

5:30-5

LOCAL FINANCE BOARD - CERTIFICATIONS OF AVAILABILITY OF FUNDS, AND ACCOUNTING SYSTEM REQUIREMENTS FOR LOCAL UNITS

5:30-5.1 General authority

- (a) This subchapter shall apply to all government agencies subject to the authority of the Local Finance Board pursuant to the Local Budget Law (N.J.S.A. 40A:4-1 et seq.) or the Local Authorities Fiscal Control Act (N.J.S.A. 40A:5A-1 et seq.). For the purpose of this subchapter, such government agencies shall be referred to as local units.
- (b) Every governing body and chief executive officer shall take reasonable steps as necessary so that all officials and employees responsible for the administration of public contracts are aware of and are able to comply with the requirements of the law and these rules.

5:30-5.2 Encumbrance systems

- (a) All local units except those subject to the Local Authorities Fiscal Control Act (N.J.S.A. 40A:5A-1 et seq.) shall maintain an encumbrance accounting system for all funds as follows:
 - 1. The system shall be designed at a minimum to record charges to amounts appropriated for "Other Expenses" in the same or greater level of detail as "Other Expenses" are maintained in the adopted budget. This shall be done in such a way to record charges against amounts appropriated at the time the charges are authorized so that the funds allocated for such purposes are reserved and cannot be used for other charges within that line item. Examples of such authorization actions include the issuance of a purchase order or the execution of a contract.
 - 2. If the local unit budget uses a greater detail level through the use of object accounts, transactions shall be encumbered at the object level detail.
 - 3. Local units shall maintain internal controls that ensure that all purchases charged to "Other Expense" or other non-salary line items shall be sequentially numbered either through pre-printed multiple copy purchase orders or a computerized system that produces appropriate purchasing internal control.
- (b) The Director of the Division of Local Government Services shall make available such technical documents as may be advisable to local units to provide further guidance on encumbrance systems.
- (c) The provisions of this section codify and continue the provisions of Technical Accounting Directive No. 1, issued in April of 1985 and effective January 1, 1986.

5:30-5.3 General requirements

- (a) The chief financial officer of a local unit, appointed pursuant to N.J.S.A. 40A:9-140.1 et seq. or N.J.S.A. 40A:9-28.1 et seq., shall be responsible for determining the availability of sufficient funds for all contracts and amendments thereto. The delegation of this duty by the chief financial officer does not relieve him or her of this responsibility.
- (b) The governing bodies of all other local units shall designate by resolution or ordinance, as appropriate, an individual to serve as the certifying finance officer. The certifying finance officer shall be responsible for determining the availability of sufficient funds for all contracts and amendments thereto. The delegation of this duty by the certifying finance officer does not relieve him or her of this responsibility.
- (c) If a purchase or the execution of a contract does not require, either by State law or any State or local regulation, specific authorization by formal action of the governing body, then the individual approving the contract or release of the purchase order shall be able to ascertain from an appropriate entry made into the local unit's encumbrance system by the chief financial officer or certifying finance officer, as appropriate, that there are available sufficient uncommitted appropriations to provide for the payment. The administrative official or employee shall be so authorized pursuant to N.J.S.A. 40A:11-3.

5:30-5.4 Procedure

- (a) The following procedure shall be utilized for the certification of funds when a contract is to be authorized by the governing body of the local unit:
 - 1. The chief financial officer or certifying finance officer, as appropriate, charged with the responsibility of maintaining the financial records of the contracting unit shall certify in writing to the governing body the availability, or lack thereof, of adequate funds for each contract that is pending authorization by the governing body. Said certification shall designate specifically the line item appropriation(s) of the official budget and/or appropriation from a source other than the budget to which the contract will be properly charged; ensuring that the same funds shall not be certified as available for more than one pending contract. Said officer shall be solely responsible for the accuracy of the certification. The maximum dollar value of the contract pending authorization by the governing body shall be referenced in the certification, unless a special situation set forth in N.J.A.C. 5:30-5.5 permits the certification of either no amount or an amount less than the maximum dollar value of the contract.
 - 2. No resolution or ordinance authorizing the entering into of any contract pursuant to N.J.S.A. 40A:11-1 et seq. or any other law for the expenditure of public funds to a vendor shall be enacted unless the governing body has been provided with the written certification of available funds required by (a)1 above

and the resolution or ordinance recites that the required certification of available funds has been provided to the governing body. Either the local unit's attorney or the secretary to the governing body shall ensure that the required certification of available funds has been provided to the governing body prior to it adopting a resolution or ordinance authorizing entering in a contract. The resolution or ordinance authorizing entering into a contract shall also specify the exact line item appropriation(s) and/or appropriation from a source other than the budget, which shall be charged and the maximum dollar value of the contract.

