

**5:30-9A****ELECTRONIC DISBURSEMENTS AND CLAIMANT CERTIFICATION****5:30-9A.1 Purpose**

The rules in this chapter set forth standards for local units, local authorities, boards of education, and county colleges to follow when using standard electronic funds transfer technologies for the payment of claims pursuant to N.J.S.A. 40A:5-17 and 18A:19-2 or other applicable law in lieu of payment through the use of signed checks or warrants. The rules in this chapter implement minimum fiscal and operational controls applicable to a standard electronic funds transfer technology as a condition of its use by a local unit, local authority, board of education, or county college, thereby mitigating the potential for fraud and abuse in electronic transfer of funds.

**5:30-9A.2 Definitions**

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise:

"Authorized procurement card user" means the individual employee of the local unit, local authority, or county college authorized by the chief administrative officer to make transactions using a procurement card and whose name physically appears on the procurement card.

"Automated clearing house (ACH) transfer" means an electronic funds transfer initiated by the local unit, local authority, board of education, or county college authorizing a banking institution to push funds from the entity's bank account(s) into a vendor or claimant's bank account, executed through the automated clearing house (ACH) electronic clearing and settlement system used for financial transactions.

“Board of education” means a board of education as defined by the “Public School Contracts Law,” N.J.S.A. 18A:18A-1 et seq. The phrase “board of education” shall include a renaissance school project as defined in the Urban Hope Act (N.J.S.A. 18A:36C-1 et seq.) for purposes of this chapter.

“Charge account” or “charge card” means an account, linked to a credit card issued by a specific vendor to which goods and services may be charged on credit, that must be paid when a statement is issued.

"Chief administrative officer" or “chief executive officer” means the appointed employee who oversees the day-to-day administrative affairs of the local unit, local authority, or county college including, but not limited to, the following titles: business administrator, administrator, township or city manager, executive director, or president. For boards of education, the appointed employee shall be the chief school administrator. In the absence of an appointed chief administrative officer, the person designated by law or the governing body to manage the day-to-day administrative affairs of the entity shall assume the administrative responsibilities set forth in this subchapter.

"Chief financial officer" or "CFO" means the official designated by the governing body to be responsible for the proper administration of the finances of the local unit, local authority, or county college under any statutes and such rules promulgated by any State agency as may pertain to the financial administration of said entities. For boards of education, the appointed employee shall be the school business administrator.

“Claimant certification” or “vendor certification” means a certification pursuant to N.J.S.A. 40A:5-16.a, presented by the person claiming or receiving payment, that a detailed bill of items or demand is correct with regard to all particulars.

"Contract" means the written agreement entered into by a local unit, local authority, or county college and an authorized procurement card user for the purposes authorized in this chapter.

"County college" means county college as defined by the "County College Contracts Law," P.L. 1982, c. 189 (N.J.S.A. 18A:64A-25.1 et seq.).

"Disbursement" means any payment of moneys, including any transfer of funds, by any means.

"Electronic funds transfer" means any method of transferring moneys permitted by this rule that does not involve the physical presentation of a paper check, draft, or similar paper instrument including, but not limited to: wire transfers, e-checks, automated clearing house (ACH) transfers, and transactions initiated by phone or fax.

"Electronic data interchange (EDI)" means technology that provides transaction related details, including invoice number(s), pay dates, and other identifying information as appropriate for each transaction.

"Electronic Funds Transfer and Indemnification Agreement" means a signed legally binding indemnification agreement renewed on an annual basis between a local unit, local authority, board of education, or county college and a banking institution authorized to conduct business in New Jersey, which authorizes that institution to access bank accounts for the purpose of conducting electronic funds transfers through the automated clearing house (ACH) operating system.

"Governing body" means the board, commission, council, administrator, or other body by whatever name it may be known having control of the finances of the local unit, local authority, board of education, or county college. In those entities where a chief executive officer is

authorized by law to participate in such control through powers of recommendation, approval, or veto, the term includes such chief executive officer to the extent of such participation.

“Internal controls” mean fiscal and operational controls that ensure safe and proper use of a standard electronic funds transfer system and mitigate the potential for fraud and abuse. For purposes of this chapter, internal controls shall include technological safeguards and cybersecurity practices, as well as processes affected by the governing body, management, and other personnel establishing fiscal and operational controls that reduce exposure to risk of misappropriation.

"Issuer" means the financial institution that has issued a procurement card, provides services, billings, and statements in support of a procurement card or receives payments in satisfaction of obligations created from the use of a procurement card. For purposes of these rules, issuer includes intermediary transfer agents who participate in the process of implementing electronic funds transfers on behalf of the local unit, local authority, or county college.

