

 <b>ARIZONA ACCOUNTING MANUAL</b>	<b>SECTION</b> II-L	<b>PAGE</b> 1	<b>DATE</b> 6/18/04
<b>SUBJECT</b> YEAR-END CONTRACTING AND PRIOR PERIOD PAYMENTS			

## I. AUTHORITY

- A.R.S. § 1-254 Limitation on duty of statutory implementation; legislative appropriation requirement
- A.R.S. § 35-101 Definitions
- A.R.S. § 35-131 Accounting system; reports; notice of deficiency; forms
- A.R.S. § 35-151 Encumbrance documents; issuance and disposition
- A.R.S. § 35-190 Incurring obligations after close of fiscal year; lapsing appropriations; exceptions
- A.R.S. § 35-191 Administrative adjustment; refunds; presentation and disposition of claims; exemption
- A.R.S. § 41-722 Powers and duties relating to finance

## II. INTRODUCTION

The State fiscal year begins on July 1 and ends on June 30 each year. State law provides for the payment of vendor claims after June 30 when specific criteria are met. All agencies must comply with the following provisions regarding year-end contracting and prior period payments.

## III. DEFINITIONS

- A. 13<sup>th</sup> Month: A.R.S. § 35-190 allows warrants to be generated against appropriations for a period of up to one month after the June 30<sup>th</sup> fiscal year end. This one-month period is commonly known as the 13<sup>th</sup> month.
- B. ADOA: The Arizona Department of Administration.
- C. AFIS: The Arizona Financial Information System.
- D. Agency: For GAO Technical Bulletin and accounting policy purposes, an agency is defined as any Department, Authority, Board, Commission, Council, Administration, Court, Registrar, Office, Institution, or other Arizona entity in the Executive, Legislative, or Judicial branch.
- E. Allotment: The allocation of an appropriation or other fund source over a full fiscal year within a budget program.
- F. Appropriation: Expenditure authority established by the Legislature for a specific purpose to be spent within a specified period (generally one year).
- G. Bill of Lading: A receipt issued by a carrier promising delivery of the goods listed.
- H. Budget Unit: Any department, commission, board, institution, or other agency of the State receiving, expending, or disbursing monies held by the State or incurring obligations against the State. Budget units include annual budget units and biennial budget units. Essentially, budget unit is another term for agency.
- I. Claim: A demand against the State for payment for either goods delivered or services performed.
- J. Commitment: An action under contract by purchase order to assume a financial obligation to accept goods or services at an agreed price.
- K. Contract: A written promise or set of promises constituting an agreement between two or more legal entities which creates an obligation to do (or not to do) a particular thing; gives each party of the contract a legal duty to the other; and also gives the right to seek a remedy for breach of the contract.

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- L. Director: The Director of the Department of Administration.
- M. Encumbrance: An obligation in the form of any purchase order, contract or other commitment which is chargeable to an appropriation or any other authorized fund source and for which part of the fund source is reserved. Encumbrances represent commitments related to contracts not yet performed and are used to control expenditures and to enhance cash management. The encumbrance obligation is formalized in AFIS by entering the transaction into the system with an encumbrance document. It ceases to be an encumbrance when paid or canceled.
- N. GAO: The Arizona Department of Administration, General Accounting Office.
- O. Issuance: For purchase order purposes, issuance is the transmission or communication to a vendor of a request for goods or services.
- P. Purchase Order: A document that is signed by the appropriate agency authorized signatory that requests a vendor to deliver a specified quantity of described goods or services at a specific price, and that on delivery and acceptance of the goods or services by this state, becomes a financial obligation of this state.
- Q. Relief Bill: A.R.S. § 35-191 allows claims that are more than one fiscal year (after the Administrative Adjustment period) and less than four fiscal years old to be brought before the Legislature by the GAO for the appropriation of monies to pay the claim.
- R. State: The State of Arizona.
- S. State Comptroller: The administrator of the GAO. The statutory approval of items in conjunction with this policy have been delegated by the ADOA Director to the State Comptroller.

