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7/11/77

A DETERMINATION OF THE NEED FOR PROVIDING BASIC
PROCEDURAL GUIDELINES TO ASSIST CLASS 2 AND 3
MONTANA SCHOOLS IN THE IMPLEMENTATION OF
AN ENCUMBRANCE ACCOUNTING SYSTEM

by

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A professional paper submitted in partial fulfillment
of the requirements for the degree

of

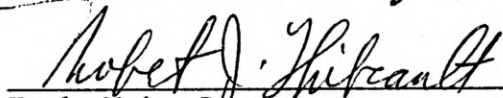
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ABSTRACT

This study was designed to determine interest in, knowledge of, and the perceived values of encumbrance accounting procedures by selected members of the Montana School Business Officials Association. It was also determined if this group would welcome procedural guidelines which could aid in the implementation of an "Encumbrance System" within Montana class 2 and 3 schools.

The instrument used to gather data was a mailed questionnaire. The study was delimited to 38 members of the Montana School Business Officials Association from class 2 and 3 schools.

The data were subjected to descriptive analysis and reported in narrative and tabular form.

The following conclusions were derived from this study:

1. There is a positive respondent interest in, knowledge of, and recognition of the values inherent in an "Encumbrance System".
2. There is positive respondent interest in the development of procedural guidelines for aid in implementing encumbrance procedures.

Among the recommendations made as a result of this study are:

1. Development of guidelines should be a cooperative effort between the State Department of Public Instruction, State Auditing Department, Montana School Business Officials Association, County Superintendents Association, and Montana University System personnel.
2. Leadership and distribution should emanate from the Office of the State Superintendent of Public Instruction.
3. Guidelines and related benefits of encumbering should be included in financial coursework for school administrators.
4. The group collective effort to develop encumbrance procedural guidelines should be initiated no later than the Autumn of 1977.

Chapter 1

INTRODUCTION

In Montana statutes prohibit overexpenditure of school district budgets. Inadvertent overexpenditure of funds need never occur if the school accounting system utilizes a procedure which provides a clear, up-to-date picture of fund commitments and the unobligated fund balances that remain. Typically, budgetary accounting involves committing funds for purchase orders, contracts, services, and salaries, which will not be paid for until sometime in the future. As soon as any transaction is made involving future commitment of money, this information should be immediately recorded as an encumbrance and the fund balance reduced. This insures that money already committed will not be used for another purpose and exceed the legal limitation of the fund.

The procedure that provides for this complete disclosure of all fund activity is called an "Encumbrance System". Proper utilization of an encumbrance process eliminates the possibility of exceeding legal fund limitations and furnishes the school administrator with vital information which enables him to make responsible fiscal decisions and maintain sound budgetary control.

Norman L. Klein, School Auditor for the state of Montana, encouraged the use of encumbrance procedures in his personal letter of February 3, 1977 (See Appendix B). Klein stated that:

As you well know, the district financial operation is based

on a fiscal budget, which in itself is a control device. However, if the budget is controlled through the use of an encumbrance system, the overall control is substantially increased. Such a system provides a more detailed form of information for the district administrators as to the condition of the fiscal budget. It not only provides the unexpended budget balances but also the unobligated budget balances. This information is vital in controlling further purchases which may result in expenditures in excess of the established budget or spending authority (5:1).

Many states mandate the use of an "Encumbrance System" for all public schools. Montana does not require such a system. Robert W. Stockton, Manager of the Division of Financial Aid and Transportation for the Montana Office of Public Instruction, stated in his letter of April 22, 1977 (See Appendix B) the following:

As you know, state law does not require that school districts use the encumbrance system. However, all the major schools have found that they cannot operate without one and the smaller schools are increasingly finding the need for such a system (11:1).

Esther Nelson, Director of Business Services for the Bozeman, Montana Public Schools and past president of the Montana Association of School Business Officials, has the following to offer concerning the importance of encumbrance procedures in school fund accounting (See Appendix B):

Encumbering is a necessary procedure in school fund accounting to avoid the possibility of overexpenditure and to provide administration with accurate information for better financial management and budgetary control (7:1).

It is the writer's feeling that many class 2 and 3 schools in Montana do not realize the fiscal controls that could be afforded

through the implementation of encumbrance procedures. With the confirmation, as a result of a survey, that a need exists for encumbrance practices as well as a need for procedural guidelines for implementing such practices, specific recommendations have been made for the development of the necessary guidelines.

STATEMENT OF THE PROBLEM

The problem in this study is to determine whether selected members of the Montana School Business Officials Association recognize the value of implementing encumbrance procedures within their present accounting system. A determination has also been made as to whether the same group would welcome procedural guidelines complete with simplified instructions to aid in planned implementation of an "Encumbrance System".

CONTRIBUTION TO EDUCATIONAL THEORY AND PRODUCT

Many small and medium sized schools in Montana do not have accounting systems which include provisions for encumbrance procedures. Why this important aspect of budgetary accounting is missing, is unclear. Conjecture suggests several possible reasons for this lack:

- (1) State Department of Instruction school officials may not understand the magnitude of financial benefits that would accrue to both school districts and the state;
- (2) School administrators are not usually

trained in the use of the system and as a consequence are not aware of the advantages of encumbrance accounting; (3) Printed presentation of existing encumbrance processes may create barriers because of the complexities of carrying the procedures out; (4) Administrators may be apprehensive because of the extra work load and cost factors involved with the implementation of an "Encumbrance System"; (5) There appears to be a lack of examples to investigate in Montana within class 2 and 3 schools.

It is anticipated that the results of this study will bring into focus the distinct advantages that encumbrance accounting can afford and will ignite the spark necessary to encourage the adoption of encumbrance procedures throughout the schools of Montana.

GENERAL QUESTIONS TO BE ANSWERED

1. Using a scale of one to five indicate, by circling the appropriate number, the degree of your understanding and knowledge of encumbrance procedures. Number one indicates no understanding. Number five indicates complete understanding.

