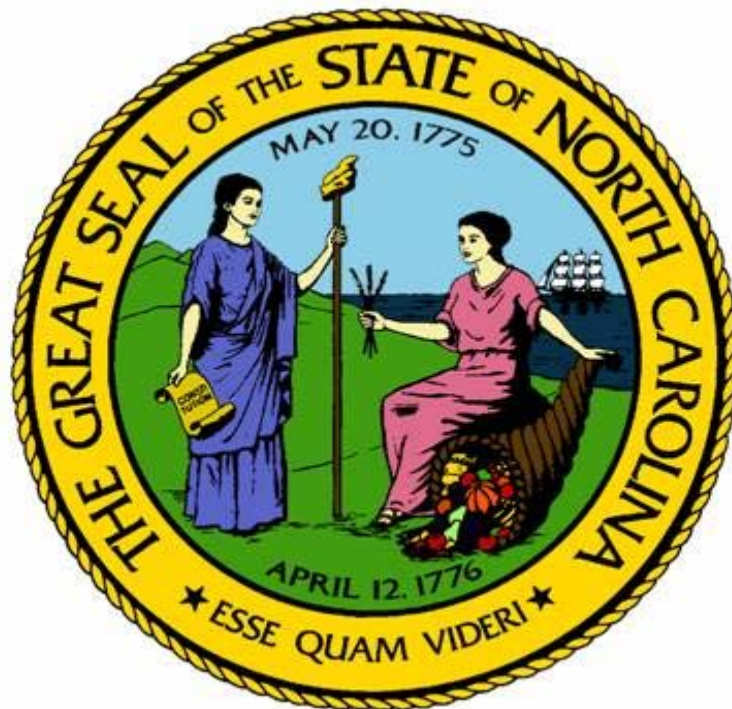


OFFICE OF STATE BUDGET AND MANAGEMENT

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North Carolina **Budget Manual**



<http://www.osbm.state.nc.us>

**STATE OF NORTH CAROLINA
BUDGET MANUAL
OFFICE OF STATE BUDGET AND MANAGEMENT**

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INTRODUCTION

The Office of State Budget and Management (OSBM) prepares the Budget Manual for the State of North Carolina for use by state departments, agencies and institutions in the preparation and administration of their budgets. The Manual is a guide to state departments and agencies in discharging their duties under applicable laws and regulations. It is the responsibility of department heads and their fiscal staffs to acquaint themselves with the Manual.

The Manual is divided into nine major sections:

1. State Budget Act
2. Budget Development
3. Budget Execution
4. Fiscal Policies and Regulations
5. Travel Policies and Regulations
6. Personnel
7. Rule Analysis
8. Reporting
9. Municipal Population Estimates
10. Glossary

There are several features that should facilitate referencing and navigating throughout the Manual. First, there is a table of contents at the beginning and an index at the end of each section that will assist users with quick referencing. Second, specific General Statute citations are referenced throughout the Manual and the online version includes direct links to the appropriate General Statute. A third feature, also in the online version, is the inclusion of direct links to other sites for useful information and documents. Finally, this manual includes a new section on Rule Analysis for agencies in evaluating the effects of rules.

All revisions, supplements and deletions to the Manual will be issued through the State Budget Officer. Departmental officials and their staffs should maintain a current version of the Manual that will be updated online periodically by OSBM. The header at the top of each page in the Manual reflects the effective date of this version of the Manual and the date of the most recent updates to this version. The appendix at the end of the Manual lists revisions to date.

Any exceptions to the rules, regulations, or guidelines stated in the Budget Manual, except those exceptions expressly delegated, must be approved by OSBM. These policies may be superseded by OSBM directives or agency policies as long as they conform to the basic principles of the State Budget Manual.

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An [OSBM staff directory](#) and a list of [Budget Memorandums](#) are available on OSBM's website.

Questions, comments, or suggestions concerning the Budget Manual may be sent to Budget-Manual-OSBM@ncmail.net or you can call 919-807-4700. Periodically, OSBM will revise the Budget Manual to reflect policy and procedure changes and to make the Budget Manual more user-friendly.

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1.0 STATE BUDGET ACT

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Chapter 143C.

(Effective July 1, 2007)

Article 1.

General Provisions.

§ 143C-1-1. Purpose and definitions.

(a) Title of Chapter. – This Chapter is the "State Budget Act" and may be cited by that name.

(b) The provisions of this Chapter shall apply to every State agency and to every non-State entity that receives or expends any State funds. No State agency or non-State entity shall expend any State funds except in accordance with an act of appropriation and the requirements of this Chapter. The provisions of Chapter 120 of the General Statutes shall continue to apply to the General Assembly and to control its expenditures and in the event of a conflict with this Chapter, the provisions of Chapter 120 of the General Statutes shall control. Nothing in this Chapter abrogates or diminishes the inherent power of the legislative, executive, or judicial branch.

(c) Purpose. – This Chapter establishes procedures for the following:

- (1) Preparing the recommended State budget.
- (2) Enacting the State budget.
- (3) Administering the State budget.

(d) Definitions. – The following definitions apply in this Chapter:

- (1) Appropriation. – An enactment by the General Assembly authorizing the withdrawal of money from the State treasury. An enactment by the General Assembly that authorizes, specifies, or otherwise provides that funds may be used for a particular purpose is not an appropriation.
- (2) Biennium. – The two fiscal years beginning on July 1 of each odd-numbered year and ending on June 30 of the next odd-numbered year.
- (3) Budget. – A plan to provide and spend money for specified programs, functions, activities, or objects during a fiscal year.
- (4) Budget year. – The fiscal year for which a budget is proposed and enacted.
- (5) Capital improvement. – A term that includes real property acquisition, new construction or rehabilitation of existing facilities, and repairs and renovations.
- (6) Capital Improvements Appropriations Act. – An act of the General Assembly containing appropriations for one or more capital improvement projects.
- (7) Certified budget. – The budget as enacted by the General Assembly including adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organ-

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izational or budget changes directed by the General Assembly but left to the Director to carry out.

- (8) Controller. – The Office of the State Controller.
- (9) Current Operations Appropriations Act. – An act of the General Assembly estimating revenue availability for and appropriating money for the current operations of State government during one or more budget years.
- (10) Departmental receipt. – Fees, licenses, federal funds, grants, fines, penalties, tuition, and other similar collections or credits generated by State agencies in the course of performing their governmental functions that are applied to the cost of a program administered by the State agency or transferred to the Civil Penalty and Forfeiture Fund pursuant to G.S. 115C-457.1, and that are not defined as tax proceeds or nontax revenues. Departmental receipts may include moneys transferred into a fiscal year from a prior fiscal year.
- (11) Director. – The Director of the Budget, who is the Governor.
- (12) Encumbrance. – A financial obligation created by a purchase order, contract, salary commitment, unearned or prepaid collections for services provided by the State, or other legally binding agreement.
- (13) Fiscal period. – A fiscal biennium beginning in odd-numbered years or the first or second fiscal year within a fiscal biennium.
- (14) Fiscal year. – The annual period beginning July 1 and ending on the following June 30.
- (15) Fund. – A fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, and changes therein, for the purpose of carrying on stated programs, activities, and objectives of State government.
- (16) General Fund Operating Budget. – The sum of all appropriations from the General Fund for a fiscal year, except appropriations for (i) capital improvements, including repairs and renovations, and (ii) one-time expenditures due to natural disasters or other emergencies shall not be included.
- (17) Information technology. – As defined in G.S. 147-33.81(2).
- (18) Non-State entity. – Any of the following that is not a State agency: an individual, a firm, a partnership, an association, a county, a corporation, or any other organization or group acting as a unit. The term includes a unit of local government and public authority.
- (19) Nontax revenue. – Revenue that is not a tax proceed and that is required by statute to be credited to the General Fund.
- (20) Object or line item. – An expenditure or receipt in a recommended or enacted budget that is designated in the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller.