#### IV. POLICIES

##### A. PURCHASE COMMITMENTS

For accounting purposes, a commitment occurs when management intent is implemented by taking a formal action resulting in a financial obligation to accept a specific quantity of goods or services at a specific price. This obligation is evidenced by written documents such as a contract or purchase order.

1. An encumbrance document shall be processed in the State's accounting system before a budget unit issues a purchase order to a vendor to cover an obligation against appropriations, actual or anticipated. Encumbrance documents are not required for gross payrolls and employee related expenses of a budget unit or for expenditures not exceeding \$1,000. However, agencies may at their discretion choose to encumber items of an amount less than \$1,000.
2. There are three options available to an Agency for purchase order and encumbrance documents issuance:
  - a. A purchase order document can be prepared and used as a source document for processing the encumbrance in AFIS.
  - b. An encumbrance document can be prepared for processing in AFIS, and a copy of the document may be sent to the vendor as a purchase order document.
  - c. The purchase order form and encumbrance document can be combined into a single document to be used to enter the information into AFIS and to notify the vendor of the purchase order.

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3. The budget unit shall certify that the proposed expenditure is authorized by applicable appropriation and allotment, and that the amount involved does not exceed the unencumbered and unexpended balance of the appropriation as recorded in the AFIS.

**B. YEAR-END CONTRACTING**

In accordance with A.R.S. § 35-190 (and except as provided in A.R.S. § 35-191), no officer or other agency of the State shall, after the close of any fiscal year, incur, order or approve the incurring of any obligation or expenditure under any appropriation made by the Legislature for such fiscal year. Additionally, no expenditure shall be made from or be charged to any appropriation made by the Legislature for any fiscal year that has expired at the time the obligation for such expenditure was incurred. Agencies are to operate consistent with all legal requirements. **For appropriations that lapse at fiscal year end, the agencies are expected to contract and purchase goods and services with the intent to receive them by June 30.**

**C. 13<sup>th</sup> MONTH TRANSACTIONS**

In accordance with A.R.S. § 35-190.B, the ADOA may draw warrants against the available balances of appropriations relating to a given fiscal year during the 13<sup>th</sup> month. These transactions are subject to the same requirements as in A.R.S. § 35-191.B regarding Administrative Adjustments:

1. For payment of obligations incurred during the fiscal year for which such appropriations were made (goods and/or services were received by June 30).
2. In fulfillment of contracts properly made during the fiscal year as determined by the State Comptroller for goods and/or services received after June 30. These transactions require written approval as detailed in section IV.D.1.b. below.

After expiration of the 13<sup>th</sup> month and subsequent to the close of the fiscal year, all balances of reverting appropriations for the prior fiscal year(s) shall lapse and no further payments shall be made on any claim for expenditures made in the prior fiscal year. The GAO establishes the calendar for fiscal year-end events annually and provides this information as part of the year-end memorandum made available to the agencies.

**D. ADMINISTRATIVE ADJUSTMENTS**

In accordance with A.R.S. § 35-191, if a claim from the prior fiscal year is presented within one year and if sufficient funds remain in the reverted appropriation to pay the claim, the ADOA, upon approval of the claim, shall draw a warrant in payment of the claim and the warrant shall be paid out of the fund to which the unused appropriation reverted.

1. There are two types of Administrative Adjustment claims:
  - a. A claim against the State, arising out of contractual relations, that has not been paid because of failure to file the claim within the fiscal year or because of any other technical defect that does not affect the validity or the contractual liability of the State, is subject to Administrative Adjustment.
  - b. A claim against the State arising from orders for goods or services made in one fiscal year and received in the next fiscal year may be paid during the 13<sup>th</sup> month or as an Administrative Adjustment when the ordering agency requests and receives written authority from the State Comptroller to pay the claim prior to the receipt of goods or services. The agency shall keep on

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file the written documentation and authorization, following the applicable record retention requirements.

