

Encumbrance Policy**5.1.12****PURPOSE**

To ensure timely liquidation of encumbrances.

DEFINITION

The following terms apply consistently throughout this policy as defined below:

Award of Contract (AC):	Encumbrances entered into FMS by departments for executed construction, information technology implementations and professional services contracts among others.
Budget Office:	City Manager's Budget Office or Mayor's Budget Office for Council appointees.
Contract:	As recorded in FMS, includes Purchase Orders, Open Purchase Orders and Award of Contracts.
Encumbrance:	Estimated amount of expenses related to unperformed or performed but not yet paid contractual obligations.
FMS:	City's Financial Management System.
Open Purchase Order (OPO):	Encumbrances entered into FMS by Finance/Purchasing for ongoing requirements to purchase supplies, materials, and equipment and trade services among others.
Purchase Order (PO):	Encumbrances entered into FMS by Finance/Purchasing for one-time purchases of supplies, materials, and equipment and trade services among others.

POLICY

It is the Policy of the City of San José to:

1. Encumber funds made available by an appropriation ordinance.
2. Enter all encumbrances into FMS with the term (start and end dates) of the executed contract.
3. Encumber the appropriate amount per the executed contract in FMS.
4. Adjust encumbrances in accordance with executed amendments to the contract or change orders during fiscal periods one through twelve.
5. Liquidate an encumbrance that is no longer necessary to fulfill the purpose for which it was created or is more than six months past the contract end date except, including but not limited to, the following:

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- a. unpaid invoices; or
 - b. a request to reallocate encumbered funds to a different vendor for the same purpose or carry-over approval is under review or has been approved by the Budget Office.
6. Liquidate current fiscal year encumbrances to the current year appropriation.
7. Liquidate prior fiscal year encumbrances to fund balance unless:
- a. other uses for the funds consistent with the appropriation ordinance were approved by the Budget Office; or
 - b. the encumbrance is grant related with a value of \$10,000 or less and carry forward was requested by a Department Director.
8. Use a FMS encumbrance account code for accrual entries.
9. Authorize the Director of Finance to liquidate encumbrances in accordance with this policy.

PROCEDURES

1. Entering an AC into FMS

RESPONSIBILITY

ACTION

Contract Administrator

- 1. Submits the executed contract documents to the fiscal staff of the initiating department.

Initiating Department / Council Appointee

- 2. Enter all relevant contract information in accordance with AC creation user guide located at https://www.sjcity.net/DocumentCenter/View/20421/FMS_v79_AC-Creation?bidId=.
 - a. If contract specifies a fixed compensation amount per fiscal year, enters each fiscal year’s funding as separate lines in the AC.
 - b. Information required in the Contract Purchase Order Entry main screen
 - i. Buyer field (contract) and vendor information in the upper screen
 - ii. Lower screen – Line item detail
 - 1. Commodity code
 - 2. Basic description of line
 - 3. Price details
 - 4. Tax code

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- c. Information required in Line 1 Extra Description screen
 - i. Contract term (start date and end date)
 - ii. Total compensation
 - iii. Major professional rates (if any)
 - iv. Department accounting contact
 - v. Department project contact
- 3. Generates, reviews, and approves the contract purchase order creation edit list in accordance with the Accounting Division Procedures Manual section 3.1.2 (Encumbrance of Contractual Obligations).
- 4. Submits the edit list with copies of the executed contract documents as backup to Accounts Payable for approval.
- Finance / Accounts Payable 5. Reviews the edit list and contract documents for accuracy and completeness.
- 6. Approves the creation of the AC in FMS or denies and sends back to the initiating department with reason for denial.

