Management Directive

Commonwealth of Pennsylvania
Governor's Office

Management Directive 310.03 Amended – Encumbering and Lapsing of Appropriations

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By Direction of: 

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This directive establishes policy, responsibilities, and procedures for encumbering and lapsing appropriations in accordance with Section 621 of *The Administrative Code of 1929, Act of April 9, 1929, P.L. 177, No. 175, as amended, 71 P.S. § 240.1* ("hereinafter referred to as "Section 621"), and other provisions relating to the encumbering, expending, and lapsing of appropriated funds. This amendment updates definitions and the Office of the Budget Approved Exemptions listing which is now located on the Bureau of Payable Services' Customer Service Portal.

1. PURPOSE.

To establish policy, responsibilities, and procedures for encumbering and lapsing appropriations in accordance with Section 621 and other provisions relating to the encumbering, expending, and lapsing of appropriated funds.

2. SCOPE.

This directive applies to all departments, offices, boards, commissions, and councils under the Governor's jurisdiction and independent entities subject to The Administrative Code of 1929 (hereinafter referred to as "agencies"). Entities not subject to the Administrative Code are encouraged to adopt similar policies.

3. OBJECTIVE.

To ensure appropriations and executive authorizations are encumbered, expended, and lapsed or expired in accordance with state law.

4. DEFINITIONS.

a. Commitment Item. Budget and fund accounting classifications of general ledger accounts and cost elements in the SAP enterprise resource planning system's (hereinafter referred to as "SAP") funds management (FM) module. It is used to classify the type of revenues and expenditures being budgeted and to detail the balances for each fund in the FM module.

b. Contingent Commitment. An authorization for an agency to commit funds from an appropriation which has not yet been made by the General Assembly. It is contingent upon the eventual passage of an appropriation for the purpose for which the committed money is to be spent.

c. Contracted Repairs. Costs incurred under contract to restore an asset (including buildings, grounds, roads, bridges, fixed or movable equipment, and furniture) to a condition that permits the effective use of the asset up to but not beyond its originally determined useful life, excluding maintenance and repair work performed by Commonwealth employees.

d. Debt Service and Fixed Charges. A Commitment Item category used to account for the payment of Commonwealth general Obligation debt service and various authority rentals.

e. Economic Development. Programs to maximize employment opportunities, economic growth and development of communities, and the overall Economic Development of the Commonwealth through industrial development, employability development, community development, resource development, labor-management relations, and job training. Programs include grants, contracts, loans, and projects.

f. Emergency. A situation or circumstance that threatens the continued operation of government, or the health, safety, or lives of the residents of the Commonwealth.

g. Encumbrance. An Obligation or commitment in the form of a purchase order, contract, grant agreement, or other authorizing document related to an unperformed contract for goods or services that are chargeable to an appropriation and for which a part of the appropriation is reserved.

h. Fixed Assets. Assets of a long-term character such as buildings, machinery, furniture, and other equipment that meet the following general criteria:

(1) Those items that can be expected to have a useful life of more than one year.

(2) Those items that can be used repeatedly without materially changing or impairing their physical condition and that can be kept in serviceable condition by normal repair, maintenance, or replacement of parts or components.

(3) Also included in this category of expenditure are land acquisitions, acquisitions or construction of buildings and structures, capital improvements to buildings and structures, and nonstructural improvements.

i. Grants and Subsidies. Payments made by the Commonwealth to political subdivisions, individuals, institutions, and organizations for which no direct services are rendered to the Commonwealth. Also included are awards, bounties, and indemnities.

j. Litigation. Any pending, proposed, or current action or matter, including arbitration and audits, subject to appeal before a court of law or administrative adjudicative body, the decision of which body may be appealed to a court of law.

k. Non-expense Item. A disbursement of funds that is not considered an expense of the Commonwealth, such as a loan.

l. Obligation. An amount that a governmental unit may be required legally to meet out of its resources. An Obligation includes liabilities and unliquidated Encumbrances.

m. Operational Expenses. This Commitment Item category includes the cost of:

(1) Commodities, substances, or manufactured articles which are used or consumed in current operations or processed in the construction or manufacture of articles.

