



Memorandum # 2018-05

To: Finance Officers of Local Governments and LEAs

From: Sharon Edmundson, Director, Fiscal Management Section

Subject: Changes to Pre-audit Certification Requirements for Electronic Obligations and Payments; Administrative Code - 20NCAC 03 .0409 and 20 NCAC 03 .0410

Date: March 12, 2018

The 2015 legislature modified GS 159-28 (d2) (local governments) and 115C-441(d2) (local school administrative units) to allow the Local Government Commission (LGC) to adopt rules to address the execution of the pre-audit and disbursement process related to electronic transactions for local government and local school administrative units. The new pre-audit and disbursement rules were effective as of November 1, 2017, and exist as part of the North Carolina Administrative Code ([20 NCAC 03.0409](#) and [20 NCAC 03.0410](#)).

Units of government can now be exempt from the pre-audit certificate and disbursement certificate requirements on electronic transactions ***if they follow the requirements as detailed in the new administrative code rules***. The purpose of this memorandum is to briefly outline the requirements that will allow local governments to take advantage of these changes for electronic transactions utilizing the following:

- (1) charge cards;
- (2) credit cards;
- (3) debit cards;
- (4) gas cards;
- (5) procurement cards; or
- (6) electronic funds transfers

It is important to note that ***none of these rule changes exempt a unit of government from going through the pre-audit process***; the rules only exempt a unit from affixing the certificate of pre-audit on electronic transactions IF the unit abides by the rules set forth in the administrative code.

Requirements to Take Advantage of Pre-Audit Certificate Exemption on Electronic Obligations

There are multiple steps a unit of government must take in order to take advantage of the rule change for electronic **obligations**. These steps are:

1. The unit's governing board shall adopt a resolution authorizing the unit to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441 (see Addendum A for a sample resolution).
2. The unit's board must adopt policies and procedures for electronic obligations or delegate the authority and responsibility for writing those policies and procedures to the finance officer.
3. The written policy must outline the basic procedures for pre-auditing obligations incurred by electronic transactions. The written policy and any procedures developed by the finance officer must provide sufficient internal controls over the obligation process, which must include the following:
 - a. Ensure that there is an appropriate budget ordinance or project/grant ordinance appropriation authorizing the obligation;
 - b. ensure that sufficient monies remain within the appropriation to cover the amount that is expected to be paid out during the current fiscal year if accounted for in the budget ordinance, or to cover the entire amount if accounted for in a project or grant ordinance.
 - c. Record the amount of the transaction in the unit's encumbrance system.
4. The unit must provide training to all personnel about the written policy and the procedures that must be followed before undertaking an electronic transaction.
5. If a governmental unit is not already doing so, the unit of government must present to its governing board at least quarterly a budget to actual statement by fund that includes budgeted accounts, actual payments made, amounts encumbered (including electronic obligations) and the amount of the budget that is unobligated.
6. The unit's written policy and procedures must include a method to track obligations, commonly called an encumbrance system. The system can be manual or maintained as part of the unit's accounting system or any combination thereof.

Requirements to Take Advantage of Disbursement Certificate Exemption on Electronic Payments

Likewise there are multiple steps a unit of government must take in order to take advantage of the rule change for electronic **payments**. These steps are:

1. The unit's governing board shall adopt a resolution authorizing the unit to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441 (see Addendum A for a sample resolution).

2. The unit's board must adopt policies and procedures for electronic payments or delegate the authority and responsibility for writing those policies and procedures to the finance officer.
3. The unit must adopt a written policy outlining basic procedures for disbursing public funds electronically. The written policy must provide sufficient internal controls to ensure the following:
 - a. ensure that the amount claimed is payable;
 - b. ensure that there is an appropriate budget ordinance or project/grant ordinance appropriation authorizing the expenditure;
 - c. ensure that sufficient monies remain within the appropriation to cover the amount that is due to be paid out during the current fiscal year if accounted for in the budget ordinance, or to cover the entire amount if accounted for in a project/grant ordinance; and
 - d. ensure that the unit has sufficient cash to cover the payment.

Some of the questions we have received about this new process, along with our responses, are noted below.

Q *Does the board's delegation of authority to the finance officer to develop the policies and procedures need to be in writing?*

A. Yes.

Q *My unit already publishes monthly budget-to-actual financial reports on its website – will these suffice for the requirement to provide these reports to the board?*

A. We believe so if they meet all the other requirements listed.

While these changes do not address all the business challenges that local governments face in operating in an increasingly electronic environment, they should provide a way for entities to more easily operate within the requirements of the General Statutes in this particular area.

If you have any questions or concerns about this publication, please contact us at (919) 814-4299 or via email at Sharon.edmundson@nctreasurer.com

ADDENDUM A

[City of Dogwood]
Resolution authorizing [City of Dogwood]
to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441

WHEREAS, it is the desire of the [Governing Body] that the [City of Dogwood] is authorized to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441

WHEREAS, it is the responsibility of the Finance Officer, who is appointed by and serves at the pleasure of the [Governing Body], to adopt a written policy outlining procedures for pre-auditing obligations that will be incurred by electronic payments as required by NC Administrative Code 20 NCAC 03 .0409;

WHEREAS, it is the responsibility of the Finance Officer, who is appointed by and serves at the pleasure of the [Governing Body], to adopt a written policy outlining procedures for disbursing public funds by electronic transaction as required by NC Administrative Code 20 NCAC 03 .0410;

NOW, THEREFORE, BE IT RESOLVED, by the [Governing Body] of the [City of Dogwood]

Section 1. Authorizes the [City of Dogwood] to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441;

Section 2. Authorizes the Finance Officer to adopt a written policy outlining procedures for pre-auditing obligations that will be incurred by electronic payments as required by NC Administrative Code 20 NCAC 03 .0409; (This section is optional and should be used only if the Board chooses to grant this authority to the Finance Officer. If the Board does not exercise this option, the Board is responsible for adopting the written policy.)

Section 3. Authorizes the Finance Officer to adopt a written policy outlining procedures for disbursing public funds by electronic transaction as required by NC Administrative Code 20 NCAC 03 .0410; and

Section 4. This resolution shall take effect immediately upon its passage. Upon motion of _____, and seconded by _____, the foregoing

Resolution was passed by the following vote:

Ayes: _____

Nays: None
Abstentions: None*****

I, _____, Clerk of the [Governing Body] of the [City of Dogwood], do hereby certify that the foregoing resolution is a true and exact copy of the “**Resolution authorizing the [City of Dogwood] to engage in electronic payments as defined by G.S. 159-28 or G.S. 115C-441**” duly adopted by the [Governing Body] of the [Unit Type] at the regular [special] meeting thereof duly called and held on _____, a quorum being present.

WITNESS my hand at _____, N.C., this ____ day of _____, 20__.

_____, Clerk