2. Entering an AC Amendment into FMS

RESPONSIBILITY	ACTION
Contract Administrator	1. Submits the executed amendments to the fiscal staff of the initiating department.
Initiating Department / Council Appointee	2. Enters the relevant information into FMS for amendments, change orders and liquidations in accordance with the AC adjustment user guide located at https://www.sjcity.net/553/FMS-City-Users-Guide .
	3. Enters a separate line in the AC for each additional fiscal year funding is received.
	4. Line 1 Extra Description screen must be updated to reflect current (revised) payment terms and rates against which future payments will be verified.
	5. Reviews, signs and approves the contract purchase order adjustment edit list in accordance with the Accounting Division Procedures Manual section 3.1.2.
	6. Submits the edit list with copies of the amended contract documents as backup to Accounts Payable for approval.
Finance / Accounts Payable	7. Reviews the edit list and contract documents for accuracy and completeness.

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8. Approves the amendment of the AC in FMS or denies and sends back to the initiating department with reason for denial.

3. Entering a Purchase Requisition into FMS for Processing of POs and OPOs

RESPONSIBILITY	ACTION
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Initiating Department / Council Appointee	1. Enters the relevant information into FMS in accordance with CPM 5.1.7 (Procurement of Supplies, Materials and Equipment) and CPM 5.1.8 (Procurement of Non-Professional Services) and the purchase requisition entry instructions available at https://www.sjcity.net/252/Purchasing-Risk-Management . Note that a separate line must be entered for each fiscal year in POs and OPOs with an approved term that crosses more than one fiscal year.
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Finance / Purchasing	2. Processes requisition in accordance with CPM 5.1.7 and CPM 5.1.8 .
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4. Processing an Increase or Decrease to a PO or OPO

RESPONSIBILITY	ACTION
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Initiating Department / Council Appointee	1. Enters the relevant information into FMS for the adjustment in accordance with the PO encumbrance adjustment process instructions located at http://www.sjcity.net/DocumentCenter/View/1623 .
	2. Reviews, signs and approves the encumbrance adjustment approval form or contract purchase order adjustment edit list.
	3. Submits the approval form or edit list via e-mail to the Buyer in Purchasing for increases or to the "Encumbrance Adjustment" e-mail address for decreases for approval.

Finance / Purchasing	4. Reviews the encumbrance adjustment request for accuracy and completeness.
	5. Approves the amendment of the PO or OPO in FMS or denies and sends back to the initiating department with reason for denial.