(2) Equipment, leased software, expendable tools, and other articles not meeting the criteria for machinery and equipment in the definition of Fixed Assets.

(3) Services performed by Commonwealth or outside agencies or contractors which may include the use of equipment or the furnishing of commodities in connection with these services under express or implied contracts.

n. Personnel Services. The cost of salaries and wages, Commonwealth share of payroll taxes and employee benefits paid to or on behalf of Commonwealth officials and employees for services rendered and for Commonwealth annuitants. Also includes, among other items, the Commonwealth share of unemployment compensation, annual leave payouts, and sick leave payouts.

o. Procurement Document. A document authorizing the delivery of specified items or the rendering of certain services and the incurrence of a charge for them. Such a document includes purchase orders, leases, contracts, and other authorizing documents.

5. POLICY.

a. Nothing in this directive shall preclude an agency from:

(1) Utilizing available funds to charge payments or adjustments to the applicable budget period.

(2) Encumbering funds against or directly charging expenditures to current fiscal year appropriations or executive authorizations to pay for prior years' Encumbrances cancelled in accordance with this directive.

b. Payments and Encumbrances shall be charged in accordance with section 7 of this directive.

c. Except for an Emergency, an Encumbrance must be fully approved by June 15 to be charged to the current fiscal year. In an Emergency, an Encumbrance may be charged to the current fiscal year provided the Encumbrance is fully approved no later than June 30. Encumbrances created in an Emergency are subject to section § 516 of The Commonwealth Procurement Code, 62 Pa.C.S. §§ 101-4604 and provisions of The Procurement Handbook applicable to Emergency procurements. In no case shall an Encumbrance be created after June 30 of the fiscal year in which the funds were appropriated. Encumbrances not fully approved by June 30 will be created as a Contingent Commitment.

d. Lapsable state appropriations and executive authorizations that remain unexpended and unencumbered as of the statutory lapse date, usually June 30, shall be lapsed unless needed to pay direct charges for expenses or Obligations incurred before June 30 or otherwise exempted.

e. Unexpended and unencumbered balances for federal appropriations and executive authorizations expire as of June 30. Encumbrances for federal appropriations and executive authorizations shall be carried forward until October 31 of the next fiscal year, at which time Encumbrances and expenditures must be reconciled to federal revenue received through October 31; any remaining balance expires unless otherwise exempted.

f. Prior year Encumbrances must be properly chargeable to the fiscal year for which the funds were encumbered. All actions relating to the Encumbrance of funds must be adequately supported. Procurement Documents must have a specified delivery date.

g. Prior year Encumbrances and related payments shall not be transferred from one Commitment Item category to another.

h. Prior year Encumbrances shall be cancelled as of October 31, except:

(1) Encumbrances in Litigation.

(2) Encumbrances for Economic Development.

(3) Encumbrances for Contracted Repairs.

(4) Encumbrances for construction, repair, or improvement of Fixed Assets.

(5) Encumbrances for Non-expense Items related to construction.

(6) Encumbrances for which the Office of the Budget, Office of Comptroller Operations, Bureau of Payable Services (BPS) has evidence that goods were provided on or before October 31, or services were provided by June 30 of the previous fiscal year.

i. In no case shall a prior year Encumbrance be extended beyond the end of the next complete fiscal year, except:

(1) Encumbrances in Litigation.

(2) Encumbrances for Economic Development (may be retained until the close of the second fiscal year following the fiscal year in which the funds were encumbered).

(3) Encumbrances for Contracted Repairs, which shall be charged to the fiscal year in which the encumbrance was created.

