Date: June 9, 2023

To: Executive Branch Agency Heads, Deputy Commissioners, Chief Financial Officers, and Accounting Directors

From: Betsy Hayes, Assistant Commissioner, Procurement and Community Services, Department of Administration

Paul Moore, Assistant Commissioner of Accounting Services, Minnesota Management and Budget

RE: Encumbrance and Contract Execution Policy 21-01 Changes

This memo summarizes changes to Encumbrance and Contract Execution Policy 21-01 that go into effect immediately. These changes are intended to fix inconsistencies and omissions contained in the previous version of the policy as well as provide additional flexibility to executive branch state agencies in consideration of the significant work volumes anticipated this year and the impact on state government financial operations. This memo also describes expectations of state agencies related to the use of alternative controls when making use of the exceptions from encumbrance requirements provided in the policy.

A link to the executed revised policy can be found in the "Resources" section below. Additionally, a "marked up" version of the previous policy that shows the revisions is attached to this memo.

Summary of Policy Changes

- An exception from encumbrance requirements for purchasing, contract, and grant obligations incurred in the first two months of fiscal year 2024, provided that funds are encumbered no later than August 31, 2023.
- An exception from encumbrance requirements for purchasing, contract, and grant obligations incurred in the first two months of fiscal year 2025 and thereafter, provided that funds are encumbered no later than July 31 of that fiscal year.
- An exception from encumbrance requirements for obligations incurred to reserve space or services for an event in a future fiscal year (e.g., conferences, training) to ensure the space or services are in place, provided that funds are encumbered no later than August 31, 2023, for fiscal year 2024, and July 31 for each fiscal year thereafter.
- An exception from encumbrance requirements for non-salary expenses incidental to the sale, printing, execution, and delivery of bonds issued by state entities.
- An exception from encumbrance requirements for formula payments made to units of government. The previous policy provided this exception for formula payments to units of local government only.
- Other technical and clean-up edits that are not substantive.

Use of Alternative Controls

Encumbering funds in the SWIFT accounting and procurement system represents the best control to prevent the over-obligation of state appropriations and to maintain compliance with statutory spending and contracting requirements in Minnesota Statutes, Chapters 16A and 16C. To prevent the overspending of state appropriations, state agencies are strongly encouraged to maintain alternative controls when making use of the exceptions from encumbrance requirements provided in Encumbrance and Contract Execution Policy 21-01, particularly for discretionary spending. One example of an alternative control is an agency buyer or accountant maintaining a tracking spreadsheet comparing obligations against an appropriation to the appropriation amount when utilizing the temporary encumbrance exceptions at the beginning of a fiscal year.

Questions?

- Questions about purchasing requirements can be directed to Luke Jannett, luke.jannett@state.mn.us.
- Questions about contracting requirements can be directed to Rachel Dougherty, rachel.dougherty@state.mn.us.
- Questions about grant requirements can be directed to Naomi Munzner, naomi.munzner@state.mn.us .
- Questions about encumbrances in SWIFT can be directed to Adrienne Schmidt, adrienne.schmidt@state.mn.us.

Resources

Encumbrance and Contract Execution Policy 21-01

(https://mn.gov/admin/assets/Policy21-01_tcm36-517567.pdf)

“Marked up” version of previous Encumbrance and Contract Execution Policy 21-01 containing policy revisions (attached)