



# GAO Technical Bulletin

## Arizona Department of Administration ♦ General Accounting Office

Subject: ***Administrative Adjustments and  
Capital Projects*** Issued: 05/08/13

Manual Section(s): II-L Effective: 05/08/13  
Supersede(s): SAAM Section II-L, Subsection IV-D, Subsection V-D Page: 1 of 7  
Technical Bulletin No. 09-01

TO: Technical Bulletin Administrators FROM: D. Clark Partridge  
Human Resources Personnel State Comptroller  
Payroll Personnel  
All Agencies

### **AUTHORITY**

A.R.S. § 35-101 Definitions  
A.R.S. § 35-131 Accounting system; reports; notice of deficiency; forms  
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. § 41-703 Duties of director  
A.R.S. § 41-722 Powers and duties relating to finance  
A.R.S. § 41-791.01 Powers and duties relating to facilities planning and construction;  
exemption  
A.R.S. § 41-793 Building systems; capital improvement plans  
A.R.S. § 41-1252 Powers and duties; staffing

### **DEFINITIONS**

**13th 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.

**ADOA:** The Arizona Department of Administration.

**AFIS:** The Arizona Financial Information System. Arizona State government's principal automated accounting system.

**Agency:** For the purposes of this technical bulletin, 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.

**Allotment:** The allocation of an appropriation or other fund source over a full fiscal year within a budget program.

**Appropriation:** Expenditure authority established by the Legislature for a specific purpose to be spent within a specified period (generally one year).

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**Bill of Lading:** A receipt issued by a carrier promising delivery of the goods listed.

**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.

**Capital Projects:** The construction, development, or improvement of buildings, structures, facilities, areas and assets, subject to the provisions of A.R.S. § 41-791.01 and/or A.R.S. § 41-1252, for the use or benefit of the State.

**Chief Engineer:** An employee of the Arizona Department of Administration, General Services Division who is responsible for approving all capital projects in accordance with A.R.S. § 41-791.01.

**Claim:** A demand against the State for payment of either goods delivered or services performed.

**Continuing Appropriation:** An appropriation that does not lapse at the end of the fiscal year and may cover the operations and activities over multiple fiscal years.

**Commitment:** An action under contract by purchase order to assume a financial obligation to accept goods or services at an agreed price.

**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.

**Director:** The Director of the Department of Administration.

**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.

**GAO:** The Arizona Department of Administration, General Accounting Office.

**Issuance:** For purchase order purposes, issuance is the transmission or communication to a vendor for the request of goods or services.

**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,

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and that on delivery and acceptance of the goods or services by the State, becomes a financial obligation of the State.

**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 consideration of the appropriation of monies to pay the claim.

**State:** The State of Arizona.

**State Comptroller:** The administrator of the GAO. The statutory approval of items in conjunction with this policy has been delegated by the ADOA Director to the State Comptroller.

### **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 the close of the fiscal year when specific criteria are met. All agencies must comply with the following provisions regarding year-end contracting and prior period payments.

In addition, claims for capital projects are required to be approved by the Chief Engineer prior to payment. (Those claims can now be released by the agency after receiving such approval.)

### **POLICY**

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 claim and the related 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.
  - 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 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 in writing 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.

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3. A claim for a 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 a 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, generally the claim will 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.

**PROCEDURE**

Several conditions must be met for a proposed expenditure from a lapsed appropriation to be processed as an Administrative Adjustment.

