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TO: ALL DEPARTMENT AND AGENCY HEADS

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SUBJECT: Statewide Financial System Update - Contract Lines

This bulletin provides an overview of new "contract lines" functionality which is being released as part of the SFS EE1 project, as well as technical guidance for use by agency fiscal staff.

This new functionality will allow agencies to implement tighter financial controls by setting aside funds for specific items, purposes and/or time periods at the contract line level of detail.

The use of contract lines gives agencies new tools to assist in the management of contracts, which provide the following benefits:

- Establishing controls for agencies to manage how much of the entire contract can be utilized over different periods throughout the life of the contract;
- Establishing controls for agencies to manage how much of the entire contract can be utilized for specific contract purposes;
- Providing the ability to itemize a contract, including Item Master ID (where applicable) on the contract line, which supports requisitioning and finding the best contract price;
- Providing the ability to use the contract release functionality which allows users to establish a schedule for releasing purchase orders against the contract in an automated fashion; and
- Tracking better information about spending associated with contracts.

Additional information and technical guidance for use by agency fiscal staff can be found at Contract Line Technical Guidance.

CONTRACT LINE BASICS

The contract line is a new key component of the procurement process. The use of contract lines will provide a means for agencies to implement tighter controls by establishing individual contract lines which may be used to set aside funds for specific items, purposes and/or time periods.

Contract line information will be passed from requisition to purchase order. Each funded contract line (i.e., those lines with the “Include for Release” checkbox checked) will have at least one distribution line. The distribution information on the contract line will drive what the distribution information will be on: 1) the requisition line being maintained, for those contracts that require funds reservation, and 2) any purchase orders that are released from the contract. In order for contract lines to be used on a purchase order, contract lines must be “activated” by checking the “Include for Release” flag.

DEVELOPMENT OF CONTRACT LINES

Agency-Specific Contracts - Converted at Go-Live

Converted contracts at Go-Live will contain two contract lines as follows:

1) Line 1 will not be active and cannot be edited. The information on this line reflects the contract amount that has been expended/used, which supports proper calculation of the remaining balance and is included in contract reports (NYPO3606 and NYPO3675); and
2) Line 2 will be the total remaining balance for the contract. This amount may often represent various goods or services over multiple fiscal years of activity. This line will need to be modified to allow for transactional processing. See recommended best practice below.

Centralized Contracts (and others that do not require an encumbrance)

Centralized contracts will be established with a contract line that uses a category code that best groups the contract’s items at the Family level of the United Nations Standard Products and Services Code (UNSPSC, v.13), available on SFS Secure.

Agency Contracts Established with a Requisition

Contracts that are created from a requisition will be created with one contract line for each requisition line. Additional contract lines can be added to the contract, if desired, to further delineate and manage spending. Contract lines that are flagged as “available for release” will reserve funding against the agency’s segregation.

Recommended Best Practice

Below are the recommended best practices related to contract line creation for both converted contracts and contracts created via requisition.

Converted Contracts

For all converted contracts, contract line 2 represents the unexpended balance of the contract and is created with "supplies" in the category code field. Contract line 2 should not be used for transactional processing when the amount of line 2 represents multiple fiscal years or various category code values. New contract lines should be added that establish the maximum amount for the associated category code(s) according to the terms of the contract (see additional details below). These added lines can be flagged as "Include for Release." At the same time, the contract line 2 amount should be reduced by the amount included in the new contract lines. Contract line 2 should be maintained for the remaining balance that is not included in open lines and should not be flagged for release.

An exception to this rule occurs where the line 2 amount represents the amount to be made available for release and only a single category code represents this amount. In this instance contract line 2 may be flagged for release, but the category code should be updated from "supplies" to a category code that represents the goods or services being encumbered.

Contract lines can also be used to support the controls needed when contracts span multiple fiscal years and the nature of the goods or services related to the contract require reserving portions of the contract maximum amount for future use.

Converted Contracts and Contracts Created via Requisition

Below are best practice guidelines for contract line controls by contract type.

Contract Type	Funding	Line Control Best Practice
Funding Required	State Ops and Other Annual Appropriations	For Amount-based lines, each unique commodity should have its own line for the appropriate maximum line amount so as to include the current FY liability and previously-released amounts. The agency may elect to create one or more contract line(s) for future fiscal years
		For Quantity-based lines, each unique commodity should have its own line for the appropriate maximum quantity so as to include the current FY liability and previously released amounts. The agency may elect to create one or more contract line(s) for future fiscal years.