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- (21) Performance information. – The organizational structure, agency activity statements, performance indicators, and analyses of program efficiency and effectiveness.
- (22) Public authority. – A municipal corporation that is not a unit of local government or a local governmental authority, board, commission, council, or agency that (i) is not a municipal corporation and (ii) operates on an area, regional, or multiunit basis, and the budgeting and accounting systems of which are not fully a part of the budgeting and accounting systems of a unit of local government.
- (23) Purpose or program. – A group of objects or line items for support of a specific activity outlined in a recommended or enacted budget that is designated by a nine-digit fund code in accordance with the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller.
- (24) State agency. – A unit of the executive, legislative, or judicial branch of State government, such as a department, an institution, a division, a commission, a board, a council, or The University of North Carolina. The term does not include a unit of local government or a public authority.
- (25) State funds. – Any moneys including federal funds deposited in the State treasury except moneys deposited in a trust fund or agency fund as described in G.S. 143C-1-3.
- (26) State resources. – All financial and nonfinancial assets of the State.
- (27) State revenue. – An increase, other than interfund transfers and debt issue proceeds, in the financial assets of any State governmental or proprietary fund.
- (28) Statutory appropriation. – An appropriation that authorizes the withdrawal of funds from the State treasury during fiscal years extending beyond the current fiscal biennium, without further act of the General Assembly.
- (29) Unit of local government. – A municipal corporation that has the power to levy taxes, including a consolidated city-county, as defined by G.S. 160B-2(1), and all boards, agencies, commissions, authorities, and institutions thereof that are not municipal corporations.
- (30) Unreserved fund balance. – The available General Fund cash balance effective June 30 after excluding documented encumbrances, unearned revenue, federal grants, statutory requirements, and other legal obligations to General Fund cash as determined by the State Controller. Beginning unreserved fund balance equals ending unreserved fund balance from the prior fiscal year. (2006-66, s. 6.19(h); 2006-203, s. 3; 2006-221, s. 3A; 2006-259, s. 40(h).)

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§ 143C-1-2. Appropriations: constitutional requirement; reversions.

(a) Appropriation Required to Withdraw State Funds From the State Treasury. – In accordance with Section 7 of Article V of the North Carolina Constitution, no money shall be drawn from the State treasury but in consequence of appropriations made by law. A law enacted by the General Assembly that authorizes the expenditure of money from the State treasury is an appropriation; however, an enactment by the General Assembly that authorizes, specifies, or otherwise provides that funds may be used for a particular purpose is not an appropriation.

(b) Reversions. – Unless otherwise provided by law, at the end of the fiscal year the unexpended, unencumbered balance of an appropriation reverts to the fund from which the appropriation was made; except that (i) an appropriation to the General Assembly shall not revert unless otherwise provided by the Legislative Services Commission, (ii) an appropriation for a capital improvement project shall revert as provided by G.S. 143C-8-11, and (iii) an appropriation for the implementation of information technology (IT) projects shall not revert until the project is implemented or abandoned. (2006-203, s. 3.)

§ 143C-1-3. Fund types.

(a) Types. – The Controller shall account for State resources through use of the fund types listed in this subsection. The Controller may not establish a fund type that differs from the listed fund types unless the Governmental Accounting Standards Board has approved the use of the different fund type.

The fund types are described as follows, except that where a conflict exists between a description used in this section and the definition of the corresponding fund type issued by the Governmental Accounting Standards Board, it is presumed that the definition issued by the Governmental Accounting Standards Board shall prevail.

Governmental Funds.

- (1) Capital Projects Funds. – Accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.
- (2) Debt Service Funds. – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- (3) General Fund. – Accounts for all financial resources except those required to be reported in another fund.
- (4) Special Revenue Funds. – Accounts for the proceeds of specific revenue sources, other than trusts for individuals, private organizations, or other governments or for major capital projects, that are legally restricted to expenditure for specified purposes.

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- (5) Permanent Funds. – Accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Funds.

- (6) Enterprise Funds. – Accounts for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Each of these criteria should be applied in the context of the activity's principal revenue sources.
- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
 - b. Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues.
 - c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.
- (7) Internal Service Funds. – Accounts for any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Agency and Trust Funds.

- (8) Agency Funds. – Accounts for resources held by the reporting government in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.
- (9) Investment Trust Funds. – Accounts for the external portion of investment pools reported by the sponsoring government.
- (10) Pension and Other Employee Benefit Trust Funds. – Accounts for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.
- (11) Private-Purpose Trust Funds. – Accounts for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

(b) Designation. – If State resources are designated by law as a fund or an account within a fund and there is a conflict between the legal designation and the appropriate accounting designation of the State resources, then the Controller shall determine the appropriate des-

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ignation of the State resources based on the intended use and financial treatment of the State resources as set out in the law establishing the fund or account. The Controller shall determine the fund type of all separate funds and account for them accordingly. The Controller shall keep the total number of funds to the minimum number practical.

(c) Notwithstanding subsections (a) and (b) of this section, funds established for The University of North Carolina and its constituent institutions pursuant to the following statutes are exempt from Chapter 143C of the General Statutes and shall be accounted for as provided by those statutes, except that the provisions of Article 8 of Chapter 143C of the General Statutes shall apply to the funds: G.S. 116-35, 116-36, 116-36.1, 116-36.2, 116-36.4, 116-36.5, 116-36.6, 116-44.4, 116-68, 116-220, 116-235, 116-238. (2006-203, s. 3.)

§ 143C-1-4. Interest earnings credited to the General Fund; interest earnings on Highway Fund and Highway Trust Fund credited to those funds.

(a) Interest Earnings Credited to the General Fund. – Unless otherwise provided by law, interest earned on all funds shall be credited to the General Fund.

(b) Exception for Interest Earnings on Highway Fund and Highway Trust Fund. – Interest earned by the Highway Fund and the Highway Trust Fund shall be credited to the Highway Fund and the Highway Trust Fund respectively. (2006-203, s. 3.)

Article 2.

Director of the Budget.

§ 143C-2-1. Governor is Director of the Budget.

(a) Governor is Director of the Budget. – The Governor is the Director of the Budget. In that capacity, the Governor is required by Article III, Section 5(3) of the North Carolina Constitution to prepare and recommend a budget and to administer the budget as enacted by the General Assembly. The Governor's powers under this Chapter extend to all agencies, institutions, departments, bureaus, boards, and commissions of the State of North Carolina under whatever name now or hereafter known. The Governor may delegate the authority to perform a power or duty of the Director under this Chapter to the Office of State Budget and Management or to one or more persons.

(b) State Agencies and Non-State Entities to Provide Information Requested by the Director; Examination of Persons and Agencies by Director. – Upon request, all State agencies and non-State entities subject to this act shall furnish the Director, in the form and at the time requested by the Director, any information desired by the Director in relation to their respective activities or fiscal affairs so long as the information is not confidential pursuant to federal or State law. The Director may subpoena and examine under oath any person directly or indirectly responsible for the operations of any executive State agency or any non-State entity subject to the provisions of this Chapter.

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(c) Governor May Request State Auditor to Audit State Agency or Non-State Entity Receiving State Funds. – As authorized by G.S. 147-64.6(c)(3), the Governor may request the State Auditor to make an audit of or cause an audit to be made of the books and accounts of any State agency and may require that the cost of the audit be borne by the State agency. The Governor may also request the State Auditor to make an audit of or cause an audit to be made of the books and records of any non-State entity receiving State funds pursuant to the State Auditor's authority granted in G.S. 147-64.7. (2006-203, s. 3.)