5. Liquidation of ACs

RESPONSIBILITY	ACTION
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Initiating Department / Council Appointee	1. Enters the AC number and liquidation amount into FMS to cancel the AC in accordance with the AC adjustment user guide available at https://www.sjcity.net/553/FMS-City-Users-Guide .
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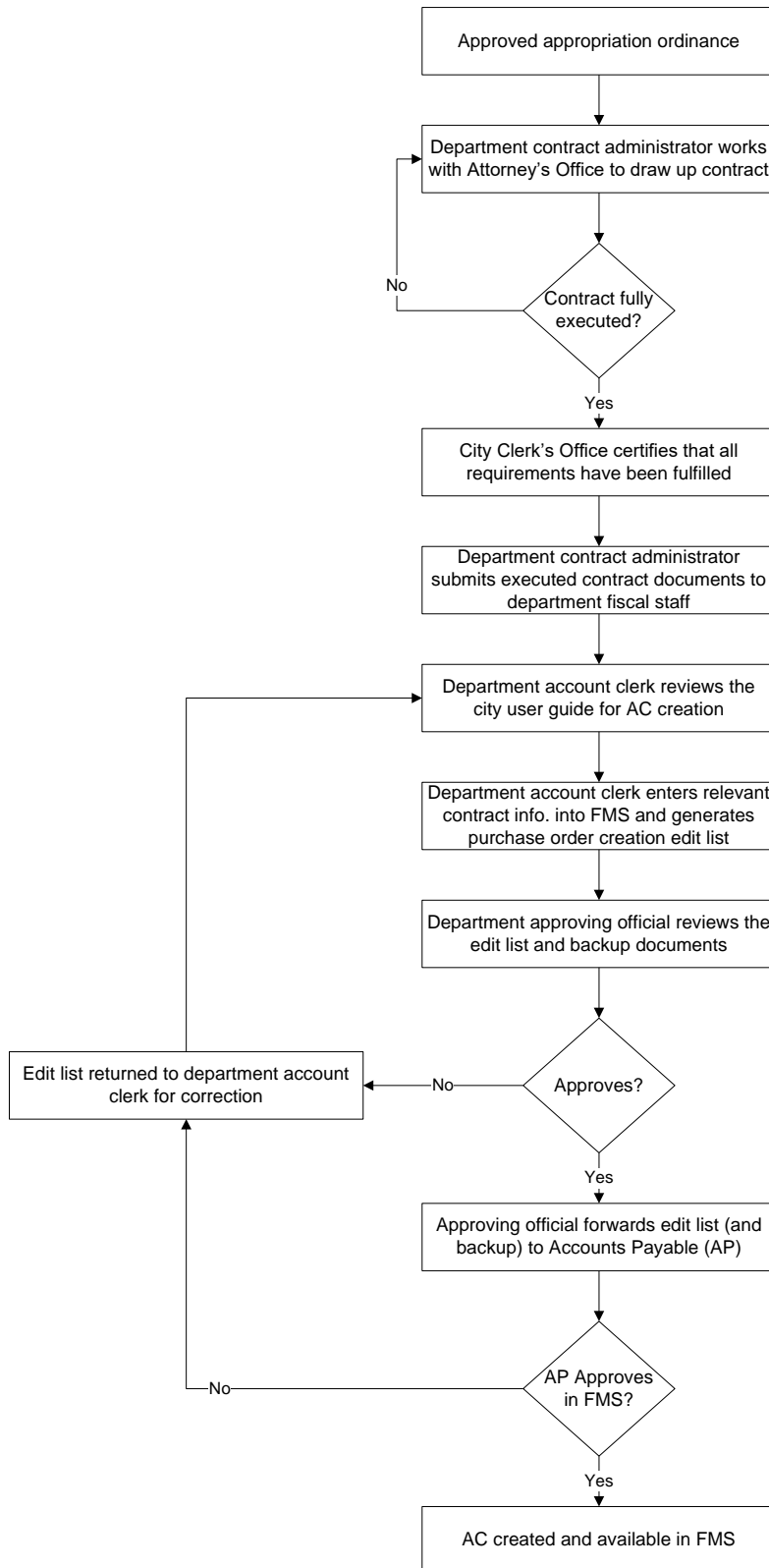
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2. For a partial liquidation of an AC, follows the AC adjustment user guide for the canceling of separate lines on the AC and amends line 1 to \$1 (an AC cannot remain active if line 1 is liquidated completely).
 3. Reviews, signs and approves the contract purchase order adjustment edit list in accordance with the Accounting Division Procedures Manual section 3.1.2.
 4. Submits the edit list to Accounts Payable for approval.
- Finance / Accounts Payable
5. Reviews the edit list for accuracy.
 6. Approves the AC cancellation in FMS or denies and returns to initiating department with reason for denial.
 7. Separates prior fiscal year liquidations from current fiscal year liquidations.
 8. Files current fiscal year liquidation edit lists with the contract documents.
 9. Forwards prior fiscal year liquidations to Financial Reporting. **Note: department's budget will be temporarily overstated during the time between approval by Accounts Payable and processing by Financial Reporting.**
- Finance / Financial Reporting
10. Checks Budget Office carry forward approvals to prior fiscal year liquidations.
 - a. If Budget Office approval for carry forward has been granted, the funds will be made available for the current fiscal year and not taken to fund balance.
 - b. If Budget Office approval for carry forward has not been granted, the funds will not be made available for the current fiscal year and will be taken to fund balance.
 11. Prepares journal entry to take prior fiscal year liquidations to fund balance.
 12. Returns documentation of prior fiscal year liquidations to Accounts Payable for record keeping.

