Encumbrance Data Management – Best Practices

The Department of Financial Services, Division of Accounting and Auditing (A&A) has combined efforts with the Florida PALM Agency Advisory Council to collect information to develop guidance and best practices for agencies to analyze and manage legacy data in preparation for implementation into Florida PALM. The information contained in this list discusses the best practices identified by multiple agency subject matter experts for encumbrances and data management. A&A extended the conversation to both budget and procurement resources to ensure that all parties had an opportunity to highlight elements of the process that were crucial to each step of the life cycle of the encumbrance.

Things to consider:

- Encumbrances, as defined by the GASB, are commitments "related to unperformed (executory) contracts for goods or services." As such, they are contingent liabilities for which a true obligation has not yet occurred.
- Limit encumbrances to only one fiscal year – manage multi-year agreements by encumbering for only the current fiscal year
- Perform yearly data cleanup effort after 9/30 to close out all previous year or current year encumbrances that are not needed
- Set internal threshold for when encumbrances must be used
- Restrict the use of Blanket Purchase Orders
- Track activity and identify encumbrances that are not being used or under a specific threshold
- For MFMP & Contracts review your agency's reconciliation process to timely and consistently monitor encumbrance balances
- Compare active encumbrances (subsidiary) records to Information Warehouse or RDS data reports to ensure all codes are still active on your agency's Title File
- Analyze encumbrance usage and understand *why* your agency has these business practices:
  - What items does your agency choose not to encumber?
    - Why?
  - What does your agency encumber but not fully release?
    - Why?
  - What items does your agency allow for blanket encumbrances?
    - Why?
    - Is there an alternate method?
  - What items does your agency allow for multi-year encumbrances?
    - Why?
    - Is there an alternate method?
  - What encumbrances does your agency allow to roll into the next fiscal year?
    - Why?
  - What alternatives practices could your agency implement in these areas to make future conversion easier?
- Identify what information will not be converted and move toward eliminating the use of those
- Clean up records now!

For additional information on A&A's Data Management's Workgroups, as well as available resources to assist with data management, please visit our [Data Management Workgroups](#) webpage.