§ 143C-2-2. Collection of State Budget Statistics.

The Director shall coordinate the efforts of governmental agencies to collect, disseminate, and analyze economic, demographic, and social statistics pertinent to State budgeting. The Director shall do all of the following:

- (1) Prepare and release the official demographic and economic estimates and projections for the State.
- (2) Conduct special economic and demographic analyses and studies to support statewide budgeting.
- (3) Develop and coordinate cooperative arrangements with federal, State, and local governmental agencies to facilitate the exchange of data to support State budgeting.
- (4) Report major trends that influence revenues and expenditures in the State budget in the current fiscal year and that may influence revenues and expenditures over the next five fiscal years. (2006-203, s. 3.)

§ 143C-2-3. Fiscal analysis required for any State agency bill that affects the budget.

A State agency proposing a bill that affects the State budget shall prepare a fiscal analysis for the bill and submit the analysis to the Fiscal Research Division upon introduction of the bill. The fiscal analysis shall estimate the impact of the legislation on the State budget for the first five fiscal years the legislation would be in effect. (2006-203, s. 3.)

§ 143C-2-4. Director of the Budget may direct State Treasurer to borrow money for certain payments.

The Director of the Budget, by and with the consent of the Governor and Council of State, may authorize and direct the State Treasurer to borrow in the name of the State, in anticipation of the collection of taxes, such sum as may be necessary to make the payments on the appropriations as even as possible and to preserve the best interest of the State in the conduct of the various State agencies during each fiscal year. (2006-203, s. 3.)

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Article 3.

Development of the Governor's Recommended Budget.

§ 143C-3-1. Budget estimate for the legislative branch.

The Legislative Services Officer shall give the Director an estimate of the financial needs of the legislative branch for the upcoming fiscal period in accordance with the schedule prescribed by the Director. The estimates for the legislative branch shall be approved and certified by the President Pro Tempore of the Senate and the Speaker of the House of Representatives. The estimates shall be itemized in accordance with the accounting classifications adopted by the Controller. The Director shall include the estimates in the budget the Director submits to the General Assembly. The Director may recommend changes to these estimates in the budget submitted to the General Assembly. (2006-66, s. 6.19(g); 2006-203, s. 3; 2006-221, s. 3A; 2006-259, s. 40(g).)

§ 143C-3-2. Budget estimate for the judicial branch.

The Administrative Officer of the Courts shall give the Director an estimate of the financial needs of the judicial branch for the upcoming fiscal period in accordance with the schedule prescribed by the Director. The estimates for the judiciary shall be approved and certified by the Chief Justice. The estimates shall be itemized in accordance with the accounting classifications adopted by the Controller. The Director shall include these estimates in the budget the Director submits to the General Assembly. The Director may recommend changes to these estimates in the budget submitted to the General Assembly. (2006-203, s. 3.)

§ 143C-3-3. Budget requests from State agencies in the executive branch.

(a) General Provisions. – A State agency that is not in the legislative or judicial branch of government shall submit its budget requests for the upcoming fiscal period to the Director in accordance with the schedule prescribed by the Director. The Director shall give each State agency instructions to be used in estimating the funds required to provide necessary State government programs and capital improvements. The estimates shall be itemized in accordance with the accounting classifications adopted by the Controller and shall be approved and certified by the respective head or responsible officer of the agency submitting them.

(b) University of North Carolina System Request. – Notwithstanding subsections (c), (d), and (e) of this section, pursuant to G.S. 116-11 the Board of Governors shall prepare a unified budget request for all of the constituent institutions of The University of North Carolina, including repairs and renovations, capital fund requests, and information technology.

(c) Repairs and Renovations Funds Request. – In addition to any other information requested by the Director, any State agency proposing to repair or renovate an existing facility shall accompany that request with all of the following:

- (1) A description of current deficiencies and proposed corrections with a review and evaluation of that proposal prepared by the Department of Administration.

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- (2) An estimate of project costs and cash flow requirements approved by the Department of Administration.
 - (3) A certification of project feasibility as described in G.S. 143-341.
 - (4) An explanation of the method by which the repair or renovation is to be financed.
- (d) Capital Funds Request. – In addition to any other information requested by the Director, any State agency proposing to (i) acquire real property, (ii) construct a new facility, (iii) expand the building area (sq. ft.) of an existing facility, or (iv) rehabilitate an existing facility to accommodate new or expanded uses shall accompany that request with all of the following:
- (1) An estimate of its space needs and other physical requirements, together with a review and evaluation of that estimate prepared by the Department of Administration.
 - (2) An estimate of project costs and cash flow requirements approved by the Department of Administration.
 - (3) A certification of project feasibility as described in G.S. 143-341.
 - (4) An explanation of the method by which the acquisition, construction, or rehabilitation is to be financed.
 - (5) An estimate of maintenance and operating costs, including personnel, for the project, covering the first five years of operation.
 - (6) An estimate of revenues, if any, to be derived from the project, covering the first five years of operation.

This subsection does not apply to requests for State resources for railroad, highway, or bridge construction or renovation.

(e) Information Technology Request. – In addition to any other information requested by the Director, any State agency requesting significant State resources, as defined by the Director, for the purpose of acquiring or maintaining information technology shall accompany that request with all of the following:

- (1) A statement of its needs for information technology and related resources, including expected improvements to programmatic or business operations, together with a review and evaluation of that statement prepared by the State Chief Information Officer.
- (2) A statement setting forth the requirements for State resources, together with an evaluation of those requirements by the State Chief Information Officer that takes into consideration the State's current technology, the opportunities for technology sharing, the requirements of Article 3D of Chapter 147 of the General Statutes, and any other factors relevant to the analysis.
- (3) A statement by the State Chief Information Officer that sets forth viable alternatives, if any, for meeting the agency needs in an economical and efficient manner.
- (4) In the case of an acquisition, an explanation of the method by which the acquisition is to be financed.

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This subsection shall not apply to requests submitted by the General Assembly, the Administrative Office of the Courts, or The University of North Carolina. (2006-203, s. 3.)

§ 143C-3-4. Budget requests from non-State entities.

Unless otherwise provided by law, budget requests from non-State entities shall be submitted to the Director or to a State agency designated by the Director. A State agency designated to receive a budget request from a non-State entity shall evaluate the request and forward its evaluation to the Director in accordance with procedures established by the Director. This section does not apply to the General Assembly or to actions of the General Assembly to appropriate funds to non-State entities. (2006-203, s. 3.)

§ 143C-3-5. Budget recommendations and budget message.

(a) Budget Proposals. – The Governor shall present budget recommendations to each regular session of the General Assembly at a mutually agreeable time to be fixed by joint resolution.

(b) Odd-Numbered Fiscal Years. – In odd-numbered years the budget recommendations shall include the following components:

(1) A Recommended State Budget setting forth goals for improving the State with recommended expenditure requirements, funding sources, and performance information for each State government program and for each proposed capital improvement. The Recommended State Budget may be presented in a format chosen by the Director, except that the Recommended State Budget shall clearly distinguish program continuation requirements, program reductions, program eliminations, program expansions, and new programs, and shall explain all proposed capital improvements in the context of the Six-Year Capital Improvements Plan and as required by G.S. 143C-8-6. The Director shall include as continuation requirements the amounts the Director proposes to fund for the enrollment increases in public schools, community colleges, and the university system.