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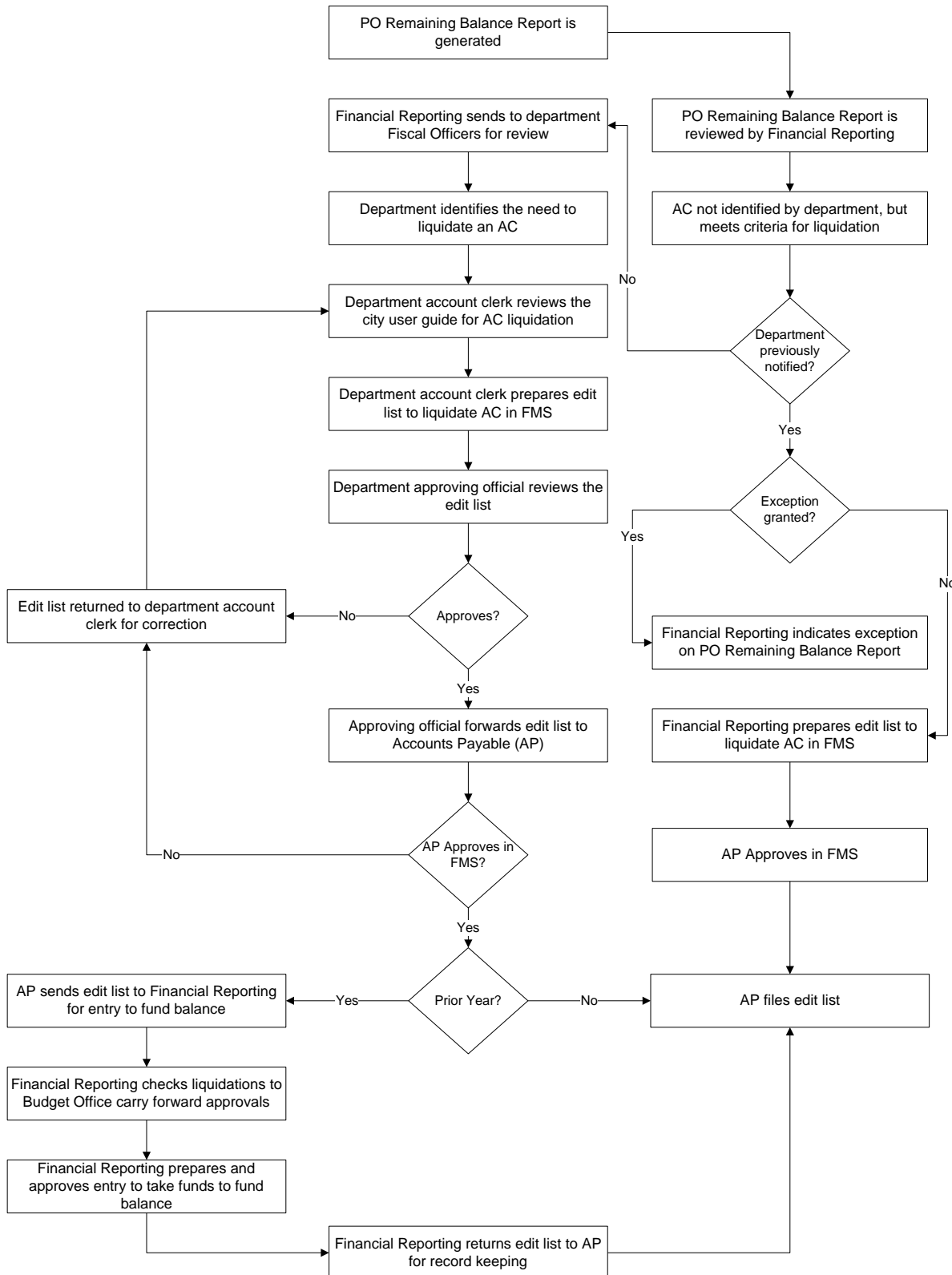
AC Establishment Flowchart



