
Coates' Canons Blog: New Law Modernizes Preaudit and Disbursement Processes—Part II

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Effective October 1, 2015, local governments, public authorities, and school units are subject to new preaudit and disbursement processes. In **S.L. 2015-246**, the legislature modified **G.S. 159-28** (applicable to local governments and public authorities) and **G.S. 115C-441** (applicable to school units) to address common issues faced by local units in implementing the preaudit and disbursement requirements, particularly with respect to electronic transactions. (The changes do not apply to ABC Boards, which will continue to be subject to the existing preaudit and disbursement requirements under **G.S. 18B-702**.)

This post summarizes the changes to the disbursement process. Click **here** for a discussion of the new preaudit provisions.

Disbursement Process

When a local unit receives an invoice, bill, or other request for payment, the unit's finance officer, or a deputy finance officer approved by the governing board for this purpose, generally must perform the following disbursement process:

- (1) Determine the amount to be payable. If the amount is not due and owing because, for example, the goods did not arrive or the services were not performed, then the finance officer or deputy finance officer may not make the payment.
- (2) Ensure that there is a budget ordinance (or project ordinance) appropriation authorizing the expenditure; *and*
- (3) Ensure that sufficient monies remain within the appropriation to cover the amount owed. If there is no budget appropriation for the expenditure or, more commonly, if sufficient unencumbered funds do not remain in the appropriation, the finance officer or deputy finance officer may not make the payment. The governing board must first amend the budget (or project) ordinance to make (or increase) the appropriation.
- (4) Affix a signed disbursement certificate to the form of payment. The disbursement certificate must state: "This disbursement has been approved as required by the Local Government Budget and Fiscal Control act." The finance officer or deputy finance officer signs the certificate. (Note that the disbursement certificate differs from the preaudit certificate, which is described **here**. It is a separate requirement.)

Amendments Effective October 1, 2015

Exemptions from Disbursement Certificate Requirement

S.L. 2015-246 amends the disbursement provisions in G.S. 159-28 and G.S. 115C-441 to exempt certain payments from step (4) of the disbursement process—the disbursement certificate requirement. The exemption applies to the following payment transactions:

- *Any disbursement related to an obligation that has been approved by the State's Local Government Commission (LGC).* For example, if a unit received LGC approval to borrow money, loan repayment (debt service) disbursements do not require a signed disbursement certificate.

- *Any disbursement related to payroll or other employee benefits.* A unit need not include a disbursement certificate on payroll checks or payroll direct deposits. Before the amendment, a unit did not have to include a disbursement certificate on a payroll check or draft drawn from an imprest account if the check or draft depositing the funds in the imprest account included a signed certificate. The amended provision exempts all payroll disbursements regardless of how they are done. A unit also does not need to include a disbursement certificate on any payment related to employee benefits.
- *Any disbursement done by electronic funds transfer, as long as the unit follows rules adopted by the LGC.* This exemption is likely to have the biggest impact on local units. An electronic transfer is defined as “a transfer of funds initiated by using an electronic terminal, a telephone, a computer, or magnetic tape to instruct or authorize a financial institution or its agent to credit or debit an account.” Units have struggled to figure out how to include a disbursement certificate on ACH and other electronic payments. This step will no longer be necessary. The exemption only applies, however, if the LGC adopt rules related to electronic transfers and the unit follows those rules.

It is important to also emphasize that the exemption for all of these transactions only applies to the disbursement certificate requirement. A finance officer or deputy finance officer must continue to perform the other steps in the disbursement process (steps (1) through (3)) before authorizing the payment.

Petty Cash is Specifically Authorized

The other significant change to the disbursement provision relates to the authorized methods of payment. Most units have maintained a petty cash fund for years, but there was no legal authority to make cash payments. In fact, cash payments were expressly prohibited by G.S. 159-28(d), which stated that a local unit “may not pay a bill, invoice, salary, or other claim except by a check of draft on an official depository, or an electronic payment or an electronic funds transfer originated by the [local unit] through an official depository.” (G.S. 115C-441(d) imposed the same limitations on school units, but allowed payments by warrants drawn on the State Treasurer.)

As of October 1, 2015, local governments, public authorities, and school units are expressly allowed to pay any bill, invoice, salary, or other claim by cash, but only if the local unit’s governing board adopts an ordinance specifically authorizing the use of cash. (School boards are only required to adopt a policy.) The board’s authorization also must specify the limits on the use of cash. In fact, a unit is well advised to have a detailed petty cash policy that specifies when cash payments are appropriate and incorporates sufficient internal controls.

Note, however, that **H44** does not amend the daily deposit requirement in **G.S. 159-32** (applicable to local governments and public authorities) and **G.S. 115C-445** (applicable to school units). Every employee or officer of the unit is required to deposit all monies collected or received in an official depository, with the finance officer, or with a licensed and recognized cash collection service each day. A unit’s governing board may authorize a unit to make the deposit only when moneys on hand amount to \$500 or more, although a deposit must always be made on the last business day of each month. Thus, the daily deposit requirement still limits a unit’s ability to maintain a petty cash fund.

Links

- www.ncleg.net/Sessions/2015/Bills/House/PDF/H44v5.pdf
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-28.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-441.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_18B/GS_18B-702.html
- canons.sog.unc.edu/?p=8143
- www.ncleg.net/Sessions/2015/Bills/House/PDF/H44v4.pdf
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-32.html
- www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-445.html