3. The certification of availability of funds shall either be incorporated into the resolution or ordinance authorizing entering into the contract or attached to an original copy of the resolution or ordinance. The certification of availability of funds shall be kept in the files of the municipal clerk, clerk of the board of chosen freeholders or secretary to the governing body.
 4. When a contract is issued as a purchase order or amendment thereto, the certification of availability of funds shall be executed through the budgetary accounting encumbrance process set forth in N.J.A.C. 5:30-5.3(c) and 5:30-5.4(b) shall take the place of, and be used instead of, the written certification of available funds described in (a)1 above.
- (b) When a contract is awarded and a resolution or ordinance of the governing body is not required, the chief financial officer or certifying finance officer shall cause an appropriate entry to be made into the local unit's encumbrance system pursuant to N.J.A.C. 5:30-5.1 and 5.2 prior to the issuance of a contract.

5:30-5.5 Methods of accounting for and certifying available funds for special situations

- (a) Temporary budget: When a local unit is operating under a temporary budget, as provided for in N.J.S.A. 40A:4-19, the local unit may enter into a contract for a period extending beyond the time period funded in the temporary budget upon compliance with the following:
1. If the full cost of that year is to be charged against the temporary budget at the time the contract is authorized by a resolution or ordinance of the governing body, the written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of the full cost of the contract for that fiscal year in the temporary budget, which must contain sufficient appropriations therefor; or
 2. If the full cost of that year would not be charged against the temporary budget at the time the contract is authorized by a resolution or ordinance of the governing body, the written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of at least a prorated amount reflecting all liability to be incurred during the temporary budget period, and the contract must contain a clause making its continuation past the temporary

budget period subject to the appropriation of sufficient funds. Immediately after the final budget is adopted, a written certification of available funds shall be prepared for the remaining balance and filed with the original ordinance or resolution authorizing entering into the contract.

- (b) Open-end contracts: When a contract provides for certain goods or services to be provided upon request, up to an established maximum, and the local unit is not obligated to order, accept or pay for said goods or services, except when it orders them, the local unit may enter into the contract upon compliance with the following:
1. If the full amount of the contract is to be charged against the budget at the time the contract is awarded by the governing body, the written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of the full amount of the contract; or
 2. If the full amount of the contract would not be charged against the budget at the time the contract is awarded by the governing body, no amount shall be encumbered until such time as goods or services are ordered, pursuant to the open-end contract. When this option is utilized, the budgetary accounting encumbrance process set forth in N.J.A.C. 5:30-5.3(c) and 5:30-5.4(b) shall take the place of, and be used instead of, the written certification of available funds set forth at 5:30-5.4(a).
- (c) Contracts up to 12 months not coinciding with fiscal year: When a contract has a term of up to 12 months that does not coincide with the established fiscal year of the local unit, the local unit may enter into the contract upon compliance with the following:
1. If the contract is for a professional service or is for a single undertaking or project with one basic object (such as, but not limited to, contracts for revaluation, codification, management studies and feasibility surveys), rather than being divisible into separate steps or actions which in themselves are independently acceptable as complete work products, then the full amount of the contract shall be charged against the budget and/or appropriation from a source other than the budget at the time the contract is authorized by the governing body and the written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of the full amount of the contract. This method may also, at the option of the local unit, be followed for contracts described in (c)2 below.
 2. If the contract is not for a professional service or for a single undertaking or project with one basic object and it provides for goods or services to be provided at separate intervals over the contract period, then the contract shall be charged against the budgets in the two consecutive fiscal years as follows: at the time the contract is awarded by the governing body (for the amount to be incurred during the first fiscal year); and at the time of the adoption of the temporary budget and the adoption of the final budget (for the remaining amount of the contract for the second fiscal year). The written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of the prorated amount reflecting the liability to be incurred during the first fiscal year and a second written certification of available funds shall certify the

availability of the remaining amount to be incurred during the second fiscal year.