2. Claims of \$300 or less from a prior fiscal year (not to exceed four years prior) may be paid out of an available current year appropriation of the requesting agency if it is determined to be in the best interest of the State and is approved by the State Comptroller. The specific facts of each situation are evaluated, but in general, ADOA has interpreted this limitation to be \$300 per vendor, per fiscal year, not per transaction.
3. A claim for refund on any fee, license, permit or erroneous payment, the revenue having been placed in a separate fund or the General Fund, is subject to Administrative Adjustment unless a specific provision for refund is prescribed by law. If a claim for refund is approved, payment shall be made out of any unexpended or unappropriated balance in the separate fund or the General Fund.
4. If the State's liability cannot be determined (e.g., as in the case of a lawsuit) until a subsequent fiscal year, but is resolved administratively after one fiscal year, the claim shall be paid from the appropriation for the year in which the liability is determined. Please consult with the GAO for instructions on processing the claim.
5. Claims for damages for injury to a person or property are not processed as Administrative Adjustments. Contact the ADOA Risk Management Office for specific procedures.
6. In accordance with A.R.S. § 35-151.D, all expenditures to be paid as Administrative Adjustments must be encumbered regardless of the dollar amount. These encumbrances are required to be entered and processed in AFIS by June 30th of the prior fiscal year.

E. GENERAL RELIEF BILL

Provisions for the General Relief Bill (A.R.S. § 35-191.C) are legally the same as an Administrative Adjustment except that the General Relief Bill is needed when a claim that is more than one fiscal year and less than four fiscal years old is presented. If sufficient funds remain in the reverted appropriation to pay the claim, the ADOA shall present the claim to the Legislature requesting an appropriation of monies sufficient for payment of the claim. If the reverted balance of the appropriation is insufficient to cover the claim, or if there was no reversion in the appropriation line item, the agency must present the claim to the Legislature as a supplemental appropriation request.

V. PROCEDURES

A. PURCHASE COMMITMENTS

1. Pre-encumbrances can be used at the discretion of the agency, though the agency may have another acceptable procedure to control purchases as well. If used, pre-encumbrances of \$1,000 or more from an appropriated fund/account must be followed by an encumbrance.
2. In accordance with A.R.S. § 35-151.A, encumbrances (purchase orders/contracts) are required for all non-payroll disbursements of \$1,000 or more from appropriated funds/accounts. All encumbrances (purchase orders/contracts) must be:
  - a. Approved by an authorized official as listed on a current and approved Signature Authorization Form (GAO-3), or an equivalent internal document used by the Agency;
  - b. Approved and processed in AFIS before issuing a purchase order to a vendor to obtain goods or services;

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- c. Logged and controlled sequentially;
- d. Reconciled to the AFIS monthly reports;
- e. Processed using information similar to that contained in a purchase requisition for non-routine and non-recurring purchases;
- f. Reviewed against the unencumbered and unexpended appropriation balance for appropriated funds and remaining cash balance for non-appropriated funds; and
- g. Closed at the end of the fiscal year if not needed for potential Administrative Adjustments.

#### B. YEAR-END CONTRACTING

The following should be considered when contracting for goods or services near fiscal year-end. While A.R.S. § 35-191.A allows some flexibility in this area, the following procedures should nonetheless be followed:

1. Goods and/or services should be procured with the intent to receive them on or before June 30.
2. If the goods and/or services and invoice are received by June 30 and the claim can be processed by the 13th month processing end date as identified in the year-end memo, then the invoice will be paid as a routine 13th month transaction.
3. Generally, goods and/or services ordered by June 30, but received on or after July 1, may be paid out of the prior year appropriation if all four of the following conditions are met:
  - a. The expenditure is valid for the prior year appropriation; and
  - b. The contractual liability relating to the claim was created on or before June 30. This means the goods and/or services must have been ordered and an encumbrance recorded in AFIS on or before June 30; and
  - c. When the invoice arrives, there are sufficient funds remaining in the appropriation from which the payment is to be made; and
  - d. If it is known the goods and/or services will not be received by June 30, approval must be obtained before the obligation is created (by July 1). The written request should be addressed to the State Comptroller, GAO. The written request should specify:
    - when the goods and/or services were ordered;
    - if and when encumbered on AFIS;
    - when the goods and/or services are expected to be provided;
    - why the goods and/or services could not have been provided by June 30;
    - references to legislative intent; and
    - any other information supporting the written request.
4. When it is anticipated that the goods and/or services will not be received on or before June 30 and a claim cannot be processed until after close of the 13<sup>th</sup> month, the claim may be processed as an Administrative Adjustment and paid out of the prior year appropriation if both of the following conditions are met:
  - a. All of the above conditions are met [See 3 a-d above]; and
  - b. In accordance with A.R.S. § 35-151, as amended, all expenditures to be paid as Administrative Adjustments must be encumbered regardless of the dollar amount. These encumbrances are required to be entered and processed in AFIS by June 30. If there are facts and circumstances

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that make the application of this policy impracticable, please contact your GAO liaison to coordinate the resolution.

C. 13<sup>th</sup> MONTH TRANSACTIONS

Particular attention must be paid to the preparation of batch headers and documents to be processed so as to take effect in the preceding fiscal year. AFIS uses four different dates as follows:

- Batch Date - the date the batch is created or entered.
- Document Date - the date the document is created.
- Effective Date - determines in which month and year the transaction will post.
- Due Date - the date a warrant is to be generated once the claim is error free and sufficient cash is available (generally right away). If left blank, the system will essentially default to the current processing date and generate a warrant for a claim if sufficient cash is available.

During the year-end closing period, transactions for the prior year should have a batch date of 6/31 and an effective date that is greater than 6/31 and less than 7/1. This will cause the transaction to post to the prior year in the AFIS system. The document date will be a July date, identifying when the document was created. The due date (if needed) will also be a July date, identifying when the warrant will be issued. For example, a prior fiscal year claim prepared on July 5th for which a payment must be mailed on July 21st could show these dates:

- Batch Date           06/31/FY
- Effective Date     06/35/FY
- Document Date    07/05/FY
- Due Date           07/21/FY

D. ADMINISTRATIVE ADJUSTMENTS

Several conditions apply for a proposed expenditure to be processed as an Administrative Adjustment.

1. Goods or services must be ordered and received before the close of business on June 30. There must be sufficient remaining appropriation to pay the proposed claim. All lapsing (Type 1) appropriations are subject to the Administrative Adjustment process. If in doubt, you can check the appropriation number on the Appropriation Number Profile (Screen 20) to verify that the proposed claim relates to a Type 1 appropriation. Note: Administrative Adjustments cannot be processed until prior year encumbrances have been reestablished in the new fiscal year, which is usually one week after the close of the 13th month.
2. In order to process claims as Administrative Adjustments for goods and/or services not received on or before June 30, certain conditions must be met:
  - a. Prior written approval must have been obtained from the State Comptroller. Obtain prior written approval as soon as it is known the goods and/or services will not be received on or before June 30. Prepare a memorandum explaining:
    - When the goods and/or services were ordered;
    - When the goods and/or services are expected to be received;
    - Why the goods and/or services could not be received by June 30; and
    - When the transaction was encumbered in AFIS.

The agency should attach a copy of the appropriate documentation such as the encumbrance and purchase order, etc. Encumbrances are required to be entered on line in AFIS by June 30th of

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the prior fiscal year. If there are facts and circumstances that make the application of this policy impracticable, please contact your GAO liaison to coordinate the resolution.