“Local authority” means an entity subject to the Local Authorities Fiscal Control Law, N.J.S.A. 40A:5A-1 et seq.

"Local unit" means a local unit as defined in N.J.S.A. 40A:5-2.

“National Automated Clearing House Association (NACHA) file” means a file, formatted to National Automated Clearing House Association (NACHA) specifications, which contains instructions for transferring funds between accounts.

"Payment documentation" means such documentation, including evidence of approvals and certifications, as is required by N.J.S.A. 40A:5-16.b, 40A:5-17, and 18A:19.1 et seq., and this chapter prior to the legal paying out of moneys.

"Procurement card" or "P-card" means an account or the physical card that represents an

account governed by characteristics specific to a procurement card. These characteristics include limits of time, amount, access, and purchase category controlled by the local unit, local authority, or county college in accordance with an agreement with an issuer. While such cards may have the appearance of a credit card, such as Visa™, MasterCard©, American Express, or Discover, such general-purpose cards do not feature the controls that procurement cards have and as such are not permitted under these rules.

"Program manager" means an individual possessing a Qualified Purchasing Agent certification from the Division of Local Government Services who is responsible for day-to-day oversight and management of procurement card usage.

"Reconciliation of activity" means the process used to determine that all transactions utilizing standard electronic funds transfer technologies are accurate, authorized and allocable to encumbered appropriations.

“Standard electronic funds transfer technologies” mean technologies that facilitate the transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, initiated by means such as, but not limited to, an electronic terminal, telephone, computer or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account, and incorporate, at a minimum, internal controls set forth in rules promulgated by the Local Finance Board. No general purpose credit or debit card shall be considered a standard electronic funds transfer technology.

"Supervisory review" means the process performed by an individual in a supervisory capacity to confirm the propriety and accuracy of standard electronic funds transfer technologies use initiated by subordinates.

"Transaction" means any activity that may result in demand for payment.

**5:30-9A.3 Authorization to use standard electronic funds transfer technologies for electronic funds transfers**

(a) The governing body of a local unit, local authority, board of education, or county college may adopt policies that permit its specifically named officers and employees to use standard electronic funds transfer technologies for electronic funds transfers, except that boards of education may not utilize procurement cards, charge cards, or charge accounts. Such policies shall be in writing and shall be approved by resolution or ordinance of the governing body, as appropriate. No governing body may adopt policies that fail to implement, at a minimum, the internal controls set forth in this chapter.

(b) This section does not authorize local units, local authorities, boards of education, or county colleges to exceed the maximum bid thresholds or other limits set forth in the Local Public Contracts Law, N.J.S.A. 40A:11-1 et seq, Public School Contracts Law, N.J.S.A. 18A:18A-1 et seq., or the County College Contracts Law, N.J.S.A. 18A:64A-25.1 et seq.

(c) Procurement card issuers and providers of ACH and wire transfer services are to be financial institutions chartered by Federal or State authority. ACH and wire transfer services must be provided by a financial institution covered by the Governmental Unit Deposit Protection Act, N.J.S.A. 17:9-41 et seq.

(d) A procurement card number may be used in lieu of a credit card number required by a vendor.

**5:30-9A.4 Standard electronic funds transfer technologies; internal controls and conditions for use**

(a) Local units, local authorities, boards of education, and county colleges shall only initiate and approve electronic funds in accordance with this subchapter. Standard electronic funds transfer technologies shall incorporate, at minimum, the following features and safeguards:

1. The ability to designate specific individuals able to initiate disbursements, barring those not authorized to initiate disbursements from doing so;
2. The ability to designate individuals who may authorize disbursement, and segregate initiation and authorization functions. Password or other security controls shall be in place to restrict access based on an individual's authorized role;
3. The ability to confirm receipt of payment by vendor;
4. The ability to bar automatic debits from local unit accounts;
5. The ability for appropriate officials to view transaction history, generate activity reports, and conduct supervisory reviews of all transactions;
6. The ability to backup transaction data and store such data offline;
7. Measures to mitigate risk of duplicate payment;
8. The creation and maintenance of an audit trail, such that transaction history, including demands for payment and payment initiation, authorization, and confirmation, can be independently tracked and detailed through the use of an electronic data interchange or functional equivalent;
9. The following cybersecurity best practice framework shall be followed:
  - i. Any system supporting a standard electronic funds transfer technology shall:
    - (1) Be hosted on dedicated servers or in a FedRAMP Moderate Impact Level Authorized Cloud. When using cloud services, the vendor shall check provider credentials and contracts;

