

# LOCAL FINANCE NOTICE

JAMES E. MCGREEVEY  
GOVERNOR

SUSAN BASS LEVIN  
COMMISSIONER

JOSEPH P. MONZO  
ACTING DIRECTOR

## Third Party Payroll Disbursement Summary

Earlier this year the Local Finance Board adopted formal rules regarding "Electronic Disbursement Controls for Payroll Purposes." These rules, N.J.A.C. 5:30-17, provide formal authority for local governments, counties, authorities and school districts (local units) to hire third party payroll services/disbursing services (servicers) to disburse funds to payroll agencies on behalf of the local unit. The rules are available on the Division web site at [www.nj.gov/dca/lgs/rules/rulesmenu.shtml](http://www.nj.gov/dca/lgs/rules/rulesmenu.shtml).

N.J.S.A. 52:27D-20.1 authorized adoption of the rules. They were adopted in consultation with the Commissioner of Education, and while adopted by the Local Finance Board, apply to boards of education.

The rules provide the basis for strong internal controls when control of public funds is granted to a third party. The rules DO NOT affect vendors that prepare payrolls or prepare batch fillings of payroll reports and do not take possession of local unit funds. Local units using these practices are not affected by these rules.

Compliance is required by local units when:

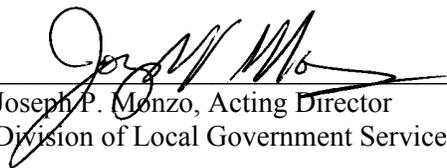
- They use servicers to prepare the payment documentation and execute disbursements from the local unit's bank account;
- They use servicers to prepare payment documentation, take possession of local unit funds, and make such disbursements itself on behalf of a local unit.
- Servicers use their own customized programming process to execute disbursements for the local unit;
- Servicers use a third party processor to execute disbursement for the local unit.

**Local units that currently engage in these practices are directed to comply with the rules by the end of 2003.**

The Division has prepared a handbook that includes a summary of the procedures to follow and a copy of the rules. It is available on the Division web site at: [www.state.nj.us/dca/lgs/fiscal/budmenu.shtml](http://www.state.nj.us/dca/lgs/fiscal/budmenu.shtml). Local units that currently engage in these practices should download the handbook and familiarize themselves with the rules and requirements before implementing them.

Auditors are directed to review local unit compliance and report their findings in the next audit report. If the local unit has not complied, local officials will then be asked to provide the Director an explanation as to why the local unit is not in compliance. The Director may then act to require compliance.

Questions concerning these rules can be addressed to the Division's Bureau of Financial Regulation and Assistance via e-mail at [dlgs@dca.state.nj.us](mailto:dlgs@dca.state.nj.us). Municipal and county CFO's should take advantage of the GovConnect discussion forums and document libraries to share information and ideas. If the local unit engages in practices covered by the Notice, it should also be shared with the local unit legal advisor.



Joseph P. Monzo, Acting Director  
Division of Local Government Services

Enclosure

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