- b. A copy of the approved memorandum must be attached to the claim and supporting documentation when submitting the Administrative Adjustment(s) to the GAO for processing and payment.
3. When the Administrative Adjustment for vendor claims, travel claims, encumbrances and/or transfers is ready for processing, the agency should:
  - a. Batch the transactions separately from current year transactions and enter them on-line. If the vendor invoice crosses fiscal years and the charges can be easily identifiable as to which year they apply, record the transaction on two separate claims, one for the prior year expenditure recorded as an Administrative Adjustment, and one for the current year expenditure. If travel began before or on June 30 and ended after year-end, the travel must be recorded on two separate claims, one for the prior year travel as an Administrative Adjustment, and one for the current year travel.
  - b. Send the original transaction forms and applicable original supporting documentation to the GAO for review, approval and release. Supporting documentation should include:
    - Original claim form including original signatures and approvals;
    - Copy of invoice;
    - Copy of encumbrance or PO;
    - Copy of bill of lading or other document showing when the goods were received or the services rendered; and
    - Copy of the GAO approval letter if goods or services were received after June 30<sup>th</sup>.
4. All Administrative Adjustments require adequate supporting documentation. Merely establishing an encumbrance in the accounting system does not in itself suffice as documentation for payment as an Administrative Adjustment. The documentation must be sufficient to determine the time frame during which the goods and services were ordered and received.

All Administrative Adjustment transactions not submitted to the GAO for processing within the one-year time frame (by June 30 of the subsequent year) will be returned to the agency. The agency may then resubmit the transactions to the GAO to be processed as Relief Bill items under the provisions of A.R.S. § 35-191 and as outlined below.

5. If a non-governmental vendor/provider adds interest or penalties (based upon late payment) to the original cost of goods and/or services and the interest/penalty is less than \$25.00, the total claim may be paid as an Administrative Adjustment.

*NOTE: Interest/penalty delinquencies are to be handled as outlined in the State of Arizona Accounting Manual, Section II-H-1.*

6. Some agencies receive a biennial appropriation in which the first year of the biennial cycle is specifically identified as exempt from lapsing until the end of the second year of the biennial appropriation period. Since this specific appropriation is a continuing appropriation for twelve months beyond the end of the first year (which overlaps the same period of time that the appropriation would normally be available for Administrative Adjustment), the agency may continue to process payments against this appropriation. These payments can be for obligations of either the first or second year of the biennial cycle. There is no need for an Administrative Adjustment.

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The normal Administrative Adjustment process applies to the appropriation relating to the second year of the biennial cycle. Also, the appropriation for the second year cannot be used for the payment of obligations of the first year (unless it is \$300 or less and prior written approval is received from the GAO).

E. GENERAL RELIEF BILL

Claims meeting the General Relief Bill criteria should be clearly identified as General Relief Bill items and submitted with supporting documentation to the GAO no later than December 31st of each year.

1. Include the name and phone number of an agency contact in the event additional information is needed.
2. Supporting documentation should be sufficient to verify the order date and the receipt date of goods or services, and should include the appropriate authorizing signatures.
3. The claim must be submitted for the appropriation year in which the obligation was incurred. The claim must also indicate the AFIS Index, PCA, appropriation, fund and comptroller object applicable for that year.
4. The vendor should be identified as a current vendor on the AFIS system. The vendor address in AFIS must match the address on the invoice. If the remittance address is different than the vendor address, the agency will need to provide an explanation.
5. For General Relief Bill purposes, multiple payee claims are not acceptable. Each claim must cover only one payee, one fiscal year, and one fund.
6. Once the Legislature has passed the bill, the GAO will process the claims to pay the vendors. The warrants will be returned to the agency for disbursement to the vendors along with any transmittal information.
7. In the case of an agency paying a Relief Bill item from a fund other than the General Fund, there will be additional steps required once the bill is approved. The GAO will contact the agency to coordinate the payment of the claim.