

SAM—FISCAL AFFAIRS
ALLOTMENT-EXPENDITURE ACCOUNTING

OPERATING EXPENSES AND EQUIPMENT

ENCUMBRANCE OF THE LAG

8342.1

(Revised 10/15/71)

While many items can be encumbered from purchase estimates, printing estimates, leases, contracts, etc., many cannot. Unencumbered balances of certain allotments would be over-stated if charges to allotments were made at the time invoices were filed for payment. Therefore, in order that the unencumbered balances shown in accounts and on reports will show more accurately the true financial condition of the allotments, agencies will encumber certain allotments at the beginning of each fiscal year in amounts representing their best estimates of obligations outstanding as at the end of an average month but not otherwise encumbered by estimates, leases, etc. This estimated amount is called "the lag" The lag will be recorded on the Allotment-Expenditure Ledger by one of two methods:

1. Request for Purchase Order or Estimate Change, Std. Form 96, may be used, modified where necessary, with the appropriate explanation stated thereon. Agencies will prepare this form in original only, using it merely as an internal document. This form also may be used to adjust the lag, if necessary.
2. The lag at the beginning of the year may be reflected in the initial journal entry recording the annual budgetary allotments. The amounts allotted, amounts encumbered for the lag, and the unencumbered balances will be shown for each allotment concerned.

The amount of lag necessary will vary among allotments within an agency and among agencies depending on promptness in receiving and scheduling invoices for payment. Past experience has indicated that a lag of up to 15% of the annual allotment may be desirable for allotments where no encumbering estimates, leases, or contracts are issued. Allotments with about one-half their expenditures representing items originally encumbered by estimates, leases, and contracts may require a lag of up to 10% of the annual allotment. Agencies will be responsible for estimating the proper lag to meet their own circumstances. Agencies will make revisions, as required, based on experience.

Agencies that account allotments on a quarterly basis, for agency management purposes, should record the lag at the beginning of each quarter and reverse it on the first day of the subsequent quarter. Reversal of the lag has the effect of disencumbering estimated amounts, thereby increasing unencumbered balances to permit charging invoices to allotments after the end of the quarter. Std. Form 96 may be used to reverse the lag.