(2) A Budget Support Document showing, for each budget code and purpose or program in State government, accounting detail corresponding to the Recommended State Budget.

a. The Budget Support Document shall employ the North Carolina Accounting System Uniform Chart of Accounts adopted by the State Controller to show both uses and sources of funds and shall display in separate parallel columns all of the following: (i) actual expenditures and receipts for the most recent fiscal year for which actual information is available, (ii) the certified budget for the preceding fiscal year, (iii) the currently authorized budget for the preceding fiscal year, (iv) program continuation requirements for each fiscal year of the biennium, (v) proposed expenditures and receipts for each fiscal year of the biennium, and (vi) proposed increases and decreases.

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- b. The Budget Support Document shall include detailed information on recommended expenditures for capital improvements as required by G.S. 143C-8-6.
 - c. The Budget Support Document shall include accurate projections of receipts, expenditures, and fund balances. Estimated receipts, including tuition collected by university or community college institutions, shall be adjusted to reflect actual collections from the previous fiscal year, unless the Director recommends a change that will result in collections in the budget year that differ from prior year actuals, or the Director otherwise determines there is a more reasonable basis upon which to accurately project receipts. Revenue and expenditure detail provided in the Budget Support Document shall be no less detailed than the two-digit level in the North Carolina Accounting System Uniform Chart of Accounts as prescribed by the State Controller.
 - d. The Budget Support Document shall clearly identify all proposed expenditures supported by existing or proposed appropriations, including statutory appropriations.
- (3) A Current Operations Appropriation Act that makes appropriations for each fiscal year of the upcoming biennium for the operating expenses of all State agencies as contained in the Recommended State Budget, together with a Capital Improvements Appropriations Act that authorizes any capital improvements projects.
 - (4) The biennial State Information Technology Plan as outlined in G.S. 147-33-72B to be consistent in facilitating the goals outlined in the Recommended State Budget.

(c) **Even-Numbered Fiscal Years.** – In even-numbered years, the Governor may recommend changes in the enacted budget for the second year of the biennium. These recommendations shall be presented as amendments to the enacted budget and shall be incorporated in a recommended Current Operations Appropriation Act and a recommended Capital Improvements Appropriations Act as necessary. Any recommended changes shall clearly distinguish program reductions, program eliminations, program expansions, and new programs, and shall explain all proposed capital improvements in the context of the Six-Year Capital Improvements Plan and as required by G.S. 143C-8-6. The Governor shall provide sufficient supporting documentation and accounting detail, consistent with that required by G.S. 143C-3-5(b), corresponding to the recommended amendments to the enacted budget.

(d) **Funds Included in Budget.** – Consistent with requirements of the North Carolina Constitution, Article 5, Section 7(a), the Governor's Recommended State Budget, together with the Budget Support Document, shall include recommended expenditures of State funds from all Governmental and Proprietary Funds, as those funds are described in G.S. 143C-1-3. Except where provided otherwise by federal law, funds received from the federal government

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become State funds when deposited in the State treasury and shall be classified and accounted for in the Governor's budget recommendations no differently than funds from other sources.

(e) **Revenue Estimates.** – The recommended Current Operations Appropriations Act shall contain a statement showing the estimates of General Fund availability, Highway Fund availability, and Highway Trust Fund availability upon which the Recommended State Budget is based.

(f) **Budget Message.** – The Governor's budget recommendations shall be accompanied by a written budget message that does all of the following:

- (1) Explains the goals embodied in the recommended budget.
- (2) Explains important features of the activities anticipated in the budget.
- (3) Explains the assumptions underlying the statement of revenue availability.
- (4) Sets forth the reasons for changes from the previous biennium or fiscal year, as appropriate, in terms of programs, program goals, appropriation levels, and revenue yields.
- (5) Identifies anticipated sources of funding for major spending initiatives.
- (6) Prepares a fiscal analysis that addresses the State's budget outlook for the upcoming five-year period. This fiscal analysis shall include detailed estimates for five years for any proposals to create new or significantly expand programs and for proposals to create new or change existing law.

(g) **Different Gubernatorial Administrations.** – For years in which there will be a change in gubernatorial administrations, the incumbent Governor shall complete the budget recommendations and budget message by December 15 and deliver them to the Governor-elect. (2006-203, s. 3.)

Article 4.

Budget Requirements.

§ 143C-4-1. Annual balanced budget.

The budget recommended by the Governor and the budget enacted by the General Assembly shall be balanced and shall include two fiscal years beginning on July 1 of each odd-numbered year. Each fiscal year and each fund shall be balanced separately. The budget for a fund is balanced when the beginning unreserved fund balance for the fiscal year, together with the projected receipts to the fund during the fiscal year, is equal to or greater than the sum of appropriations from the fund for that fiscal year. (2006-203, s. 3.)

§ 143C-4-2. Savings Reserve Account and appropriation of General Fund unreserved fund balance.

(a) **Creation and Source of Funds.** – The Savings Reserve Account is established as a reserve in the General Fund. The Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.

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(b) Use of Funds. – The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly.

(c) Goal for Savings Reserve Account Balance. – The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget. (2006-203, s. 3.)

§ 143C-4-3. Repairs and Renovations Reserve Account.

(a) Creation and Source of Funds. – The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.

(b) Use of Funds. – The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds from the Repairs and Renovations Reserve Account shall be used only for the following types of projects:

- (1) Roof repairs and replacements;
- (2) Structural repairs;
- (3) Repairs and renovations to meet federal and State standards;
- (4) Repairs to electrical, plumbing, and heating, ventilating, and air-conditioning systems;
- (5) Improvements to meet the requirements of the Americans with Disabilities Act, 42 U.S.C. § 12101, et seq., as amended;
- (6) Improvements to meet fire safety needs;
- (7) Improvements to existing facilities for energy efficiency;
- (8) Improvements to remove asbestos, lead paint, and other contaminants, including the removal and replacement of underground storage tanks;
- (9) Improvements and renovations to improve use of existing space;
- (10) Historical restoration;
- (11) Improvements to roads, walks, drives, utilities infrastructure; and
- (12) Drainage and landscape improvements.

Funds from the Repairs and Renovations Reserve Account shall not be used for new construction or the expansion of the building area (sq. ft.) of an existing facility unless required in order to comply with federal or State codes or standards.

(c) Use of Funds. – Funds Available Only Upon Appropriation. – Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. (2006-203, s. 3.)

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§ 143C-4-4. Contingency and Emergency Fund.

(a) **Creation.** – The Contingency and Emergency Fund is established within the General Fund. The General Assembly shall appropriate a specific amount to this fund for contingencies and emergencies in the Current Operations Appropriations Act or other appropriations bill.

(b) **Authorized Uses.** – Notwithstanding any other provision of law, funds appropriated to the Contingency and Emergency Fund may be used only for expenditures required: (i) by a court or Industrial Commission order, (ii) to respond to events as authorized under G.S. 166A-5(1)a.9. of the Emergency Management Act, or (iii) for other statutorily authorized purposes or other contingencies and emergencies.

(c) **Request for Allocation.** – A State agency may request an allocation from the Contingency and Emergency Fund by submitting a request in writing to the Director along with any information required by the Director. If the Director approves the request, the Director shall present the request, together with a recommendation, to the Council of State for its approval. If the Council of State approves the request, the Director shall order the Controller to allocate the funds requested. The Director shall report on the request at the next scheduled meeting of the Joint Legislative Commission on Governmental Operations. (2006-203, s. 3.)

§ 143C-4-5. Non-State match restrictions.

Whenever money is required to match an appropriation made for a specific purpose by the State of North Carolina, the recipient of the appropriation shall actually receive as a gift, grant, earnings in actual money, or a pledge that can be used as collateral in any prudent loan transaction, the matching amount required. The recipient shall retain the matching amount received in its possession until spent for that purpose and shall spend an equal percentage of the appropriation and of the matching amount each time an expenditure is made, unless the individual appropriation requires otherwise. (2006-203, s. 3.)

