 31st. In all cases, the payment must be within the grant’s Period of Availability.

Other policy requirements

- GPMs and school personnel should contact vendors that have not submitted their invoices in a timely manner and encourage them to do so. Invoices received after the grant award and Liquidation Period has ended shall not be payable from the grant award. The GPM or school Principal will need to identify an alternative funding source. See policy GP2600.3 Grant Closeout and Reporting.

- All single orders of $350 or more, or multiple orders to a single vendor that in aggregate is $350 or more, must be encumbered in the Advantage Financial system.

- The Office of Management and Budget (OMB) will cancel a service contract (SC) encumbrance if the following conditions are met: the GPM certifies in writing to their assigned GBA that there is no longer or there never was a signed contract with any vendor for the services indicated in the resolution, and certifies that it will not incur any contractual or non-contractual expenses during the Award period for the program or function that was the intended purpose of the encumbrance and resolution. An e-mail from a responsible GPM will suffice. If those conditions are met, OMB will honor the request to cancel an encumbrance at any time in the fiscal year.

- The GPM may request that an encumbrance be lowered. OMB will honor such requests if the GPM provides a signed document from the vendor indicating that they will not perform services or deliver goods in excess of a certain amount which justifies the lowering of the encumbrance, the GPM certifies that it will not incur any contractual or non-contractual expenses beyond the reduced encumbrance amount in the grant Award period for the program or function that was the intended purpose of the encumbrance and resolution, and the GPM provides a revised grant eligible plan for the use of those dollars. A grant budget amendment may be required (See GP 0200 Grant Budgeting for policy and procedure details). An e-mail from the GPM combined with the signed statement from the vendor will suffice.

- The GPM may request that an encumbrance be increased. This request is likely to occur when a multi-year grant Resolution was encumbered for a single year based on the estimate of activity in that year, and program needs are such that additional dollars need to be expended in the current year with fewer dollars expended during the remaining years of the Resolution tied to the grant award. OMB will honor such requests if the GPM provides justification that the increase is necessary and that the total amount to be encumbered over the period of the multi-year Resolution and award will not exceed the total Resolution “not to exceed” amount.

- OMB will allow a few exceptions to this policy to ensure that the purpose of establishing encumbrances is realized. One exception is for grant Resolutions where funds are accepted and contracts executed in anticipation of certainty of a grant award. Typically, there is no budget loaded at this point and no SC can be created. In such cases, the resolution will be approved by the GBA who will follow-up with the GPM to ensure the program office encumbers the funds immediately after the budget has been loaded. The grant analyst will approve the SC coding and
will provide the SC number to OMB Budget Operations Assistant (BOA) who will approve the encumbrance. Another exception example is resolutions proposed at the end of a fiscal year for services in the following year. No SC can be established since no budgets are loaded. In this instance, as long as the resolution is reasonable, the GBA will approve the resolution and follow up with the program office to encumber the funds immediately after the budget has been loaded for the new fiscal year.

- Items subject to encumbrance include all object codes EXCEPT those contained in the following categories:
  
  Personal Services  
  Benefits  
  Travel  
  Debt Service  
  Refunds  

- Payments near the end of a fiscal year or at the end of a grant award may be made without an encumbrance as the purpose of executing an encumbrance at that time do not apply: namely the setting-aside of resources in advance to ensure their availability at a future time of payment. Payments may be made without an encumbrance assuming the following conditions apply:

  1. It is near or at the end of the award period, or after the award period but before the end of the “Liquidation” period and the good or service was obligated during the award period.
  2. There is “free balance” in the line-item or fund, meaning there is fund balance from which to pay the invoice.
  3. There is an approved SRC Resolution and contract authority and the payment is for goods or services within the Resolution and contract period, and making the payment would not exceed the dollar maximum in either.

**Obligation Cycle**

The encumbrance cycle begins after the initial grant award budget as approved by the grantor has been loaded into the SDP accounting system. See policy GP0800 Allowable Use of Funds and Adherence to Cost Circulars and related procedure on SRC Resolutions and Limited Contract Authority documents. Once this process is completed, grant program personnel record encumbrance transactions against the various expenditure authority accounts. The encumbrance serves as a reservation of expenditure authority and obligation until further action is taken to reduce the encumbrance. Grant program personnel can take two types of action to change an encumbrance:

- Submit an invoice-voucher citing an established encumbrance which liquidates an encumbrance or a portion thereof.
- Decrease or increase the encumbrance amount based on changing program requirements. However, those changes MUST be consistent with the grant agreement, total grant resources available, and in aggregate cannot exceed the SRC approved Resolution amount inclusive of Resolution amendments.

As part of the grant award Closeout process, GPMs are responsible for reviewing all open purchase orders, contracts and the related encumbrances in an effort to fully liquidate encumbrances or
disencumber funds to the extent possible. Grants typically have a “Liquidation Period” extending a period of time (sometimes 90 days) after the end of a grant Award period in order to liquidate encumbrances by paying invoices. Invoices submitted after the end of the Liquidation Period cannot be paid from the grant. The GPM shall contact the Office of Grant Fiscal Services to close unneeded encumbrances. See policy GP1100 Period of Availability for more information.

**Responsibilities**

Grant Program Managers and school personnel (School Operations Officers and other designated school personnel) are responsible for grant encumbrances and obligations, and for identifying other funding sources for any obligations incurred but not presented for payment until after the Liquidation Period. Other responsibilities are as follows:

*Services* – Responsible for encumbering services as part of the SRC Resolution and LCA process, ensuring vendors submit timely payment invoices for services rendered, and for paying vendor invoices against those established encumbrances for legitimate and grant allowable costs. GPMs and school personnel are responsible for monitoring encumbrance activity and requesting the closing of encumbrances or portions thereof prior to the end of the Liquidation Period.

*Goods* – Encumbrances for goods are established automatically as purchases are processed through the Advantage Financial system. Subsequently, goods are received and Accounts Payable processes the payment. GPMs and school personnel are responsible for ensuring goods are received as ordered, the costs are grant allowable, and that any remaining encumbrances or portions thereof are closed prior to the end of the Liquidation Period.

**Grant Fiscal Services (GFS) Grant Budget Analysts** (GBAs) are responsible for reviewing Resolutions to ensure they are encumbered appropriately and segmented by fiscal year, review open encumbrances as part of financial reporting, and alert GPMs and school personnel 90 days prior to the end of the grant period and immediately after the Liquidation Period begins to review and dispose of all open encumbrances. GBAs will also initiate Journal Vouchers (JVs) that may be required to move expenditures processed after the Liquidation Period to other funding sources. See policy GP1500 Journal Voucher Management.

**Procedures**

- GP0900.1 Establishing, Amending and Cancelling Encumbrances

**Forms**

**Definitions**

**Contacts**

- Grant Fiscal Services
- Office of Management and Budget
- Grant Compliance Office

**Frequently Asked Questions**

**Related Information**

- GP0800 Allowable Use of Funds and Adherence to Cost Circulars
- GP1500 Journal Voucher Management
- GP2600.3 Grant Closeout and Reporting

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History
Amended:

- Amended on 2/1/13 to distinguish between the management of encumbrances for 12 month grant awards and multi-year grant awards to support the shift in FY14 to 12 month grant budgeting in the Advantage Financial System.
- Amended on 11/27/13 to include an encumbrance requirement exception.
- Amended on 4/24/15 for technical adjustments.