


*State of Rhode Island and Providence Plantations
Department of Administration
Budget Office Memorandum*

TO: Directors and Chief Financial Officers

FROM: Rosemary Booth Gallogly 
Executive Director/Budget Officer

DATE: September 13, 2007

SUBJECT: Payroll Encumbrances

As discussed at the Cabinet meeting on Wednesday, September 12, 2007, payroll funding for FY 2008 was encumbered just after pay period 4 (August 24, 2007). The encumbrance was based on the lesser of either the first or second payroll of this fiscal year (to allow for any anomalies in either pay period) projected out for the entire fiscal year and then reduced by the number of pay periods that had already occurred. (The formula was as follows: Pay Period Amount x 26.1 pay periods – 3.4 pay periods [net of .6 accrual to FY 07]). The encumbrance will be liquidated by 1/26.1 of the original encumbrance each pay day.

This method of establishing the payroll encumbrance assumes that staff members being paid from a particular account are indeed funded in that account. I realize this is not always the case and that in fact payroll costs are often allocated to other accounts after the fact. This policy of submitting payroll adjustments after costs have been incurred makes expenditure analysis significantly more difficult for both agency staff and the Budget Office. It should be the goal of all agencies to have costs allocated to the proper accounts at the time payments (including payroll) are made. The current payroll system allows agencies to allocate payroll costs at both the payroll account level and down to specific individuals within a particular account to up to ten (10) separate accounts. This feature is invaluable to agencies that allocate payroll costs. The use of this feature will avoid the need for many adjustment vouchers and will make payroll analysis much more useful.

I understand that payroll cost allocations are often based on time and effort calculations and therefore require time sheets to determine the proper allocations, but even in these cases, agencies have estimated the amounts that will be charged to each account as part of the budget development. As such, these estimates can and should be used to allocate costs in the payroll system on an ongoing basis and then reconciliation adjustments to bring costs in line with actual time and effort calculations can be done on a monthly or quarterly basis. If actual time and effort calculations are showing a significant deviation from the estimated allocations, the agency should then adjust the allocations in the payroll system.

I realize that numerous accounts and/or line items are now in a deficit situation as a result of the establishment of the payroll encumbrance. In most cases, these deficits are the result of staff being fully charged to an account within which they are not fully funded, as described above. In these situations, I am expecting agencies to work with the Payroll Section of the Controller's Office to establish cost allocations to the appropriate payroll accounts. Once these new allocations are in place, we will utilize the next payroll to revise the payroll encumbrance

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to more accurately reflect the projected costs by account.

If you believe the current payroll encumbrance is incorrect for other reasons, such as costs being higher in the first two pay periods than they are expected to be for the remainder of the fiscal year, you should document these situations and provide an analysis to your Budget Analyst. Any true deficits in personnel should be addressed through an immediate correction plan, which includes reductions in other expenditures. Upon review of individual agency situations, we will work with your agency to make short-term accommodations in order to pay vendors, as the payroll cost allocations and revised payroll encumbrances are being worked out. Chief Financial Officers should contact your agency's assigned Budget Analyst to discuss specific situations and the plan for resolution.

Thank you for your immediate attention to this matter.