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AC Liquidation Flowchart



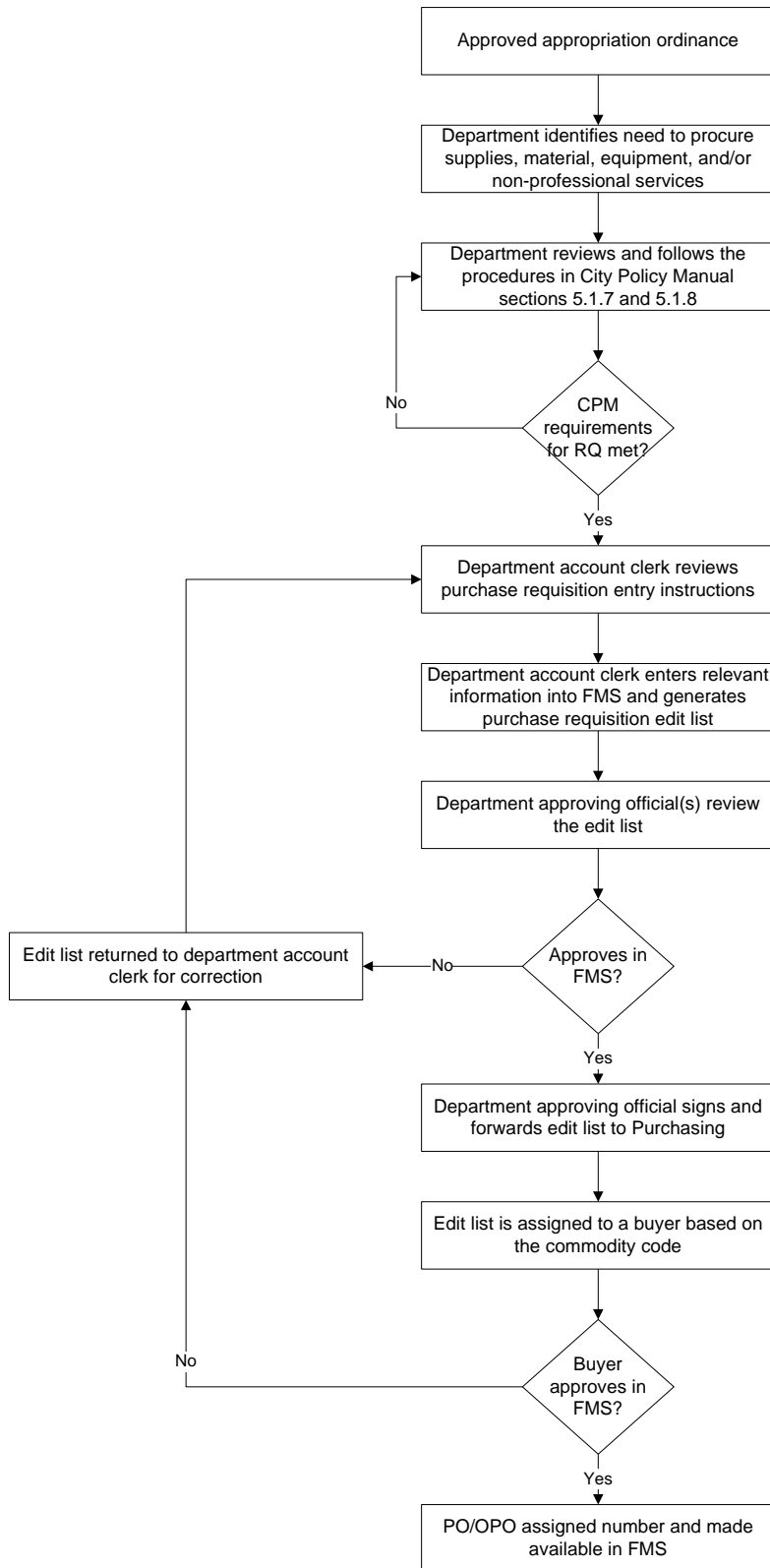
Encumbrance Policy**5.1.12**6. Liquidation of POs and OPOs