§ 143C-4-6. General Fund operating budget size limited.

(a) **Size Limitation.** – Except as otherwise provided in this section, the General Fund operating budget each fiscal year shall not be greater than seven percent (7%) of the projected total State personal income for that fiscal year.

(b) **Increase in Size Limitation.** – To the extent that any percent increase in appropriations for a fiscal year for (i) Medicaid, (ii) operation of prisons, or (iii) the costs of providing health insurance for teachers and State employees, exceeds the percent increase in State personal income growth for the same period, the limitation on the size of the General Fund operating budget provided in subsection (a) of this section for that fiscal year shall be increased by the dollar amount represented by the excess percentage. For all subsequent fiscal years, the percent limitation contained in subsection (a) shall then be increased to reflect that dollar adjustment.

(c) **Fiscal Reports.** – The Office of State Budget and Management and the Fiscal Research Division of the General Assembly shall each submit a tentative estimate of total State personal income for the upcoming fiscal year to the General Assembly no later than February 1

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of each year. The Office and the Fiscal Research Division shall each submit a final projection of total State personal income for the upcoming fiscal year to the General Assembly no later than May 1 of each year. The General Assembly shall use the lower of the two final projections to calculate the limitation on the size of the General Fund operating budget provided in this section. (2006-203, s. 3.)

§ 143C-4-7. Limit on number of permanent positions budgeted.

The total number of permanent budgeted positions established in State agencies shall not be increased by the end of any State fiscal year by a greater percentage rate of change than the percentage rate of change of the residential population growth for the State of North Carolina. The Office of State Budget and Management shall be responsible for computing the annual percentage rates of change for each measure. The population growth rate shall be computed by averaging the annual residential population growth rate in each of the preceding 10 fiscal years as stated in the annual estimates of residential population in North Carolina made by the United States Census Bureau. The growth rate of the number of budgeted positions shall be computed by averaging the annual rate of growth of State budgeted positions in each of the preceding 10 fiscal years. The total number of permanent budgeted positions established in State agencies shall be computed by adding the total number of budgeted Full-Time Equivalents from all fund types. This section does not apply to State-funded positions supported by the State in a local public school system or local community college institution. (2006-203, s. 3.)

Article 5.

Enactment of the Budget.

§ 143C-5-1. Rules for the introduction of the Governor's appropriations bills.

The Current Operations Appropriations Act recommended by the Governor and the Capital Improvements Appropriations Act recommended by the Governor shall be introduced by the chairs of the committee on appropriations in each house of the General Assembly. This section shall be considered and treated as a rule of procedure in the Senate and House of Representatives unless provided otherwise by a rule of either branch of the General Assembly. (2006-203, s. 3.)

§ 143C-5-2. Order of appropriations bills.

Each house of the General Assembly shall first pass its version of the Current Operations Appropriations Act on third reading and order it sent to the other chamber before placing any other appropriations bill on the calendar for second reading. This section does not apply to the following bills:

- (1) An appropriations bill to respond to a disaster as defined by G.S. 166A-4(1).
- (2) An appropriations bill making adjustments to the current year budget.

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- (3) An appropriations bill authorizing continued operations at current funding levels. (2006-203, s. 3.)

§ 143C-5-3. Availability statement required.

The Current Operations Appropriations Act enacted by the General Assembly shall state the General Fund, Highway Fund, and Highway Trust Fund availability used as basis for appropriations from those funds. (2006-203, s. 3.)

§ 143C-5-4. Enactment deadline.

The General Assembly shall enact the Current Operations Appropriations Act by June 15 of odd-numbered years and by June 30 of even-numbered years in which a Current Operations Appropriations Act is enacted. (2006-203, s. 3.)

§ 143C-5-5. Committee report used to construe intent of budget acts.

A committee report incorporated by reference in the Current Operations Appropriations Act or the Capital Improvements Appropriations Act and distributed on the floor of the House of Representatives and of the Senate as part of the explanation of the act is to be construed with the appropriate act in interpreting its intent. If a report conflicts with the act, the act prevails. The Director of the Fiscal Research Division of the Legislative Services Commission shall send a copy of the reports to the Director. (2006-203, s. 3.)

Article 6.

Administration of the Budget.

Part 1. Certification and Administration of the Budget.

§ 143C-6-1. Budget enacted by the General Assembly; certified budgets of State agencies.

(a) Governor to Administer the Budget as Enacted by the General Assembly. – In accordance with Section 5(3) of Article III of the North Carolina Constitution, the Governor shall administer the budget as enacted by the General Assembly. All appropriations of State funds now or hereafter made to the State agencies and non-State entities authorize expenditures only for the (i) purposes or programs and (ii) objects or line items enumerated in the Recommended State Budget and the Budget Support Document recommended to the General Assembly by the Governor, as amended and enacted by the General Assembly in the Current Operations Appropriations Act, the Capital Improvements Appropriations Act, or any other act affecting the State budget. The Governor shall ensure that appropriations are expended in strict accordance with the budget enacted by the General Assembly.

(b) Departmental Receipts. – Departmental receipts collected to support a program or purpose shall be credited to the fund from which appropriations have been made to support that program or purpose.

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(c) Certification of the Budget. – The Director of the Budget shall certify to each State agency the amount appropriated to it for each program and each object from all governmental and proprietary funds. The certified budget for each State agency shall reflect the total of all appropriations enacted for each State agency by the General Assembly in the Current Operations Appropriations Act, the Capital Improvements Appropriations Act, and any other act affecting the State budget. The certified budget for each State agency shall follow the format of the Budget Support Document as modified to reflect changes enacted by the General Assembly. (2006-203, s. 3.)

§ 143C-6-2. Methods to avoid deficit.

(a) Appropriations. – Each appropriation is maximum and conditional. The expenditures authorized by an appropriation from a fund shall be made only if necessary and only if the aggregate revenues to the fund during each fiscal year of the biennium, when added to any unreserved fund balance from the previous fiscal year, are sufficient to support the expenditures.

(b) Revenue Collections. – The Director, with the assistance of the Secretary of Revenue and other officials collecting or receiving appropriated State revenue, shall continuously survey the revenue collections. If the Director finds that revenues to any fund, when added to the beginning unreserved fund balance in that fund, will be insufficient to support appropriations from that fund, the Director shall immediately notify the General Assembly that a deficit is anticipated. The Director shall report in a timely manner to the General Assembly a plan containing the expenditure reductions and other lawful measures as the Director is implementing in order to avert the deficit.

(c) Local Governments Funds. – In exercising the powers contained in Section 5(3) of Article III of the North Carolina Constitution, the Governor shall not withhold from distribution funds that have been collected by the State on behalf of local governments or funds that the General Assembly has appropriated to local governments unless the Governor has exhausted all other sources of revenue of the State including any appropriated surplus remaining in the treasury at the beginning of the fiscal period.

In accordance with Section 19 of Article I of the North Carolina Constitution and the Due Process Clause of the United States Constitution, the State is prohibited from taking local tax revenue. This subsection does not authorize the Governor to withhold revenues from taxes levied by units of local governments and collected by the State. (2006-203, s. 3.)

§ 143C-6-3. Allotments.

To receive the operating funds appropriated to it, a State agency shall submit to the Director, at intervals and in a format prescribed by the Director, a request for an allotment of the amount estimated to be required for the agency's operating costs during the ensuing fiscal period. The Director shall approve or modify the allotment requests, and the State Controller shall implement the allotments as approved or modified by the Director. (2006-203, s. 3.)

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§ 143C-6-4. Budget Adjustments Authorized.