2. Does the existing general fund accounting system within your school district include encumbrance procedures?

3. Based on your current knowledge of encumbrance procedures, do you feel there is value in the budgetary information generated by an "Encumbrance System"?

4. If the benefits of encumbrance procedures could clearly improve budgetary control in your district, would you encourage the adoption of the process?

5. Would an instructional manual which presents simple, inexpensive, step-by-step instructions for the installation of an "Encumbrance System" be of value for the implementation of the process in your school district? (See Appendix C)

6. Do you know of any class 2 or 3 school districts in the state that currently uses an "Encumbrance System" in handling their general fund accounting?

GENERAL PROCEDURE

All members of the Montana School Business Officials Association who were in attendance at the M.S.U. Workshop in July, 1976 were sent an instrument designed to answer the six aforementioned questions. The results of the survey were utilized to determine the need for the development of "Encumbrance System" procedural guidelines for use in small and medium sized schools in the state of Montana.

DELIMITATIONS

The focus of this study was delimited to 38 school clerk and administration members of the Montana School Business Officials Association who were in attendance at the M.S.B.O.A. Workshop held at

M.S.U. in July, 1976. Further delimitation was made by surveying only those in attendance from class 2 and 3 schools.

DEFINITION OF TERMS

Appropriation--Money authorized by a tax levying body for expenditure on obligations in the name of the school district during a certain budgetary period. Money approved for a specific budget fund or specific account.

Budgetary Accounting--A system which reflects, at all times, the budgeted appropriations and their status as related to expenditures and encumbrances.

Budgetary Control--Control of the budget with a view of keeping expenditures within the limitations of appropriated funds as required by law.

Encumbrance--An encumbrance is not an expenditure of money. An encumbrance is a commitment against a fund appropriation. Encumbrance is the reduction of the unobligated fund balance incurred by a future commitment to the money in the fund. Money that has been encumbered cannot be used for any other purpose than intended.

"Encumbrance System"--A system of immediate recording of incurred obligations so that the appropriation account reflects future commitments to the fund. The system provides a complete picture of fund activity and culminates in a periodic report which exhibits five

important informational features: (1) Fund balance, (2) Actual expenditures to date, (3) Total encumbrances against the fund, (4) The unexpended balance, and (5) The all important unencumbered balance. The mathematical sequence of calculation is as follows: Budget total minus expenditures equals unexpended total; unexpended total minus encumbrance total equals unencumbered total.

Fund Commitments--Any future obligation towards the fund--a purchase order, contract, services, or salaries.

Small and Medium Sized Schools--Any school within a district with a population less than 6,500. Generally, class 2 and 3 schools.

Unexpended Fund Balance--The actual cash balance remaining in a fund after deducting all actual expenditures to date. The portion of an appropriation which has not been paid out in cash.

Unobligated Fund Balance--Also known as an unencumbered balance--the fund balance remaining in an appropriation after deducting all encumbrances and expenditures. Fund balance that remains free for further expenditure or encumbrance.

SUMMARY

School districts, by law, must limit their expenditures to the total approved budget. Inadvertent overexpenditure of funds can be avoided by administrators when they are able to determine the difference between the funds committed and the funds that are not.

Encumbrance procedures enable administrators to know this difference on an up-to-date basis. With information resulting from the use of an "Encumbrance System", administrators are able to make wise and effective fiscal decisions with confidence.

Chapter 2 of this paper presents a review of literature considering the encumbrance accounting concepts.

Chapter 2

REVIEW OF LITERATURE

INTRODUCTION

Public school accounting procedures which do not include a system for encumbering funds lend themselves to inadequate budgetary control and unsound financial management. Administrators and school board members must have a clear picture of the financial obligations and actual account status of the budget at any particular time. Without the utilization of an "Encumbrance System" which presents all fiscal information on an up-to-date basis, decisions concerning current and future fund commitments are difficult to make with accuracy.

Grayson states that an essential factor supporting the educational process within public school operations is the necessity of responsible financial management (4:1). When schools within the state of Montana neglect to utilize encumbrance procedures in accounting for all funds, they subject themselves to less accurate administrative fiscal judgments and reduced budgetary control. The writer believes that the implementation of a simple, inexpensive, manually operated "Encumbrance System" in small and medium sized Montana schools would add positive dimensions to fiscal effectiveness.

The objective of this chapter is to search the available literature for information relevant to the importance of employing a

system of encumbrance procedures within the public school accounting process. The material is presented in three sections. The first section presents an explanation of encumbrance accounting. Section two is directed at the importance of sound financial management. Section three involves sound budgetary and fiscal control in public school accounting processes.

ENCUMBRANCE ACCOUNTING

Because the fiscal term "Encumbrance System" is a principle with a single purpose within a budgetary accounting system, there is universality in the definitions presented by different authors. The idea of encumbrance is always the same with differences only in the method of explanation and expansion of the concept. If the reader is unfamiliar with the products obtained by the use of encumbrance procedures, the following definition presentations will clarify the encumbrance process and its integral parts.

Essentially, encumbrance accounting must provide all five products below. Any missing part renders the system ineffectual. In public school accounting it is not enough to know (1) a fund appropriation total, (2) expenditure of that fund to date, (3) the unexpended balance of the fund. Complete knowledge of fund activity must also include (4) the future obligations or commitments towards the fund, and (5) the unobligated balance that remains (Walters, 13:35-38). An

encumbrance system provides this complete information.

Adams, in his concise explanation of encumbrance, states:

Encumbrances are obligations in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved prior to actual expenditure of funds for that purpose (1:266).

Tidwell's definition explains encumbrances as:

Obligations estimated and for which appropriations are reserved at the time of placing a contract, order, or salary commitment. They cease to be encumbrances when the actual liability is finally determined or paid (12:279).