RESPONSIBILITY	ACTION
Initiating Department / Council Appointee	<ol style="list-style-type: none"> 1. Enters the PO or OPO number and liquidation amount into FMS for cancellation in accordance with the PO encumbrance adjustment process instructions available at https://www.sjcity.net/DocumentCenter/View/1623/OPPO-Encumbrance-Adjustment--Approval-Instructions?bidId= 2. Completes the encumbrance adjustment form for liquidations (https://www.sjcity.net/DocumentCenter/View/1623/OPPO-Encumbrance-Adjustment--Approval-Instructions?bidId=) in accordance with the instructions. 3. Submits the form through e-mail to Purchasing's "Encumbrance Adjustment" e-mail address.
Finance / Purchasing	<ol style="list-style-type: none"> 4. Approves entry to liquidate POs and OPOs in FMS. 5. Separates prior fiscal year liquidations from current fiscal year liquidations. Files current fiscal year liquidations. 6. Forwards prior fiscal year liquidations to Financial Reporting. Note: department's budget will be temporarily overstated during the time between approval by Purchasing and processing by Financial Reporting.
Finance / Financial Reporting	<ol style="list-style-type: none"> 7. Checks Budget Office carry forward approvals to prior fiscal year liquidations. If Budget Office approval for carry forward has been granted the funds will be made available for the current fiscal year and not taken to fund balance. 8. Prepares journal entry to take prior fiscal year liquidations to fund balance.

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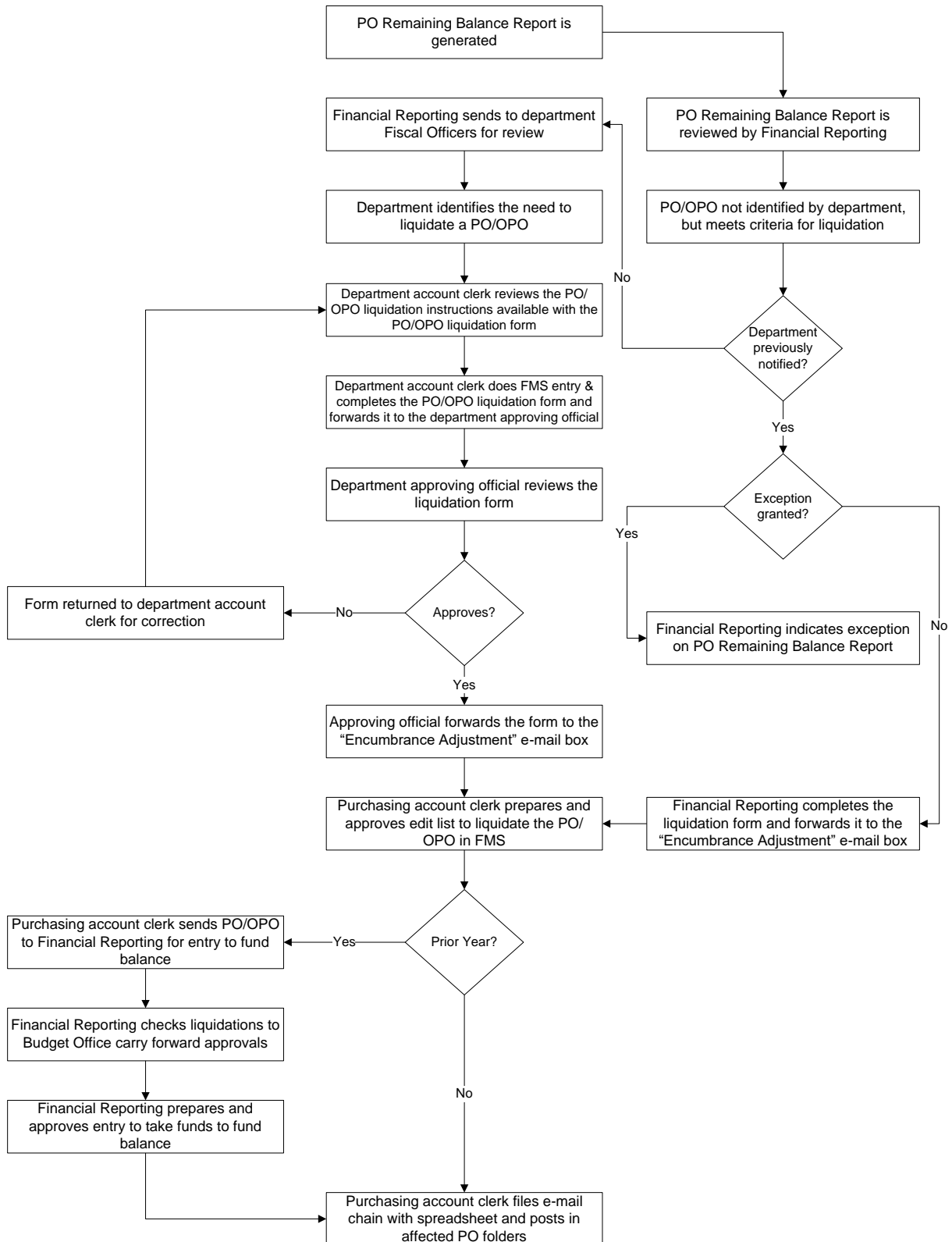
PO and OPO Establishment Flowchart