(a) Findings. – The General Assembly recognizes that even the most thorough budget deliberations may be affected by unforeseeable events. Under limited circumstances set forth in this section, the Director may adjust the enacted budget by making transfers among lines of expenditure, purposes, or programs or by increasing expenditures funded by departmental receipts. Under no circumstances, however, shall total General Fund expenditures for a State department exceed the amount appropriated to that department from the General Fund for the fiscal year.

(b) Adjustments to the Certified Budget. – Notwithstanding the provisions of G.S. 143C-6-1, a State agency may, with approval of the Director of the Budget, spend more than was authorized in the certified budget for all of the following:

- (1) An object or line item within a purpose or program so long as the total amount expended for the purpose or program is no more than was authorized in the certified budget for the purpose or program.
- (2) A purpose or program if the overexpenditure of the purpose or program is:
 - a. Required by a court or Industrial Commission order;
 - b. Authorized under G.S. 166A-5(1)a.9. of the Emergency Management Act; or
 - c. Required to call out the national guard.
- (3) A purpose or program not subject to the provisions of subdivision (b)(2) of this subsection, but only in accord with the following restrictions: (i) the overexpenditure is required to continue the purpose or programs due to complications or changes in circumstances that could not have been foreseen when the budget for the fiscal period was enacted, (ii) the scope of the purpose or program is not increased, (iii) the overexpenditure is authorized on a nonrecurring basis, and (iv) under no circumstances shall the total requirements for a State department exceed the department's certified budget for the fiscal year by more than three percent (3%) without prior consultation with the Joint Legislative Commission on Governmental Operations.

(c) Overexpenditures Reported. – The Director shall report quarterly, beginning October 31, to the Joint Legislative Commission on Governmental Operations on overexpenditures approved by the Director under subdivisions (2) and (3) of subsection (b) of this section.

(d) Overexpenditures in Senate Budget. – The President Pro Tempore of the Senate may approve expenditures for more than was authorized in the enacted budget for objects or line items in the budget of the Senate.

(e) Overexpenditures in House of Representatives Budget. – The Speaker of the House of Representatives may approve expenditures for more than was authorized in the enacted budget objects or line items in the budget of the House of Representatives.

(f) Transfers Between Line Items or Programs in General Assembly Budget Other Than Senate and House of Representatives. – Expenditures exceeding amounts authorized for programs, objects, or line items in the budget of the General Assembly other than those of the

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Senate and House of Representatives shall be approved jointly by the President Pro Tempore of the Senate and the Speaker of the House of Representatives.

(g) Transfers in The University of North Carolina Budget. – Transfers or changes within the budget of The University of North Carolina may be made as provided in Article 1 of Chapter 116 of the General Statutes. (2006-203, s. 3.)

§ 143C-6-5. No expenditures for purposes for which the General Assembly has considered but not enacted an appropriation; no fee increases that the General Assembly has rejected.

(a) Notwithstanding any other provision of law, no funds from any source, except for gifts, grants, or funds allocated from the Repair and Renovations Account in accordance with G.S. 143C-4-3, funds allocated from the Contingency and Emergency Fund in accordance with G.S. 143C-4-4, and funds exempted from Chapter 143C in accordance with G.S. 143C-1-3(c) may be expended for any new or expanded purpose, position, or other expenditure for which the General Assembly has considered but not enacted an appropriation of funds for the current fiscal period. For the purpose of this subsection, the General Assembly has considered a purpose, position, or other expenditure when that purpose is included in a bill which fails a reading, or if the purpose is included in the version of a bill that passes one house, but the bill is enacted without the purpose.

(b) Notwithstanding any other provision of law, no fee shall be increased if the General Assembly has rejected an increase of that fee for the current fiscal period. For the purpose of this subsection, the General Assembly has rejected a fee increase when that fee increase is included in a bill which fails a reading, or if the fee increase is included in the version of a bill that passes one house, but the bill is enacted without the fee increase. (2006-66, s. 6.4; 2006-203, s. 3.)

§ 143C-6-6. Positions included in the State Payroll.

(a) Before a State agency establishes a new position or changes the funding of an existing position, the agency shall submit the proposed action to the Director for approval. The Director shall review the proposed action to ensure that funds for the action are included in the amount appropriated to the agency. If the Director approves the action, the Director shall notify the agency and the Controller of the approval. The Controller shall not honor a voucher in payment of a payroll that includes a new position or a change in an existing position that has not been approved by the Director.

(b) Payments on behalf of employees for hospital-medical insurance, longevity payments, salary increments, and legislative salary increases, required employer salary-related contributions for retirement benefits, death benefits, the Disability Income Plan and social security for employees shall be paid from the General Fund or the Highway Fund, only to the extent of the proportionate part paid from the General Fund or Highway Fund, in support of the salary of the employee, and the remainder of the employer's contribution requirements shall be paid from the same source that supplies the remainder of the employee's salary.

(c) This section does not apply to The University of North Carolina. (2006-203, s. 3.)

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§ 143C-6-7. Compliance with Chapter and appropriations acts by State agencies.

(a) Compliance With Chapter and Appropriations Acts. – Except as otherwise provided by law, all expenditures of State funds by a State agency shall be made in compliance with the State budget as enacted by the General Assembly and certified by the Director. If the Director finds that a State agency has spent or encumbered State funds for an unauthorized purpose, the Director shall take appropriate administrative action to ensure that no further irregularities occur and shall report to the Attorney General any facts that pertain to an apparent violation of a penal statute or an apparent instance of malfeasance, misfeasance, or nonfeasance by a person.

(b) Repayment of Funds Spent for an Unauthorized Purpose. – In addition to the provisions of subsection (a) of this section, if the Director finds that a State agency violated this section, the Director shall withhold any future allocations for the unauthorized purpose and shall also withhold future allocations to the Department in an amount equal to the funds unlawfully spent. (2006-203, s. 3.)

§ 143C-6-8. State agencies may incur financial obligations only if authorized by the Director of the Budget and subject to the availability of appropriated funds.

Unless otherwise authorized by the Director as provided by law, purchase orders, contracts, salary commitments, and any other financial obligations by State agencies shall be subject to the availability of appropriated funds or available funds that are not State funds as defined in this Chapter. (2006-203, s. 3.)

§ 143C-6-9. Use of lapsed salary savings.

Lapsed salary savings may be expended only for nonrecurring purposes or line items. (2006-203, s. 3.)

Part 2. Highway Appropriations.

§ 143C-6-11. Highway appropriation.

(a) General Provisions. – Appropriations made for transportation projects are subject to the provisions in this section. If the provisions in this section conflict with the budget acts, the budget acts prevail.

(b) Cash Flow Management of Transportation Projects. – Transportation Project funds shall be budgeted, expended, and accounted for on a "cash flow" basis. Pursuant to this end, transportation project contracts shall be planned and limited so payments due at any time will not exceed the cash available to pay them.

(c) Appropriations Are for Payments and Contract Commitments to Be Made in the Appropriation Fiscal Year. – The appropriations for transportation projects are for maximum payments estimated to be made during the appropriation fiscal year and for maximum contracting authority for future years. Transportation project contracts shall be scheduled so that the total contract payments and other expenditures charged to projects in the fiscal year for each transportation project appropriation item will not exceed the current appropriations provided

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by the General Assembly and unspent prior appropriations made by the General Assembly for the particular appropriation item.

(d) **Payments Subject to Availability of Funds.** – The annual appropriations for transportation projects shall be expended only to the extent that sufficient funds are available in the Highway Fund.

(e) **Retainage Fully Funded.** – The Department of Transportation shall fully fund retainage from transportation project contracts in the year in which the work is performed.