Contract Type	Funding	Line Control Best Practice
		Each unique commodity or service should have its own line with the appropriate UNSPCS category code selected for that line.
		If the Category has an applicable NYS Item ID, then the line should capture it – applicable to quantity-based lines only.
		Each line must have at least one distribution line. If the funding is supported by multiple appropriations or crosses multiple appropriation years (i.e., split funding), this may require multiple distributions. If there is split funding, the distribution lines need to reflect the appropriate amounts being charged to each funding source, including Budget Reference. Include the OGS-supplied Project ID supporting Real Estate (e.g., leasing and land) where applicable.
		Any amounts not included on lines with the "Include for Release" flag checked should be maintained on a separate line that is not included for release with a category code at the Family level that best represents the contract.
		Any lines that do not have the "Include for Release" flag checked do not require distribution line information.
	Capital Funds or Other Appropriations which Span Multiple Fiscal Years	For Amount-based lines, each unique commodity should have its own line for the appropriate maximum line amount so as to include the full amount of commitment for the selected category code. The agency may elect to create several lines with the same category code to meet business needs.
		For Quantity-based lines, each unique commodity should have its own line for the appropriate maximum quantity so as to include the full amount of commitment for the selected category code. The agency may elect to create several lines with the same category code to meet business needs.
		Each unique commodity or service should have its own line with the appropriate UNSPCS category code selected for that line.
		If the Category has an applicable NYS Item ID, then the line should capture it – applicable to quantity-based lines only.
		Each line that has the "Include for Release" flag

Contract Type	Funding	Line Control Best Practice
		checked must have at least one distribution line. If the funding is supported by multiple appropriations or crosses multiple appropriation years (i.e., split funding), this may require multiple distributions. If there is split funding, the distribution lines need to reflect the appropriate amounts being charged to each funding source, including Budget Reference. Include the OGS-supplied Project ID supporting Real Estate (e.g., leasing and land) where applicable.
		Any amounts not included on lines with the "Include for Release" flag checked should be maintained on a separate line that is not included for release, with a category code at the Family level that best represents the contract.
		Any lines that do not have the "Include for Release" flag checked do not require distribution line information.
Funding Not Required	All Funding Sources	For Amount-based lines, each unique commodity should have its own line for the appropriate maximum line amount so as to include the full amount of commitment for the selected category code. The agency may elect to create several lines with the same category code to meet business needs; all such lines should be created with "Include for Release" flag checked.
		For Quantity-based lines, each unique commodity should have its own line for the appropriate maximum quantity so as to include the full amount of commitment for the selected category code. The agency may elect to create several lines with the same category code to meet business needs; all such lines should be created with "Include for Release" flag checked.
		Each unique commodity or service should have its own line with the appropriate UNSPCS category code selected for that line.
		If the Category has an applicable NYS Item ID, then the line should capture it – applicable to quantity-based lines only.
		Each line with the "Include for Release" flag checked does not require distribution line information for this type of contract.
		Any amounts not included on lines with the

Contract Type	Funding	Line Control Best Practice
		"Include for Release" flag checked should be maintained on a separate line that is not included for release with a category code at the Family level that best represents the contract.
		Regardless of whether the "Include for Release" flag is checked, contracts that do not require funding do not require distribution line information.
Corporate Contracts – OGS Centralized Contracts	All Funding Sources	For Amount-based lines, a line for the appropriate maximum line amount should be included for the full amount of commitment for the selected category code. The Family level category code will be used for these lines.
		To support quantity-based ordering, no contract lines will be created. Agency users are instructed to refer to the Contract ID only and to not indicate a contract line when placing quantity-based orders against these contracts.
		Each line will be created with the "Include for Release" flag checked.
		No distribution line information will be included. Agency users will indicate distribution information on the purchase requisition or purchase order.
		When using these contracts, users are responsible for indicating the correct category code for the commodity or service being ordered when completing the purchase requisition or purchase order.

Category Codes

In order to establish a more detailed and uniform level of reporting for all procurement purchases, SFS is utilizing the UNSPSC method to classify all products and services. This UNSPSC code is a required data entry field “Category Code” on all requisitions and is likewise established on the contract line. A category code represents the goods or services being ordered.

The UNSPSC code is a hierarchical taxonomy with four levels, where each level gets more specific. The four levels of the code are Segment, Family, Class, and Commodity. Each level is coded using two digits, with '00' used to give segments, families, and classes their own 8-digit codes. The more trailing zeroes in a code, the more general it is. For example:

Code	Example	Description
Segment	44000000	Office Equipment, Accessories and Supplies

Family	44120000	Office supplies
Class	44121900	Ink and lead refills
Commodity	44121903	Pen refills

A workbook that contains the complete list of Class and Commodity codes that are available for agencies to use in the Category field in SFS can be found on SFS Secure under > EE1 > Procurement > EE1 Procurement Category Code Selection Tool.

Ideally, there should be a contract line for each commodity level code utilized by the related contract, which will be consistent with item master and E-procurement identification standards. Where not practicable, class level codes may be utilized, but under no circumstances should a contract line represent more than one SFS account code. In these circumstances, a real property lease, for example, would have a separate line for Base Rent, Parking, and Tax Escalation, as shown below:

Purpose	**Commodity Code**	**Account Code**
Base Rent	80131502	58201
Parking	80131502	58205
Tax Escalation	80131502	58204

While the ability to create multiple distribution lines per contract line exists, this functionality should only be used where there is a consistent application of the distribution percentage. Otherwise, agencies are strongly encouraged to create one distribution line per contract line, representing 100% of the contract line.

Questions regarding these instructions may be directed to the SFS Help Desk.