- (2) Encrypt stored and transmitted financial information and personal identification information;
- (3) Maintain only critical personal identification information. Social Security numbers shall not be utilized as identification numbers for system purposes;
- (4) Employ a resilient password policy;
- (5) Undergo regular and stress testing;
- (6) Have regular security updates on all software and devices carried out;
- (7) Have back-up plans, information disposal, and disaster recovery procedures created and tested;
- (8) Undergo regular security risk assessments for detecting compromises, along with regular monitoring for vulnerabilities, with necessary patches and updates being implemented; and
- (9) Develop a Cybersecurity Incident Response Plan; and

ii. The managing organization shall:

- (1) Check provider credentials and contracts when using cloud services;
- (2) Educate staff in good security measures and perform employee background checks; and
- (3) Create a computer security incident response team, generally called a CSIRT;

10. Financial institution providers of standard electronic funds transfer technologies shall provide annual evidence of satisfactory internal control to the chief financial officer.

11. ACH payments shall follow rules set forth by the National Automated Clearing



House Association (NACHA) or an equivalent successor banking industry standard. In addition, the following safeguards shall be instituted:

- i. All electronic funds transfers through the ACH must utilize electronic data exchange (EDI) technology and be subject to an Electronic Funds Transfer and Indemnification Agreement;
- ii. A user that can generate an ACH file shall neither have upload rights nor access that permits editing of a vendor routing number or vendor account number;
- iii. Each edit to vendor ACH information shall be approved by a separate individual and be logged showing the user editing the data, date stamp, IP address, and the approval of the edit;
- iv. Any ACH file that is in plain text format shall not be stored on a local computer past the time transmitted to a bank; and
- v. If supported by the financial institution of a local unit, local authority, board of education, or county college, said entities shall avail themselves of the ability to recall ACH payments via NACHA file;

12. A charge account or charge card issued by a specific vendor, which can only be utilized for goods and services provided by said vendor, may be utilized by local units, local authorities, and county colleges, but must incorporate the following safeguards:

- i. Outstanding balances shall be required to be paid in full each month. No local unit shall utilize revolving charge cards;

- ii. Allows the local unit, local authority, or county college to designate specific employees authorized to utilize the charge account or card and track purchases by individual user;
  - iii. Allows dollar amount limits to be placed on each single purchase; and
  - iv. Provides the ability to receive itemized statements and pay by invoice; and
13. No charge account or charge card issued by a specific vendor may be utilized for travel or dining expenses.

(b) The governing body of a local unit, local authority, board of education, or county college may only utilize standard electronic funds transfer technologies upon instituting, at a minimum, the following fiscal and operational controls:

1. The appropriate administrative ordinance or resolution shall be adopted authorizing the policies and procedures governing the use of standard electronic funds transfer technologies consistent with this subchapter;
2. The CFO shall ensure that the minimum internal controls set forth in this chapter, along with those internal controls set forth in the policies and procedures of the local unit, local authority, board of education, or county college are in place and being adhered to;
3. Initiation and authorization roles shall be segregated, and password-restricted. The CFO shall be responsible for authorization of all electronic funds transfers, unless the transfer was initiated by the CFO. If the CFO initiates an electronic funds transfer, another officer designated by the governing body that is not under the supervision of the CFO shall be responsible for authorization of the transfer. A backup officer may be designated in the event the CFO or chief administrative officer are unavailable. All payment of claims ordinances or resolutions enacted pursuant to N.J.S.A. 40A:5-17.b

shall, at a minimum, comply with the provisions of this section. This section shall not be interpreted to prevent a local unit, local authority, board of education, or county college from requiring more than one officer to authorize an electronic funds transfer.

i. For counties organized pursuant to the provisions of the Optional County Charter Law, N.J.S.A. 40:41A-1 et seq., unless otherwise set forth in an ordinance adopted pursuant to N.J.S.A. 40A:5-17.b that provides a method of disbursing moneys or payment of claims, any electronic funds transfer shall be initiated by the chief executive officer.

ii. For counties not organized pursuant to the provisions of the Optional County Charter Law, N.J.S.A. 40:41A-1 et seq., unless otherwise set forth in a resolution adopted pursuant to N.J.S.A. 40A:5-17.b that provides a method of disbursing moneys or payment of claims, any electronic funds transfer shall be initiated by the clerk of the freeholder board.

iii. Unless otherwise set forth in an ordinance adopted pursuant to N.J.S.A. 40A:5-17.b that provides a method of disbursing moneys or payment of claims, any electronic funds transfer by a municipality shall be initiated by the mayor or other chief executive officer, and authorized by the municipal clerk in addition to the chief finance officer.