(f) **Five Percent (5%) of the Cash Balance Required.** – The Department of Transportation shall maintain an available cash balance at the end of each month equal to at least five percent (5%) of the unpaid balance of the total transportation project contract obligations. In the event this cash position is not maintained, no further transportation project contract commitments may be entered into until the cash balance has been regained. For the purposes of awarding contracts involving federal aid, any amount due from the federal government and the Highway Bond Fund as a result of unreimbursed expenditures may be considered as cash for the purposes of this provision.

(g) **Anticipation of Revenues.** – In awarding State transportation project contracts requiring payments beyond a biennium, the Director may anticipate revenues as authorized and certified by the General Assembly to continue contract payments for up to seventy-five percent (75%) of the revenues which are estimated for the first fiscal year of the succeeding biennium and which are not required for other budget items. Up to fifty percent (50%) of the revenues not required for other budget items may be anticipated for the second and subsequent fiscal years' contract payments. Up to forty percent (40%) of the revenues not required for other budget items may be anticipated for the first year of the second succeeding biennium and up to twenty percent (20%) of the revenues not required for other budget items may be anticipated for the second year of the second succeeding biennium.

(h) **Amounts Encumbered.** – Transportation project appropriations may be encumbered in the amount of allotments made to the Department of Transportation by the Director for the estimated payments for transportation project contract work to be performed in the appropriation fiscal year. The allotments shall be multiyear allotments and shall be based on estimated revenues and shall be subject to the maximum contract authority contained in subsection (c) above. Payment for transportation project work performed pursuant to contract in any fiscal year other than the current fiscal year is subject to appropriations by the General Assembly. Transportation project contracts shall contain a schedule of estimated completion progress, and any acceleration of this progress shall be subject to the approval of the Department of Transportation provided funds are available. The State reserves the right to terminate or suspend any transportation project contract, and any transportation project contract shall be so terminated or suspended if funds will not be available for payment of the work to be performed during that fiscal year pursuant to the contract. In the event of termination of any contract, the contractor shall be given a written notice of termination at least 60 days before completion of scheduled work for which funds are available. In the event of termination, the contractor shall be paid for the work already performed in accordance with the contract specifications.

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- (i) Provision Incorporated in Contracts. – The provisions of subsection (h) of this section shall be incorporated verbatim in all transportation project contracts.
- (j) Existing Contracts Are Not Affected. – The provisions of this section shall not apply to transportation project contracts awarded by the Department of Transportation prior to July 15, 1980.
- (k) The Department of Transportation shall do all of the following:
 - (1) Utilize cash flow financing to the extent possible to fund transportation projects with the goal of reducing the combined average daily cash balance of the Highway Fund and the Highway Trust Fund to an amount equal to the twelve percent (12%) of the combined estimate of the yearly receipts of the Funds. The target amount shall include an amount necessary to make all municipal-aid funding requirements of the Department.
 - (2) Establish necessary management controls to facilitate use of cash flow financing, such as establishment of a financial planning committee, development of a monthly financing report, establishment of appropriate fund cash level targets, review of revenue forecasting procedures, and reduction of accrued unbilled costs.
 - (3) Report annually, on October 1 of each year, to the Joint Legislative Transportation Oversight Committee on its cash management policies and results. (2006-203, s. 3.)

Part 3. Non-State Entities Receiving State Funds.

§ 143C-6-21. Payments to nonprofits.

Except as otherwise provided by law, an annual appropriation of one hundred thousand dollars (\$100,000) or less to or for the use of a nonprofit corporation shall be made in a single annual payment. An annual appropriation of more than one hundred thousand dollars (\$100,000) to or for the use of a nonprofit corporation shall be made in quarterly or monthly payments, in the discretion of the Director of the Budget. (2006-203, s. 3.)

§ 143C-6-22. Use of State funds by non-State entities.

(a) Disbursement and Use of State Funds. – Every non-State entity that receives, uses, or expends any State funds shall use or expend the funds only for the purposes for which they were appropriated by the General Assembly. State funds include federal funds that flow through the State Treasury.

(b) Compliance by Non-State Entities. – If the Director of the Budget finds that a non-State entity has spent or encumbered State funds for an unauthorized purpose, or fails to submit or falsifies the information required by G.S. 143C-6-23 or any other provision of law, the Director shall take appropriate administrative action to ensure that no further irregularities or violations of law occur and shall report to the Attorney General any facts that pertain to an apparent violation of a criminal law or an apparent instance of malfeasance, misfeasance, or nonfeasance in connection with the use of State funds. Appropriate administrative action may

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include suspending or withholding the disbursement of State funds and recovering State funds previously disbursed.

(c) Civil Actions. – Civil actions to recover State funds or to obtain other mandatory orders in the name of the State on relation of the Attorney General, or in the name of the Office of State Budget and Management, shall be filed in the General Court of Justice in Wake County. (2006-203, s. 3.)

§ 143C-6-23. State grant funds: administration; oversight and reporting requirements.

(a) Definitions. – The following definitions apply in this section:

- (1) "Grant" and "grant funds" means State funds disbursed as a grant by a State agency; however, the terms do not include any payment made by the Medicaid program, the Teachers' and State Employees' Comprehensive Major Medical Plan, or other similar medical programs.
- (2) "Grantee" means a non-State entity that receives State funds as a grant from a State agency but does not include any non-State entity subject to the audit and other reporting requirements of the Local Government Commission.
- (3) "Subgrantee" means a non-State entity that receives State funds as a grant from a grantee or from another subgrantee but does not include any non-State entity subject to the audit and other reporting requirements of the Local Government Commission.

(b) Conflict of Interest Policy. – Every grantee shall file with the State agency disbursing funds to the grantee a copy of that grantee's policy addressing conflicts of interest that may arise involving the grantee's management employees and the members of its board of directors or other governing body. The policy shall address situations in which any of these individuals may directly or indirectly benefit, except as the grantee's employees or members of its board or other governing body, from the grantee's disbursing of State funds, and shall include actions to be taken by the grantee or the individual, or both, to avoid conflicts of interest and the appearance of impropriety. The policy shall be filed before the disbursing State agency may disburse the grant funds.

(c) No Overdue Tax Debts. – Every grantee shall file with the State agency or department disbursing funds to the grantee a written statement completed by that grantee's board of directors or other governing body stating that the grantee does not have any overdue tax debts, as defined by G.S. 105-243.1, at the federal, State, or local level. The written statement shall be made under oath and shall be filed before the disbursing State agency or department may disburse the grant funds. A person who makes a false statement in violation of this subsection is guilty of a criminal offense punishable as provided by G.S. 143C-10-1.