- (d) Multi-year contract requirements when a contract has a term of more than 12 months, the local unit may enter into the contract upon compliance with the following:
1. If the contract is pursuant to N.J.S.A. 40A:11-15:
 - i. If the contract is for construction and related services authorized by N.J.S.A. 40A:11-15(9), the full amount of the contract shall be charged against the budget and/or appropriation from a source other than the budget at the time the contract is awarded by the governing body and the written certification of available funds required by N.J.A.C. 5:30-5.4(a) shall certify the availability of the full amount of the contract;
 - ii. For all other contracts with a term of more than 12 months, an amount reflecting all liability to be incurred during the fiscal year shall be charged to the budget for each fiscal year covered by the term of the contract, subject to such requirements of this section as might apply with respect to temporary budgets, open-end contracts, or contracts not commencing at the beginning of the fiscal year. The written certification of available funds required by N.J.A.C. 5:30-5.4(a) for each fiscal year shall certify the availability of all funds to be charged to the budget for that fiscal year.
 2. If the contract is for a multi-year lease or a contract that is not specifically exempted pursuant to N.J.S.A. 40A:11-15 or 40A:12-5(b), it shall contain a clause making the contract subject to the availability and appropriation annually of sufficient funds as may be required to meet the extended obligation or contain an annual cancellation clause permitting the local unit to unilaterally cancel the contract for the coming year.
- (e) Advance award of contracts: No contract shall be awarded in one fiscal year if the date on which it properly takes effect falls in the next fiscal year unless the contract includes a provision making it subject to the availability and appropriation of sufficient funds in the year in which it takes effect.
- (f) Payment from proceeds shall be as follows:
1. Under the circumstances when a contractual liability may be lawfully incurred and a payment may lawfully be made without an appropriation, such as for professional services for liquidation or foreclosure of tax title liens as provided by N.J.S.A. 40:50-6, the certification of available funds should recite that fact and cite the statute.
 2. Contracts for services to be paid from savings generated by or from State or Federal aid funds not yet received and appropriated are not permitted unless an appropriation is made prior to the time the expenditure of funds is authorized.

5:30-5.6 Accounting for governmental fixed assets

(a) All local units shall have and maintain a fixed assets accounting and reporting system that:

1. Establishes and maintains a physical inventory of fixed assets of nonexpendable, tangible property as defined and limited by the U.S. Office of Management and Budget Circular A-87, Cost Principals for State, Local and Indian Governments, incorporated herein by reference, as amended by 62FR45934 (August 29, 1997), and published at www.whitehouse.gov/omb/circulars/a087/a087-all.html. A local unit may establish a capitalization level less than but not in excess of the threshold in Circular A-87, except that the useful life of such property is at least five years;
2. Places a value on all fixed assets whether constructed or acquired through purchase, grant, or gift. Fixed assets acquired after December 31, 1985 shall be valued on the basis of actual cost; prior to that time, they may be valued at cost or estimated historical cost, the basis of which shall be disclosed in the local unit's annual financial statement;
3. Has a subsidiary ledger, consisting of detailed property records for controlling additions, retirements and transfers of fixed assets. Such ledger shall be maintained and reconciled periodically and at the end of every fiscal year with the general ledger control accounts for fixed assets;
4. Provides property management standards for fixed assets that ensures that:
 - i. Property records are maintained accurately, to reflect a description and source of the property, its ownership, the acquisition cost and date, the percentage of Federal participation in the acquisition, and the location, use, and condition of the property.
 - ii. Property owned by the Federal government is marked as such.
 - iii. Periodic physical inventories are taken and reconciled with property records, with any differences being investigated to reflect the cause of difference;
 - iv. Provides a control system with adequate safeguards against loss, damage, or theft of property, and full investigation and documentation of any losses; and
 - v. Property is adequately maintained to keep the property in good condition; and
5. Provide a Statement of General Fixed Assets in every annual audit report.

(b) The provisions of this section codify and continue the provisions of Technical Advisory Directive No. 2, issued in April of 1985 and effective January 1, 1986, and as amended by Local Finance Notice CFO 96-13.

5:30-5.7 General ledger accounting systems

- (a) All local units shall have and maintain a general ledger for at least the current fund. Nothing shall prohibit a local unit from maintaining a general ledger for other funds.
- (b) The general ledger shall be the official permanent financial record of the local unit. It shall provide a summary of all financial transactions as they have been recorded in the books of original entry, using a double entry, self-balancing accounting system with the general ledger facilitating the preparation of the financial statements. The general ledger, together with the books of original entry and supporting subsidiary ledgers shall constitute the complete accounting system.
- (c) The provisions of this section codify and continue the provisions of Technical Advisory Directive No. 3, issued in April of 1985 and effective January 1, 1986.