4. No local unit, including a county college, shall disburse funds unless the goods and services are certified as having been provided pursuant to N.J.S.A. 40A:5-16.b, unless otherwise permitted pursuant to N.J.S.A. 40A:5-16.c(1) and this subchapter;

5. Each bill list approved or ratified by the governing body shall indicate the type of standard electronic funds transfer technology that has been or will be utilized in paying

the claim, along with a reference that permits tracking;

6. On no less than a weekly basis, activity reports on all transactions utilizing standard electronic funds transfer technologies shall be reviewed by the CFO or another individual under the supervision of the CFO, and in the case of a board of education, an individual appointed by the governing body on an annual basis that is not under the direct supervision of the CFO and is not empowered to initiate or authorize electronic funds transfers. Reconciliation shall be performed on a regular basis. Any activity reports generated by the CFO shall be monitored by another officer, designated by the governing body, who is not under the supervision of the CFO;

7. A user that uploads an ACH file shall check the amounts and recipients against a register displaying ACH payments; and

8. For a charge account or card issued by a specific vendor, a local unit, local authority, or county college shall:

- i. Issue a monthly purchase order for each individual charge account or card authorizing a maximum amount that can be expended each month;
- ii. Designate specific employees able to utilize the account or card;
- iii. Require billing by invoice;
- iv. Pay the outstanding balance in full each month; and
- v. Establish policies and procedures for use, such as are required for procurement card usage pursuant to N.J.A.C. 5:30-9A.7, except that the designation of a program manager shall not be required.

**5:30-9A.5 Procurement card limit and control requirements**

(a) A procurement card differs substantially from a credit card issued by a financial institution because of the controls that may be exercised on its use. Before selection of an issuer (and in addition to consideration of fees and rebates, software and computer requirements, and accessibility to the vendor), the following limits and controls shall be incorporated into the procurement card program:

1. The ability to control limits on-line and in real-time;
2. The ability to establish, change or delete limits on each card individually;
3. The ability to categorically restrict the use of individual cards;
4. The ability to establish a cumulative limit for a specific period;
5. The ability to review current activity on-line; and
6. The ability to receive sorted or sortable detailed reports of activity, by authorized card user, department or spending category.

**5:30-9A.6 Claimant certification; when payment can be made without claimant certification**

(a) A certification pursuant to N.J.S.A. 40A:5-16.a that a bill or demand is correct must either feature an original signature, signature stamp, facsimile signature, or electronic signature of the individual making the certification.

(b) For boards of education, claimant certification shall be in accordance with the provisions of N.J.S.A. 18A:19-3.

(c) For a local unit, including a county college, payments may be made without certification by the vendor or claimant as to the bill or demand being correct under the following circumstances:

1. When payment to vendors is required in advance of the delivery of the following materials or services, if those materials or services cannot be obtained from any other source at comparable prices, including:
  - i. For such purposes as may be permitted pursuant to N.J.S.A. 40A:5-16.2 and 16.3;
  - ii. Payment obligations to the State or Federal governments;
  - iii. Membership in a nonprofit organization;
  - iv. Educational courses, including, but not limited to, those where continuing education credits are awarded;
  - v. Registration for a conference or convention sponsored by a nonprofit organization; and
  - vi. Website hosting, including registration and maintenance of a domain name;
2. When ordering, billing, and payment transactions for goods or services are made through a computerized electronic transaction utilizing standard electronic funds transfer technologies; and
3. Where the local unit institutes a standard policy through resolution or ordinance, as appropriate, to not require a vendor or claimant certification if said vendor or claimant does not provide, as part of its normal course of business, a certification from an individual with knowledge of the transaction that a bill or demand is correct. In instituting such a policy, the local unit shall have the discretion to require vendor or claimant certification as the local unit deems necessary or appropriate.

(d) The provisions of (c)2 and 3 above shall not apply to the reimbursement of employee expenses or payment for personal services.

1. No employee expenses shall be reimbursed, unless the employee provides a detailed statement, certified in writing by the employee, along with documentation in support of each expense.
  2. For purposes of this section, a “personal service” shall be a service provided exclusively and entirely by the individual seeking payment.
- (e) Vendor or claimant certification shall not be required as a condition for payment to be made for debt service or any services set forth under N.J.S.A. 40A:5-16.d.