(4) Other encumbrances as identified in the Statutory and Office of the Budget Approved Exemptions.

j. Encumbrances for Economic Development may be retained until the close of the second fiscal year following the fiscal year in which the funds were encumbered. The Office of the Budget reserves the right to question an Encumbrance designated by an agency as "Economic Development."

k. Exceptions for Encumbrances in Litigation must be detailed in writing and accepted by BPS.

l. Deadlines for creating Encumbrances may be extended when the Encumbrances apply to an appropriation received after the deadlines stated herein.

m. Available balances created by the liquidation or cancellation of a prior year Encumbrance or by a refund of expenditures to a prior year shall be lapsed or expired. These available balances shall not be transferred between Commitment Item categories and may not be used to create any new Encumbrances unless the Secretary of the Budget approves a waiver to this requirement.

n. When the provisions of Section 621 are inconsistent with other state or federal statutes or regulations, such statutes and regulations shall supersede the provisions of Section 621 and this directive with respect to lapsing and encumbering of funds.

o. Exceptions to any provisions of this directive not already provided within the Statutory and Office of the Budget Approved Exemptions require an approved written waiver from the Secretary of the Budget. Waivered funds are subject to the same provisions in waiver years as in the year the funds were appropriated, unless otherwise stated in the approved waiver.

6. RESPONSIBILITIES.

a. The Secretary of the Budget shall have the power to waive any of the provisions of Section 621 and this directive upon written request of an agency head justifying an exception that is in the best interests of the Commonwealth.

b. Agency heads shall:

(1) Ensure procedures exist within the agency to administer the policies established by this directive.

(2) Provide written justification to support requests for waivers and exceptions to this directive.

(3) Provide documentation, as needed, to support designating an Encumbrance as "Economic Development" for the purpose of retaining funds in accordance with section 5.j. of this directive.

c. BPS shall:

(1) Review Encumbrances for conformance to the dates and provisions of this directive.

(2) Ensure payments are properly charged in accordance with this directive.

(3) Ensure prior year Encumbrances are cancelled in accordance with this directive.

d. Office of the Budget, Governor's Budget Office (GBO) shall:

(1) Ensure that unexpended and unencumbered funds are lapsed or expired in accordance with this directive, unless otherwise exempt.

(2) Require documentation, as needed, to approve the retention of Encumbrances designated by agencies as "Economic Development."

7. PROCEDURES.

Payments and Encumbrances shall be charged as follows:

a. Commitment Items 6100000 – 6199999: Personnel Services. Payments for Personnel Services must be charged to the fiscal year in which the expense was incurred.

b. Commitment Items 6310000 – 6390000: Operational Expenses.

(1) Payments and Encumbrances for the purchase of supplies must be charged to the fiscal year in which the expense was incurred.

(2) Payments and Encumbrances for contracted services and rentals must be charged to the fiscal year in which the service is provided or the rental occurs.

(3) Payments and Encumbrances for Contracted Repairs must be charged to the fiscal year in which the Encumbrance was created.

c. Commitment Items 6400000 – 6499999: Fixed Assets. Payments and Encumbrances for the purchase or construction of Fixed Assets must be charged to the fiscal year in which the Encumbrance was created.

d. Commitment Items 6500000 – 6599999: Debt Services and Fixed Charges. Payments of Debt Services and Fixed Charges must be charged to the fiscal year in which funds for such purposes are appropriated and the Obligations become due.

e. Commitment Items 6600000 – 6699999: Grants & Subsidies. Payments and Encumbrances for Grants and Subsidies must be charged to the fiscal year in which funds were appropriated, allocated for the purpose by the Secretary of the Budget, or encumbered.

f. Commitment Items 6900000 – 6999999: Non-expense Items.

(1) Payments for Non-expense Items must be charged to the fiscal year in which such funds are appropriated or the Obligation incurred.

(2) Encumbrances for Non-expense Items must be charged to the fiscal year in which the funds will be used.

This directive replaces, in its entirety, *Management Directive 310.3 Amended*, dated April 4, 2018.