Another explanation of encumbrance by Adams offers further expansion with his statement that:

In the normal operation of a school district it is necessary that the financial records enable the school administrator to distinguish between what has actually been spent and what has been committed against the budget so that he knows what is left for future needs. Financial records would be very misleading if obligated or committed amounts were not deducted from the amount available for expenditures, and might well result in exceeding the appropriation (1:56).

Simply stated, an "Encumbrance System" provides up-to-the-minute information on all school money matters and allows the administrator to know where he stands financially - - at all times.

SCHOOL FINANCIAL MANAGEMENT

Sound financial management eliminates any guesswork regarding the fiscal condition of all funds within the public school accounting process (Adams, 1:56). Unfortunately, accounting methods, especially

in small and medium sized schools in the state of Montana, appear to lend themselves to a form of "hip pocket" guesswork where encumbrance procedures are not employed. The writer's inference of guesswork refers to a condition which exists when the principles of sound financial management are not available for managerial decisions. Without an effective "Encumbrance System", total financial knowledge is not present and the consequences may lead to a guesswork operation not conducive to maximum fiscal management of public school funds.

Some states mandate that encumbrance accounting be employed in all school districts, and require that funds be "ear-marked" to pay future obligations (Candoli, 3:227). Account encumbrance is not a requirement in the state of Montana (11:1). As a result, advantages derived from encumbrance procedures are possibly being overlooked to the detriment of schools not using the process.

An administrator who does not employ an "Encumbrance System" finds himself in the awkward position of levying a decision with less than adequate financial information. As Walters stated: ". . . as a decision making tool, encumbrance accounting makes it possible to report the most current data on the status of the budget" (13:35-38). An inherent defect in the public school accounting system is the built-in time lag between the school and the County Treasurer's office. This occurs within the time the school writes the warrant, the County Treasurer pays the warrant, and the four- to six-week lapse in time

before the Treasurer's Report reaches the school noting a reduction in funds. All the school has as a result of this report is a record of the actual expenditures to date, which subtracted from the original budget amount leave the unexpended balance of the funds. This total does not present the complete picture. This total does not reveal the actual condition of the financial affairs of the school. This total does not reflect future commitments and obligations of the fund. Without an up-to-date report including all encumbrances (commitments) and the unencumbered (non-committed) balance, it is nearly impossible to make a financial decision without misgivings.

Use of an "Encumbrance System" generates the all-inclusive information necessary for a planned system of up-to-date financial reports which are manifest in the requirements of sound budgetary control and management decisions. These reports are invaluable devices and a prime source of information for planning, comparing, analyzing, appraising and interpreting fiscal affairs (Ovsiew, 8:291).

BUDGETARY CONTROL

As required by law, expenditures cannot exceed the budget appropriation. The School Laws of Montana require that:

The board of trustees and all officers and employees of the district shall be limited in making expenditures or incurring liabilities to the amount of the appropriations budgeted for the current school fiscal year. . . Expenditures made, liabilities incurred, or warrants issued in excess of any of the final budget appropriations for any item, as

originally determined or as revised by transfer, shall not be a liability of the district and no money of the district shall ever be used to pay the same (10:237).

Because it is against the law to exceed the budget total, it is mandatory that strict budgetary control be maintained at all times. Encumbrance procedures control commitments. Proper use of such devices will not only help keep the accounts in balance, but will save the administrator from inadvertently overspending accounts that have been depleted by previous obligations (Burrup, 2:306).

Knezevich stated that "Encumbrance accounting or the proper encumbrance of appropriations when a liability is incurred is a necessary aspect of financial control" (6:122). Good budgetary procedure demands that all funds are encumbered at the time purchases or contracts for services are made. The encumbrance record is designed to assist in the control of obligations so that the several accounts will not be overdrawn. Without this record there might not be sufficient money to operate the school for the whole year (Rosenstengel, 9:211).

Fund accounting or the encumbrance process provides effective budgetary control which is essential for public school administration. Tidwell states that: "because an encumbrance system provides the means whereby overexpenditure of appropriations can be eliminated, the National Committee on Governmental Accounting states that proper budgetary control requires the use of an encumbrance system" (12:14-92).

Burrup also stated that: encumbrance accounting serves the

purpose of keeping the administrator informed concerning all expenditure commitments. It is a necessary part of the accounting system of every school district. Without such an up-to-date record the administrator may not always remember when the cash balance of a particular account has already been committed to another purpose (2:306).

SUMMARY

Without the inclusion of an "Encumbrance System" within public school accounting procedures, the administration works under a distinct disadvantage in controlling the financial affairs of his school. Unless the information that can be provided by the encumbrance process is available for decision and action, inappropriate and ineffectual judgments are very likely to occur.

With overwhelming evidence in favor of using an "Encumbrance System" in public school accounting, and considering the district advantages for fiscal management, it might be well for Montana schools not using such a system to give serious thought to its implementation. All literature received by the writer reveals a positive attitude toward encumbrance procedures for school districts.

There is no question in the writer's mind concerning the stability of the position of an "Encumbrance System" in the control of budget funds within the public school accounting process. There remains only the task of attempting to awaken those not using an "Encumbrance

System" to the vital fiscal information that such a system would uncover.

Chapter 3 will explain the procedures to be used in conducting the survey and collection of data for this study.

Chapter 3

PROCEDURES

INTRODUCTION

The purpose of this chapter is to explain the procedures used in determining the interest in, knowledge of, and value of encumbrance procedures as expressed by selected members of the Montana School Business Officials Association. These procedures also assess the need for developing guidelines to assist class 2 and 3 schools in implementing an "Encumbrance System".

The materials in this chapter are presented under the following topics: Population Description, Methods of Collecting Data, Methods of Organizing Data, Restatement of General Questions, Precautions Taken for Accuracy, and the Summary.