1. Generally 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 appropriations are subject to the Administrative Adjustment process. If in doubt, you can use the appropriation number on the AFIS Appropriation Number Profile (Screen 20) to verify if the proposed claim relates to a Type 1 lapsing appropriation. Note: Administrative Adjustments cannot be processed until prior year encumbrances have been reestablished in the new fiscal year, which is usually approximately one week after the close of the 13th month. In addition, the Administrative Adjustment period is equal to one year from the appropriation lapse, generally June 30<sup>th</sup>.
2. In order to process claims as Administrative Adjustments for goods and/or services not received on or before June 30, the following 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 30th. Prepare a memorandum explaining:
    - i. When the goods and/or services were ordered;
    - ii. Why the goods and/or services could not be received by June 30<sup>th</sup>;

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- iii. When the goods and/or services are expected to be received; and
- iv. When the transaction was encumbered in AFIS.
- b. The agency should attach a copy of the appropriate documentation, such as the encumbrance, purchase order, etc. Encumbrances are required to be entered on line in AFIS by June 30th of 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.
- c. A copy of the approved memorandum must be attached to the claim and supporting documentation before processing the Administrative Adjustment(s) in AFIS.
- d. Any applicable claims lacking this approval constitute unauthorized disbursement of public monies.
- 3. When the Administrative Adjustment documents such as encumbrances, vendor claims, travel claims, and/or transfers are ready for processing, the agency should:
  - a. If the vendor invoice crosses fiscal years and the charges can be easily identifiable as to which year they apply, record the transaction on separate lines, one for the prior year expenditure recorded as an Administrative Adjustment, and one for the current year expenditure. If travel began on or before June 30 and ended after fiscal year-end, the travel must be recorded on separate lines; one for the prior year travel as an Administrative Adjustment, and one for the current year travel.
  - b. Send the original forms and applicable supporting documentation to your Agency CFO or appointed delegate for review, approval and release. Supporting documentation should include:
    - i. The original claim form including original signatures and approvals, clearly marked Administrative Adjustment;
    - ii. A copy of the invoice;
    - iii. A copy of the encumbrance or Purchase Order;
    - iv. A copy of the bill of lading or other document showing when the goods were received or the services rendered;
    - v. A copy of the GAO approval letter, if goods and services were received after June 30<sup>th</sup>; and
    - vi. Any other documentation to clearly explain the facts and circumstances, if not obvious from any of the above, especially correction transfers.

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4. All Administrative Adjustments require adequate supporting documentation. Merely establishing an encumbrance in the AFIS does not in itself suffice as documentation for payment of an Administrative Adjustment. The documentation must be sufficient to determine the time frame during which the goods and services were ordered and received.
5. All Administrative Adjustment transactions not processed within the one-year time frame (by June 30 of the subsequent year) may not be paid by the agency. The agency may submit the transactions to the GAO to be considered as Relief Bill items under the provisions of A.R.S. § 35-191. Refer to the State of Arizona Accounting Manual, Section II-L for more information.
6. 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.*

7. In accordance with A.R.S. § 41-791.01.A.3, Capital Project claims (including those that are also Administrative Adjustments), must be reviewed and approved by the Chief Engineer prior to payment. Before submission to the ADOA Chief Engineer for approval, all Capital Project claims must be approved by the person authorized by the agency to approve such claims. The claims submitted to the Chief Engineer must contain the telephone number and return address of the person responsible for approval. After approval, the ADOA Chief Engineer will return the Capital Project claims to the agency for entry and release.
8. Some agencies may 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. Any Administrative Adjustments to be paid from a lapsed continuing appropriation must be coordinated with the GAO.

The appropriation for the second year of the biennial cycle is a lapsing appropriation at the end of the one year period. The normal Administrative Adjustment process applies to this second year appropriation. 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).

# *GAO Technical Bulletin*

**13-02**

Subject: ***Administrative Adjustments and  
Capital Projects***

Issued: 05/08/13

Manual Section(s): II-L  
Supersede(s): SAAM Section II-L, Subsection IV-D, Subsection V-D  
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## **AREAS IMPACTED**

All State agencies.

## **QUESTIONS, COMMENTS, CONCERNS, RECOMMENDATIONS AND FEEDBACK**

If you have any questions concerning this Technical Bulletin, please contact your GAO Liaison.

We welcome your comments, concerns, recommendations and feedback. You are invited to send your suggestions to us at:

[gaopolicy@azdoa.gov](mailto:gaopolicy@azdoa.gov)