



# State of Arizona Accounting Manual

Topic 45 Expenditures, Expenses and Disbursements  
Section 15 Encumbrances

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## INTRODUCTION

State law requires that most expenditures from appropriated funds be encumbered before a purchase order is issued and an obligation created. Generally, the encumbrance document should be created in ProcureAZ, which will automatically check the available balances of appropriations and allotments in AFIS and enter the encumbrance into the latter system.

This policy document specifically addresses when encumbrances may or may not be necessary. Other sections of SAAM deal with aspects of using both ProcureAZ and AFIS.

## POLICY & PROCEDURES

1. Except as otherwise provided, an encumbrance must be applied against an appropriation and/or allotment for all actual or anticipated obligations of one thousand dollars (\$1,000) or more.
  - 1.1. Actual obligations include purchase orders or similar commitments to pay, no matter the form the commitment takes.
  - 1.2. Anticipated obligations include budgetary estimates of what will have to be paid, even though no binding commitment to expend funds has been made. A blanket purchase order—specifying such things as terms, prices and limits, but not establishing amounts to be shipped or expected delivery dates—is one example of an anticipated obligation.
2. The entry of an encumbrance reduces the current period's spending authority (i.e., available appropriation and allotment).
3. The following types of expenditures need not be encumbered:
  - 3.1. Actual or anticipated obligation of less than one thousand dollars (\$1,000).
  - 3.2. Gross payrolls. These include:
    - 3.2.1. Employee net pay.
    - 3.2.2. Taxes withheld from employee pay to be later remitted to the appropriate taxing authority.

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- 3.2.3. Insurance, dues, transportation charges, retirement contributions, garnishments or any other amount withheld from employee pay to be later remitted to the appropriate claimant.
- 3.3. The employer's portion of any payroll related tax.
- 3.4. The employer's portion of any insurance, retirement contributions, transportation subsidies or other benefits to be remitted to the appropriate claimant.
- 3.5. Investments of non-appropriated public monies or non-appropriated permanent endowment funds with and in the custody of the State Treasurer.
- 3.6. Obligations that will be paid from non-appropriated funds are not required to but, as an aid to expenditure control, may be encumbered.
4. All payments originating in ProcureAZ will result in an encumbrance being entered into AFIS.