POPULATION DESCRIPTION

The population in this study is limited to thirty-eight (38) members of the Montana School Business Officials Association who were in attendance at the Montana State University Workshop held July 26-30, 1976.

All of the thirty-eight persons in the population are school officials with an interest in the fiscal affairs of their local public schools. Each person is employed by either a class 2 or class 3 district which falls into the writer's classification of small to medium

sized schools. Of the thirty-eight members of the population, twenty-two come from class 2 districts and seventeen from class 3 districts.

METHODS OF COLLECTING DATA

In the spring of 1977 a personalized and original cover letter (See Appendix A) on University letterhead was mailed to each of the thirty-eight members of the population. Enclosed with the letter was a one-page, six-question instrument (See Appendix A) with clear instructions for completion and return. A pre-addressed and stamped envelope was also enclosed for returning the questionnaire. Each instrument was also assigned a coding symbol for subject identification purposes. Phone calls were used for follow-up.

METHODS OF ORGANIZING DATA

When the instruments were returned by the respondents, all data were collected, summarized and tabulated. Methods of basic descriptive statistics have been used to analyze the data. In Chapter 4, responses to each of the six questions are presented individually, in table form, along with explanations of the findings.

RESTATEMENT OF QUESTIONS

1. Using a scale of one to five indicate, by circling the appropriate number, the degree of your understanding and knowledge of

encumbrance procedures. Number one indicates no understanding. Number five indicates complete understanding.

2. Does the existing general fund accounting system within your school district include encumbrance procedures?

3. Based on your current knowledge of encumbrance procedures, do you feel there is value in the budgetary information generated by an "Encumbrance System"?

4. If the benefits of encumbrance procedures could clearly improve budgetary control in your district, would you encourage the adoption of the process?

5. Would an instructional manual which presents simple, inexpensive, step-by-step instructions for the installation of an "Encumbrance System" be of value for the implementation of the process in your school district? (See Appendix C)

6. Do you know of any class 2 or 3 school districts in the state that currently uses an "Encumbrance System" in handling their general fund accounting?

PRECAUTIONS TAKEN FOR ACCURACY

All calculations were accomplished at least twice to insure accuracy. The writer and one other party separately determined the mathematical data. Computations were made with a reliable electronic calculator.

SUMMARY

This chapter contains an explanation of the procedures that have been used for assessing respondent interest, knowledge, and value of encumbrance procedures. Further assessment was made of respondent interest in guidelines which would encompass complete instructions for assisting class 2 and 3 school districts in the implementation of encumbrance procedures within their present school budgetary accounting system.

The population to be surveyed with the instrument has been delimited to thirty-eight clerks and administrators as stated. Each of the thirty-eight members received a cover letter and instrument designed to elicit responses which reveal the direction of subject interest.

Chapter 4 contains data from returned questionnaires presented in tabular and narrative form along with selected respondent comments.

Chapter 4

PRESENTATION AND INTERPRETATION OF DATA

Thirty-eight members of the Montana School Business Officials Association from class 2 and 3 schools who were in attendance at the M.S.U. Workshop during July, 1976, were sent a survey instrument. The questionnaire was designed primarily to measure the interest of the respondents in the development of "Encumbrance System" procedural guidelines to aid school districts in the implementation of encumbrance procedures within their fund accounting processes.

Thirty-four of the thirty-eight questionnaires were returned. This represented a return rate of 89.47 percent.

The final product of this paper is intended to present simplified procedural guidelines to help class 2 and 3 school districts in Montana initiate encumbrance procedures in their accounting system. One question (#5) in the instrument clearly calls for a definite response favoring such guidelines. The additional five questions were intended to measure, in a general way, understanding of encumbrance procedures, whether the respondents school district currently encumbers funds, whether the respondent felt there was value in the budgetary information generated by an "Encumbrance System", whether respondents would encourage the adoption of encumbrance procedures for improved budgetary control, and if the respondents had knowledge of any school districts currently using encumbrance procedures in handling their general fund

accounting.

The following six tables present a breakdown of responses to the individual questions on the survey instrument. The study is delimited to 38 members of the Montana School Business Officials Association from class 2 and 3 school districts who attended a workshop during the summer of 1976. All analysis and conclusions refer to this group only.

The number of respondents in each of the six tables below range from 31 to 33. While total respondents totaled 34, not all questions on the instrument were answered in every instance.

Comments by the respondents which are pertinent for consideration in the study follow the analysis of data.

Table 1. Response to question number 1.

Question 1: Using a scale of one to five indicate, by circling the appropriate number, the degree of your understanding and knowledge of encumbrance procedures. Number 1 indicates no understanding. Number 5 indicates complete understanding.

Table 1		Level of Understanding		
1	2	3	4	5
<u>None</u>	<u>Below Average</u>	<u>Average</u>	<u>Above Average</u>	<u>Superior</u>
0	6	14	8	4
0%	18.75%	43.75%	25.00%	12.50%
N = 32				
X = 3.31				
S = .93				

No respondent indicated a complete lack of understanding of encumbrance procedures in question number 1. Six respondents (18.75%) indicated their degree of understanding and knowledge as below average. Fourteen (43.75%) of the subjects claimed an average understanding. Eight (25.00%) of the respondents indicated an above average understanding and knowledge. Four (12.50%) listed themselves as having superior knowledge. Two of the 34 subjects did not respond to the question. This question, with a 1 to 5 rating scale, would have a hypothetical average set at 3.00. The intent of this question was to measure, in a general manner, a respondent's perception of his own grasp of encumbrance procedures. The indicators in this question are not a true measurement of a functional knowledge or understanding. A respondent could answer to an average understanding, but have no real knowledge in a functional sense. A brief brush with encumbrance concepts could leave a respondent with a personal perception of having average knowledge on the basis of mere exposure. Conversely, a practitioner in the field of encumbrance accounting may feel that he has only average knowledge based on his realization that he is not fully informed on the complexities of the encumbering process. Yet he is succeeding with his own system. From these standpoints, the question does not reveal a true picture of functional usefulness of encumbrance procedures and is not intended to do so.