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PO and OPO Liquidation Flowchart



Encumbrance Policy**5.1.12**7. Reallocation of Prior Year Encumbrance Liquidations (Non-Grant Related)

RESPONSIBILITY	ACTION
Initiating Department / Council Appointee	<ol style="list-style-type: none"> 1. Identifies need and justification to have funds reallocated to the department's current year budget when a prior year encumbrance is liquidated. 2. Prepares memorandum to the Budget Office that explains the reason funds in a prior year encumbrance should be reallocated to the department's current year budget rather than taken to fund balance.
Department Director	<ol style="list-style-type: none"> 3. Approves memorandum and forwards it to the Budget Office with a copy to Financial Reporting's "Encumbrance Manager" e-mail address.
Budget Office	<ol style="list-style-type: none"> 4. Reviews justification in the memorandum and approves or denies. 5. If denied, returns memorandum to the initiating department with reasons for denial. 6. If approved, returns signed memorandum to the initiating department and forwards a copy to Finance/Financial Reporting.
Initiating Department	<ol style="list-style-type: none"> 7. Initiates the liquidation process for contracts by following the respective procedure for ACs, POs, or OPOs as outlined in this policy.
Finance / Financial Reporting	<ol style="list-style-type: none"> 8. Ensures funds are made available in the department's current year budget.

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8. Reallocation of Prior Year Grant-Related Encumbrance Liquidations with a value of \$10,000 or less.

RESPONSIBILITY	ACTION
Initiating Department / Council Appointee	1. Identifies need and justification to have funds reallocated to the department's current year budget when a grant-related prior year encumbrance in the amount of \$10,000 or less is liquidated. 2. Forwards justification to department director for approval.
Department Director	3. Reviews justification and approves or denies. 4. If approved, submits to the "Encumbrance Manager" e-mail address.
Initiating Department	5. Initiates the liquidation process for contracts by following the respective procedure for ACs, POs, or OPOs as outlined in this policy.
Finance / Financial Reporting	6. Ensures funds are made available in the department's current year budget.

Approved:

/s/ Ed Shikada
Assistant City Manager

July 13, 2010
Date