#### **5:30-9A.7 Policies and practices governing use of procurement cards; audit**

- (a) The local unit, local authority, or county college shall establish the following procedures to ensure that the use of procurement cards is governed by sound fiscal and management controls:
1. All authorized procurement card users, individuals responsible for supervisory review, individuals responsible for activity reconciliations, the purchasing agent, the program manager, the chief administrative officer, and the CFO are required to complete training on the policies and procedures governing the use of procurement cards;
  2. Procurement cards shall be issued in the name of a specific individual. Said individual, upon completion of the requisite training, shall complete and sign a contract of understanding that includes financial responsibility for misuse of the procurement card. A card shall not be issued unless it can be shown that such issuance is necessary for the conduct of ongoing operations in the normal course of providing government services;
  3. Under no circumstance shall procurement cards be utilized for personal use.
- Procurement cards shall not be used for travel and dining expenses for government employees, volunteers, or officials. Existing law, N.J.S.A. 40A:5-16.1, provides

mechanisms for employees to receive travel and expense funds in advance. Subject to the authorization process and limits of this subchapter, procurement cards may be used by a Qualified Purchasing Agent of a county, or the County Sheriff or County Prosecutor if authorized by a resolution or ordinance of the governing body of the county, to arrange for travel, room, and board expenses of defendants, witnesses, or experts required for matters before the courts. This section shall not be interpreted to bar the use of procurement cards for the cost of educational courses, or registration for conferences and conventions sponsored by a nonprofit organization;

4. A procurement card is not to be issued to an individual who is neither covered by a fidelity bond nor by a blanket honesty policy held by the local unit, local authority, or county college, and shall be cancelled if a person to whom a procurement card is issued becomes ineligible for coverage under the fidelity bond or blanket honesty policy; and
5. Violations of policies governing the use of procurement cards or intermediary transfer agents shall result in appropriate remedial or disciplinary action without regard to the position held by the card user.

(b) The chief administrative officer, in consultation with the chief financial officer and the program manager, if that individual is someone other than the chief financial officer, will identify positions within the organizational structure that will benefit from the use of a procurement card and establish limits by amount, period (time), and category of usage permissible. Under the supervision of the chief financial officer, the program manager shall develop and administer a supervisory review process, as well as engage in any other oversight or management duties required to ensure the proper usage of procurement cards. The chief financial



officer or an individual under the supervision of the chief financial officer other than the program manager shall be responsible for reconciliation of activity.

(c) The program manager, subject to the supervision of the chief financial officer if the program manager is someone other than the chief financial officer, is responsible for the identification, analysis, and management of all risks associated with the use of procurement cards.

(d) The local unit, local authority, or county college shall publish and distribute within the organization all policies and procedures that govern all procurement card users, their supervisors, the purchasing agent, the accounts payable, and accounting personnel responsible for reconciliation of procurement card statements and the disbursement of funds in satisfaction thereof. Said policies and procedures shall, at a minimum, describe the following:

1. Who may use a procurement card;
2. The documentation required to be submitted by authorized procurement card users to support transactions, including electronic funds transfers;
3. The training required before an individual is permitted to use a procurement card;
4. The types of transactions permitted (personal use is not permissible);
5. The initial limits and procedure for establishing or revising limits in the future;
6. Encumbrance of limits assigned or amounts to be transferred electronically;
7. The penalties and disciplinary action to be assessed for improper use of a procurement card;
8. Who is to conduct supervisory reviews;
9. Procedures for contesting items appearing on the procurement card statement;
10. Procedures for collecting restitution resulting from misuse;
11. Reconciliation of activity; and

12. Requirements for distribution of funds to the issuer.

(e) The chief financial officer shall assure that the following information is gathered and reviewed prior to any disbursement of funds to the issuer:

1. Evidence of each transaction, including a receipt or other acceptable documentation provided by the vendor of goods or services, and certified by the authorized procurement card user pursuant to N.J.S.A. 40A:5-16.b, as having been received as described;
2. Evidence of supervisory review, certified by the reviewer that the purchase was appropriate and necessary;
3. A reconciliation of activity performed upon the transaction evidence, supervisory review, and procurement card issuer statement; and
4. A distribution report indicating the complete allocation of funds to be paid against previously appropriated and encumbered items.

(f) The chief financial officer is responsible for monitoring and assessing the quality of internal control performance on a continuing basis to assure that all controls are actively pursued each cycle without exception.

**5:30-9A.8 (Reserved)**