Twenty of the respondents rate their knowledge and understanding

as average or below. Twelve of the subjects rate themselves as above average or superior. The mean of all responses is 3.31 with a standard deviation of .93. With this standard deviation, 66 percent of the scores lie between 2.38 and 4.24.

Table 2. Response to question number 2.

Question 2: Does the existing general fund accounting system within your school district include encumbrance procedures?

	<u>Yes</u>	<u>No</u>
Responses	10	22
Percentages	31.25%	68.75%
<u>N = 32</u>		

Of the 34 replies to the questionnaire, 32 subjects responded to question number 2. Ten (31.25%) of the respondents indicated that encumbrance procedures are in use in their school districts. Twenty-two respondents (68.75%) in the study answered that they do not use encumbrance procedures. Two of the subjects did not respond to the question.

The 10 subjects using encumbrance procedures within their respective school districts would correlate very closely with the 12 respondents who indicated an above average or superior knowledge and understanding in question number 1. This relationship between understanding and use of encumbrance procedures would indicate that through

knowledge and understanding comes a realization of the importance of such procedures in the accounting process.

That 68.75 percent of the respondents do not use encumbrance procedures, leads to the supposition that the message of encumbrance benefits that can accrue to school districts has not been brought forcefully or clearly to the attention of those persons responsible for the financial well-being of their school districts.

While this question was intended to reveal whether or not respondents actually use encumbrance procedures in their school accounting system, it suggests a relationship between questions 1 and 2 regarding the direction of knowledge and use of encumbrance procedures.

Table 3. Response to question number 3.

Question 3: Based on your current knowledge of encumbrance procedures, do you feel there is value in the budgetary information generated by an "Encumbrance System"?

Table 3 Feel There Is Value in Using "Encumbrance System"		
	<u>Yes</u>	<u>No</u>
Responses	31	1
Percentages	96.88%	3.12%
N = 32		

Of the 34 responses to the survey instrument, 32 respondents answered question number 3. Thirty-one (96.88%) of the subjects answered that they felt there was value in the budgetary information

generated by an "Encumbrance System". One respondent (3.12%) answered in the negative to question 3. Two respondents did not answer question number 3. The response to question number 1 indicated that none of the respondents had no knowledge or understanding of encumbrance procedures. The affirmative answer by 96.88 percent of the subjects to question number 3 indicates that the individual level of knowledge of all but one respondent must carry the conviction of substantive value in the information generated by the use of encumbrance procedures. The knowledge and understanding shown by all but one individual respondent reveals a positive attitude concerning encumbrance procedures and the benefits generated.

In answering question number 2, 22 persons stated that they do not use encumbrance procedures in their school district accounting systems. In answering question number 3 all respondents except one expressed agreement with the values of an "Encumbrance System". The relationship of the answers to the two questions suggests that while the system is not in use by 22 respondents, there is still a strong realization of its value, and that perhaps those not currently using an "Encumbrance System" would do so if they were helped in the implementation of the process.

Table 4. Response to question number 4.

Question 4: If the benefits of encumbrance procedures could clearly improve budgetary control in your district, would you encourage the adoption of the process?

Table 4 Benefits Would Encourage System Adoption In District

	<u>Yes</u>	<u>No</u>
Responses	29	2
Percentages	93.55%	6.45%

N = 31

Thirty-one of the 34 respondents answered question number 4. Twenty-nine (93.55%) of the respondents stated that they would encourage the adoption of encumbrance procedures if the procedures could clearly improve budgetary control in their district. Two (6.45%) of the respondents answered question number 4 in the negative. Three subjects did not answer question number 3. Question 3, in addressing the value of encumbrance procedures to the respondents, and question number 4, stressing budgetary control and encouragement to adopt the encumbrance process, show a positive relationship. A total of 96.88 percent of the respondents agreed on the value of budgetary information in question number 3 and 93.55 percent of the subjects agreed that if encumbrance procedures could improve budgetary control they would encourage adoption of the process. This close relationship suggests a probability of willingness of the subjects to accept a new (to them) accounting process and to institute improvements in their present systems.

It is probable that 2 (6.45%) of the respondents answering in the negative on question number 4 are 2 of the 10 subjects answering

yes in their use of encumbrance procedures on question number 2. It is assumed that their answers to question number 4 would be in the negative because of the system already in use in their own school districts.

Table 5. Response to question number 5.

Question 5: Would an instructional manual which presents simple, inexpensive, step-by-step instructions for the installation of an "Encumbrance System" be of value for the implementation of the process in your school district? (See Appendix C)

<u>Table 5 An Implementation Manual Would Be of Value</u>		
	<u>Yes</u>	<u>No</u>
Responses	26	6
Percentages	81.25%	18.75%
<u>N = 32</u>		

Thirty-two of the 34 respondents answered question number 5. Twenty-six (81.25%) of the respondents answered in favor of "Encumbrance System" procedural guidelines. Six (18.75%) of the respondents indicated that the guidelines would be of no value to them. Two of the respondents did not answer question number 5. It is probable that the six subjects who answered in the negative are part of the 10 in question 2 who are currently using encumbrance procedures within their accounting system and thus would not need or want any guidelines.

There is a direct relationship between 81.25 percent of the subjects answering yes to question number 5 and the 96.88 percent and

93.55 percent affirmative in questions number 3 and 4 respectively.

The overwhelming yes responses point very clearly towards acknowledging the value in encumbrance procedures, encouraging the adoption of the encumbrance process within their school district, and suggest a desire for procedural guidelines which would aid school districts in installing an "Encumbrance System" within their accounting processes.

Table 6. Response to question number 6.

Question 6: Do you know of any class 2 or 3 school districts in the state that currently uses an "Encumbrance System" in handling their general fund accounting?

Table 6 Knowledge of Districts Using Encumbrance Procedures		
	<u>Yes</u>	<u>No</u>
Responses	10	23
Percentages	30.30%	69.70%
N = 33		

The only intent of this question was to find out whether any of the respondents had outside knowledge of other class 2 and 3 school districts which use the encumbering process. Ten (30.30%) of the subjects answered that they were aware of at least one class 2 or 3 district that currently uses encumbrance procedures. Twenty-three (69.70%) of the respondents answered that they knew of no class 2 or 3 districts using the system. One respondent did not reply to question number 6.

There is a very close relationship between the response to

questions 2 and 6. Question 2 ("Do you presently use encumbrance procedures?") was answered in the affirmative by 10 of the respondents. Question 6, above, was also answered in the affirmative by 10 of the subjects. In almost every instance they named their own district as using encumbrance procedures. In some instances they also listed the names of other respondent districts.

Other than the relationship between questions 2 and 6 above which indicated whether the respondents knew of other districts using the encumbrance process, question 6 was not intended to reveal any attitudes concerning the use of encumbrance procedures or the development of procedural guidelines for installing an "Encumbrance System" in the respondent's accounting process.

Respondents' Comments

The following selected comments from respondents currently using an "Encumbrance System" are reported in a verbatim manner. It is felt by the writer that these comments below lend substance to the need for employing encumbrance procedures within a school district accounting process. They also lend credibility to the importance of producing simplified procedural guidelines for aiding class 2 and 3 school districts in utilizing encumbrance procedures within their respective accounting systems.

I cannot imagine a system not using an encumbrance system for good control and budgeting. I only wish I had known, when I started keeping the school books, what I know now about

encumbering. I could have saved many hours of work - and - been much more accurate.

Ours is a simple method, but I believe it is the only way to be able to answer the school board quiriies, "how much do we have left in the budget?" or "can our budget stand this purchase?".

We have used a system for four - five years and find it most helpful.

We are presently considering an accounting system which will include encumbrance accounting.

Feel manual would be very beneficial.

I do see the value in a fund encumbrance so that if an emergency were to arise, our superintendent could readily see the amount available to him which is unencumbered.

SUMMARY

Chapter 4 has presented the data collected as a result of a mailed questionnaire to 38 members of the Montana School Business Officials Association. The information gathered serves as an indicator of the positive perceptions of the respondents concerning values placed on encumbrance procedures in school accounting. It also suggests the need of developing a procedural guideline for assisting class 2 and 3 schools

in the implementation of the encumbrance process within their existing accounting systems.

Chapter 5 of this paper presents the summary, conclusions, and recommendations of the study.

Chapter 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

SUMMARY

This survey was administered to 38 members of the Montana School Business Officials Association from class 2 and 3 schools who were in attendance at the M.S.U. workshop during July, 1976. The purpose of the study was to measure the expressed interest, knowledge, and value of encumbrance procedures and whether there was a need for developing and disseminating procedural guidelines which would assist the respondents in implementing encumbrance procedures in their respective school districts.

A mailed questionnaire was used to gather the information. The questions were directed toward the subjects' individual responses to (1) their knowledge of the encumbrance process, (2) whether they use the process, (3) the value of encumbrance procedures, (4) adoption of the encumbrance process within their respective accounting systems, and (5) the need for procedural guidelines to help class 2 and 3 districts in Montana to implement an "Encumbrance System".

Data from the questionnaire were subjected to simple descriptive analysis and were reported in tabular and narrative form. The results were mainly expressed in sums and percentages.

The following statements summarize the information obtained from the questionnaire:

1. A 89.47 percent response was obtained by the mailed questionnaire. Eight follow-up phone calls were necessary to bring the return to 89.47 percent. Four of the 38 subjects in the delimited population could not be reached with follow-up efforts.

2. An analysis of data in question number 1 revealed that six (18.75%) of the respondents listed their understanding and knowledge of encumbrance procedures as below average. Fourteen of the subjects (43.75%) considered themselves as average in understanding and knowledge. Eight (25.00%) of the respondents placed themselves in the above average category and four (12.50%) considered themselves to have superior knowledge and understanding of encumbrance procedures.

3. Question number 2 revealed that ten (31.25%) of the 32 respondents are currently employing encumbrance procedures within their general fund accounting system. Twenty-two (68.75%) of the respondents indicated that they do not use the procedures.

4. Question number 3 revealed that 31 (96.88%) of the 32 subject replies said that in using their current knowledge of encumbrance procedures as a basis, they felt that there is value in the budgetary information generated by an "Encumbrance System". One respondent replied in the negative and, in effect, said that there was no value generated by an "Encumbrance System".

5. Question number 4 revealed that 29 (93.55%) of the 31 respondents would encourage the adoption of encumbrance procedures if such

procedures could clearly improve budgetary control in their school districts. Two (6.45%) of the respondents said that they would not encourage the adoption of encumbrance procedures even if clearly improved budgetary control resulted.

6. Question number 5 revealed that 26 (81.25%) of the 32 respondents thought that procedural guidelines for the implementation of an "Encumbrance System" would be of value. Six (18.75%) answered this question in the negative as not being desirous of such guidelines.

7. Question number 6 revealed that 10 (30.30%) of the 33 respondents did know of one or more class 2 or 3 school districts currently using encumbrance procedures to handle their general fund accounting. Twenty-three (69.70%) of the subjects in the study did not know of other school districts using the encumbrance process.

CONCLUSIONS

Based upon an analysis and interpretation of the findings of the study, the following conclusions appear to be warranted:

1. There seems to be a direct interrelationship between the first five questions, in that there is a positive direction of respondent interest in the values of an "Encumbrance System" and the development of procedural guidelines to help in the implementation of encumbrance procedures. The preceding statement appears to be justified on the basis of the following generalizations associated with each

of the five questions on the survey:

a. Question number 1 reveals that all of the respondents (34) have some degree of understanding and knowledge about encumbrance procedures. This would indicate a level of interest and importance attached to the encumbrance process by all of the subjects.

b. Question number 2 reveals that ten (31.25%) of the respondents already use encumbrance procedures within their current system. The fact that ten of the subjects already use the process is indicative of the utility value that each of the ten attaches to the use of encumbrance procedures.

c. Question number 3 reveals that all but one respondent feel that there is value in the use of encumbrance procedures for generating budgetary information. With 31 (96.88%) of the subjects recognizing value in the process, there is a strong indication of positive attitude toward the use of encumbrance procedures.

d. Question number 4 reveals that all but two respondents would encourage the adoption of encumbrance procedures if they could clearly improve budgetary control. The fact that 93.55 percent of the subjects favor adopting an "Encumbrance System" provides additional positive evidence favoring encumbrance procedures in school accounting.

e. Question number 5 reveals that all but six of the respondents express an interest in procedural guidelines as an aid in the implementation of the encumbrance process within their school districts. Twenty-six (81.25%) of the respondents represent a convincing majority in favor of the development of guidelines. This indicates a definite need by the respondents for procedural guidelines developed for their use.

2. The direct relationship between the responses to the five questions leads to the final conclusion that if procedural guidelines were developed and made available, a majority of the respondents would make an effort to implement an "Encumbrance System" in their respective school districts.

RECOMMENDATIONS

Based on the results of the survey and the pertinent data gathered in this paper, the following recommendations are offered:

(1) Development of the guidelines should be a cooperative effort between representatives of the State Department of Public Instruction, the State Auditing Department, the Montana School Business Officials Association, the County Superintendents Association, and Montana University System personnel involved in training school business officials and administrators. It is recommended that each group

participate to its full ability in the cost, time involvement, expertise, and efforts necessary to ensure effective results in the development of guidelines for implementing encumbrance accounting.

(2) Leadership and the calling of the initial organizational meeting between the groups should emanate from the office of the State Superintendent of Public Instruction.

(3) Other agencies such as the Bureau of Educational Research at Montana State University or the Bureau at the University of Montana should be considered for lending assistance in the project of developing procedural guidelines. Also, it should be considered that the assignment of organizing, coordinating, and drafting of the guidelines could be delegated to an interested education graduate student at either of the two universities.

(4) It should be considered that the process may be entirely new to the schools adopting the accounting procedure. From this standpoint it is extremely important that all procedural guidelines be stated in a simple and clear manner.

(5) The guidelines should encompass all aspects of budgetary expenditure including the development of simple forms, requisition procedures, purchase order preparation, step-by-step instructions for encumbering all obligations, receiving, invoice handling, filing procedures, and reporting total budget activity.

(6) For better control, it should be considered that all the

expenditure activity be handled by one individual. It is recommended that this individual preferably be the superintendent or the business manager of the school district.

(7) Limiting the initial school encumbering activity to include only the high school and elementary general fund accounts should be a consideration. After a system is well established for the individual school, the process could readily extend to other funds (vocational, special education, Title I, Title II, etc.) that the school is involved with.

(8) It is recommended that a separate sheet or sheets be considered for each line item in the elementary and high school general fund. These sheets (forms) would reflect up-to-date fiscal information and current unencumbered balances for each individual line item. Individual line item encumbrance sheets (forms) would identify all relevant information concerning obligations and expenditures in a line item account. It is recommended that a form be considered which has columns for displaying purchase order numbers, company obligated to, date of transaction, encumbrance amount, and payments.

(9) It is recommended that the procedural guidelines urge that all account activity be maintained on an up-to-date basis so that the unencumbered balance of a line item account could be determined at any time.

(10) The importance of including estimated freight costs and

possible price increases within an encumbered amount should be considered in the guidelines.

(11) In order to provide a comprehensive view of all up-to-date line item unencumbered balances, a master report should be considered. Contents of the master report form should include the line item account number, line item name, budgeted amount, expenditures to date, outstanding encumbrances, the unexpended cash balance, and the unencumbered balance of the account. By transferring up-to-date totals from the individual line item sheets, reports reflect up-to-date totals of both the elementary and high school general funds.

(12) When the encumbrance procedural guidelines have been formulated, developed, and completed, it is recommended that the first consideration for distribution be through the State Department of Public Instruction to every class 2 and 3 school in the State of Montana. Official sanction and promotion by the State Department would lend credence to the entire project.

(13) Annual regional workshops for school business officials should be considered as very effective vehicles in helping schools to implement, refine, and expand their encumbrance procedures.

(14) The basic guidelines and related benefits of encumbering should be included in coursework for school business officials and administrators at the university units in Montana. This approach would serve to prepare administrators for more responsible financial management when

they reach the field.

(15) Encumbrance procedural guidelines should be considered as a workshop topic at the annual Montana School Business Officials Workshop held at M.S.U.

(16) Groups of class 2 and 3 school districts should consider combining their financial efforts for a 3 or 4 day area workshop with the implementation of encumbrance procedures as the primary topic. This concentration of effort would enhance implementation within each participating school.

(17) It is recommended by the writer that the Autumn of 1977 be the target time for the collective representatives of the above groups to initiate the encumbrance guideline project. Thus, the guideline project could be completed and ready for implementation the following school year.

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BIBLIOGRAPHY

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APPENDICES

APPENDIX A



COLLEGE OF EDUCATION

DEPARTMENT OF EDUCATIONAL SERVICES

MONTANA STATE UNIVERSITY, BOZEMAN 59715

April 11, 1977

Dear

During the School Business Official's Workshop held last summer, I had the opportunity of presenting to your group a brief overview of encumbrance accounting procedures and some of the related benefits. As you will recall, encumbrance procedures in school accounting calls for the immediate recording of all fund commitments to line item accounts. This process provides a complete picture of the true unobligated account balances on an up-to-date basis and creates a substantial increase in the effectiveness of school district budgetary control.

At that time, I also mentioned that I was planning to produce an "Encumbrance System" instructional manual for Class 2 and 3 schools in the State of Montana. I am currently in the process of developing this manual which should be completed by early summer and ready for distribution.

If you would please take a few minutes to complete the enclosed questionnaire and return it to me in the enclosed self-addressed, stamped envelope, I would appreciate it very much. This effort on your part will help me a great deal in the preparation of the manual.

Thank you very much,

Kenneth L. Lindsey
Department of Educational Services
213 Reid Hall
Montana State University
Bozeman, MT 59715

KLL/TMJ

Enclosures.

P.S. Enclosed is a note to you from Dr. John Deeney. You may send this back to Dr. Deeney under separate cover or return the form with the questionnaire and I will see that Dr. Deeney receives it.

ENCUMBRANCE QUESTIONNAIRE

1. Using a scale of one to five indicate, by circling the appropriate number, the degree of your understanding and knowledge of encumbrance procedures. Number 1 indicates no understanding. Number 5 indicates complete understanding.
 1. 2. 3. 4. 5.
2. Does the existing general fund accounting system within your school district include encumbrance procedures?
 YES _____ NO _____
3. Based on your current knowledge of encumbrance procedures, do you feel there is value in the budgetary information generated by an "Encumbrance System"?
 YES _____ NO _____
4. If the benefits of encumbrance procedures could clearly improve budgetary control in your district, would you encourage the adoption of the process?
 YES _____ NO _____
5. Would an instructional manual which presents simple, inexpensive, step-by-step instructions for the installation of an "Encumbrance System" be of value for the implementation of the process in your school district?
 YES _____ NO _____
6. Do you know of any class 2 or 3 school districts in the state that currently uses an "Encumbrance System" in handling their general fund accounting?
 YES _____ NO _____

If yes, who? _____

Comments: _____

APPENDIX B



OFFICE OF PUBLIC INSTRUCTION

STATE CAPITOL
HELENA, MONTANA 59601
(406) 449-3095

Georgia Rice
Superintendent

April 22, 1977

Mr. Ken Lindsey
Department of Education Services
Reed Hall, Room 213
Montana State University
Bozeman, Montana 59715

Dear Mr. Lindsey:

I wish to take this opportunity of writing to you to give you all the encouragement possible to develop an encumbrance system of accounting for school districts.

As you know, state law does not require that school districts use the encumbrance system. However, all the major schools have found that they cannot operate without one and the smaller schools are increasingly finding the need for such a system.

I would be desirous of receiving a copy of your paper developing this system as soon as it is available. If there is anything that we can do to aid you in this project, please let us know.

Sincerely,

ROBERT W. STOCKTON
Manager
Division of Financial Aid & Transportation

RWS:bw



**bozeman
public
schools**

esther nelson
director of business services

April 14, 1977

Ken L. Lindsey
Department of Educational Services
213 Reed Hall
Montana State University
Bozeman

I would like to encourage your continued work in the development of an encumbering system for school district accounting.

As past president of the Montana Association of School Business Officials, I can assure you of the need for such a system. Encumbering has been continually stressed by the Association in workshops conducted for school business personnel.

Encumbering is a necessary procedure in school fund accounting to avoid the possibility of over-expenditure and to provide administration with accurate information for better financial management and budgetary control. A simplified system of recording obligations and commitments such as purchase orders, salaries and contracts is desired by many, especially, the small school districts which comprise the majority of the schools in Montana.

I commend you for your efforts in devising and publishing a system which conforms to the standards for Montana school accounting.

Sincerely,

Esther Nelson
Director Business Services
Bozeman Public Schools

school district no. 7
p.o. box 520
bozeman, montana 59715
telephone: (406) 586-5461

February 3, 1977

Mr. Kenneth L. Lindsey
Department of Educational Services
Room 213
Reid Hall
Montana State University
Bozeman, Montana 59715

Re: Encumbrance Systems

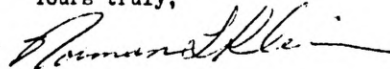
Dear Sir:

In response to your request for my opinion as to the use and effectiveness of a budget encumbrance system in the school district financial operation, I will direct my opinion to the area of control of fiscal expenditures.

One of my functions as an auditor for the State of Montana is to audit the financial records of the State's school districts. As you well know, the district financial operation is based on a fiscal budget, which in itself is a control device. However, if the budget is controlled through the use of an encumbrance system, the overall control is substantially increased. Such a system provides a more detailed form of information for the district administrators as to the condition of the fiscal budget. It not only provides the unexpended budget balances but also the unobligated budget balances. This information is vital in controlling further purchases which may result in expenditures in excess of the established budget or spending authority.

The size of the district financial operation has no effect on the use and effectiveness of an encumbrance system. The financial administrators of the district, regardless of size, would be able to utilize the information the encumbrance system provides in making fiscal decisions. In short, such a system provides much more informational budget reporting.

Yours truly,



Norman L. Klein

APPENDIX C

The words "instructional manual" appear in question number 5 in Chapter 1, 3 and 4. The words also appear in question number 5 of the questionnaire as illustrated in Appendix B.

The questionnaire as sent to, answered, and returned by the respondents in this study contain the words "instructional manual" in question number 5. As this study advanced it became apparent that the scope of the investigation was too comprehensive when the development of an "instructional manual" was included as the end product of this paper. After further consideration it was determined that the development of "procedural guidelines" (manual) through a group effort would assure maximum effectiveness. Thus, the group development of "procedural guidelines" rather than "instructional manual" is included as a recommendation in this paper. Throughout this paper all narrative reflects this change in wording.

In order to maintain integrity in the study, the writer wishes to establish this point of clarity.