(d) Office of State Budget Rules Must Require Uniform Administration of State Grants. – The Office of State Budget and Management shall adopt rules to ensure the uniform administration of State grants by all grantor State agencies and grantees or subgrantees. The Office of State Budget and Management shall consult with the Office of the State Auditor and the Attorney General in establishing the rules required by this subsection. The rules shall establish policies and procedures for disbursements of State grants and for State agency over-

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sight, monitoring, and evaluation of grantees and subgrantees. The policies and procedures shall:

- (1) Ensure that the purpose and reporting requirements of each grant are specified to the grantee.
- (2) Ensure that grantees specify the purpose and reporting requirements for grants made to subgrantees.
- (3) Ensure that State funds are spent in accordance with the purposes for which they were granted.
- (4) Hold the grantees and subgrantees accountable for the legal and appropriate expenditure of grant funds.
- (5) Provide for adequate oversight and monitoring to prevent the misuse of grant funds.
- (6) Establish mandatory periodic reporting requirements for grantees and subgrantees, including methods of reporting, to provide financial and program performance information. The mandatory periodic reporting requirements shall require grantees and subgrantees to file with the State Auditor copies of reports and statements that are filed with State agencies pursuant to this subsection. Compliance with the mandatory periodic reporting requirements of this subdivision shall not require grantees and subgrantees to file with the State Auditor the information described in subsections (b) and (c) of this section.
- (7) Require grantees and subgrantees to maintain reports, records, and other information to properly account for the expenditure of all grant funds and to make such reports, records, and other information available to the grantor State agency for oversight, monitoring, and evaluation purposes.
- (8) Require grantees and subgrantees to ensure that work papers in the possession of their auditors are available to the State Auditor for the purposes set out in subsection (i) of this section.
- (9) Require grantees to be responsible for managing and monitoring each project, program, or activity supported by grant funds and each subgrantee project, program, or activity supported by grant funds.
- (10) Provide procedures for the suspension of further disbursements or use of grant funds for noncompliance with these rules or other inappropriate use of the funds.
- (11) Provide procedures for use in appropriate circumstances for reinstatement of disbursements that have been suspended for noncompliance with these rules or other inappropriate use of grant funds.
- (12) Provide procedures for the recovery and return to the grantor State agency of unexpended grant funds from a grantee or subgrantee if the grantee or subgrantee is unable to fulfill the purposes of the grant.

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(e) Rules Are Subject to the Administrative Procedure Act. – Notwithstanding the provisions of G.S. 150B-2(8a)b. rules adopted pursuant to subsection (d) of this section are subject to the provisions of Chapter 150B of the General Statutes.

(f) Suspension and Recovery of Funds to Grant Recipients for Noncompliance. – The Office of State Budget and Management, after consultation with the administering State agency, shall have the power to suspend disbursement of grant funds to grantees or subgrantees, to prevent further use of grant funds already disbursed, and to recover grant funds already disbursed for noncompliance with rules adopted pursuant to subsection (d) of this section. If the grant funds are a pass-through of funds granted by an agency of the United States, then the Office of State Budget and Management must consult with the granting agency of the United States and the State agency that is the recipient of the pass-through funds prior to taking the actions authorized by this subsection.

(g) Audit Oversight. – The State Auditor has audit oversight, with respect to grant funds received by the grantee or subgrantee, pursuant to Article 5A of Chapter 147 of the General Statutes, of every grantee or subgrantee that receives, uses, or expends grant funds. A grantee or subgrantee must, upon request, furnish to the State Auditor for audit all books, records, and other information necessary for the State Auditor to account fully for the use and expenditure of grant funds received by the grantee or subgrantee. The grantee or subgrantee must furnish any additional financial or budgetary information requested by the State Auditor, including audit work papers in the possession of any auditor of a grantee or subgrantee directly related to the use and expenditure of grant funds.

(h) Report on Grant Recipients That Failed to Comply. – Not later than May 1, 2007, and by May 1 of every succeeding year, the Office of State Budget and Management shall report to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division on all grantees or subgrantees that failed to comply with this section with respect to grant funds received in the prior fiscal year.

(i) State Agencies to Submit Grant List to Auditor. – No later than October 1 of each year, each State agency shall submit a list to the State Auditor, in the format prescribed by the State Auditor, of every grantee to which the agency disbursed grant funds in the prior fiscal year. The list shall include the amount disbursed to each grantee and other information as required by the State Auditor to comply with the requirements of this section. (2006-203, s. 3.)

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Article 7.

Federal and Other Receipts.

§ 143C-7-1. Funds creating an obligation.

(a) Report to Director. – A State agency that submits to the federal government or to any other party an application for funds that will be subject to this Chapter shall first provide to the Director a copy of the application along with any related information the Director may require.

(b) Contract Provision. – A State agency that receives funds pursuant to an application that must be reported to the Director under subsection (a) of this section shall include in any related contract or other grant instrument a clause specifically stating that the expenditure of money deposited in the State treasury is subject to acts of appropriation by the General Assembly. (2006-203, s. 3.)

§ 143C-7-2. Federal Block Grants.

(a) Plans Submitted and Reviewed. – The Secretary of each State agency that receives and administers federal Block Grant funds shall prepare and submit the agency's Block Grant plans to the Director of the Budget. The Director of the Budget shall submit the Block Grant plans to the Fiscal Research Division of the General Assembly not later than February 28 of each odd-numbered calendar year and not later than April 30 of each even-numbered calendar year.

(b) Information To Be Included in Plans. – Each State agency shall submit a separate Block Grant plan for each Block Grant received and administered by the agency, and each plan shall include all of the following:

- (1) A delineation of the proposed dollar amount by activity and by category, including dollar amounts to be used for administrative costs.
- (2) A comparison of the proposed funding with two prior years' program budgets. (2006-203, s. 3.)

Article 8.

Budgeting Capital Improvement Projects.

§ 143C-8-1. Legislative intent; purpose.

(a) Legislative Intent. – The General Assembly recognizes the need to establish a comprehensive process for capital improvement planning and budgeting that is fully integrated with State financial planning and debt management.

(b) Capital Improvement Planning and Budgeting Process. – The capital improvement planning and budgeting process shall include the following elements:

- (1) An inventory of facilities owned by State agencies.

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- (2) Criteria used to evaluate capital improvement needs.
- (3) A six-year capital improvement needs estimate.
- (4) A six-year capital improvements plan.
- (5) Recommendations for capital improvements set forth in the Recommended State Budget as specified in G.S. 143C-3-5.

(c) Office of State Budget and Management to Manage Planning Process. – The Office of State Budget and Management has responsibility for management of the capital improvement planning process. The Director of the Budget may assign to any State agency or institution such duties and responsibilities as may, in the Director's judgment, be necessary to the successful administration of the capital improvement planning process. (1997-443, s. 34.9; 2000-140, s. 93.1(a); 2001-424, s. 12.2(b); 2006-203, s. 3.)

§ 143C-8-2. Capital facilities inventory.

The Department of Administration shall develop and maintain an automated inventory of all facilities owned by State agencies pursuant to G.S. 143-341(4). The inventory shall include the location, occupying agency, ownership, size, description, condition assessment, maintenance record, parking and employee facilities, and other information to determine maintenance needs and prepare life-cycle cost evaluations of each facility listed in the inventory. The Department of Administration shall update and publish the inventory at least once every three years. The Department shall also record in the inventory acquisitions of new facilities and significant changes in existing facilities as they occur. (1997-443, s. 34.9; 2006-203, s. 3.)

§ 143C-8-3. Capital improvement needs criteria.

The Office of State Budget and Management shall develop a weighted list of factors that may be used to evaluate the need for capital improvement projects. The list shall include all of the following:

- (1) Preservation, adequacy and use of existing facilities.
- (2) Health and safety considerations.
- (3) Operational efficiencies.
- (4) Projected demand for governmental services. (1997-443, s. 34.9; 2000-140, s. 93.1(a); 2001-424, s. 12.2(b); 2006-203, s. 3.)

§ 143C-8-4. Agency capital improvement needs estimates.

(a) Needs Estimate Required. – On or before September 1 of each even-numbered year, each State agency shall submit to the Office of State Budget and Management and to the Division of Fiscal Research a six-year capital improvement needs estimate. This estimate shall describe the agency's anticipated capital needs for each year of the six-year planning period. Capital improvement needs estimates shall be shown in two parts.

(b) Repairs and Renovations Needs Estimate. – The first part of the capital improvement needs estimates shall include only requirements for repairs and renovations necessary to maintain the existing use of existing facilities. Each proposed repair and renovation expendi-

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ture shall be justified by reference to the Facilities Condition Assessment Program operated by the Office of State Construction.

(c) Real Property and New Construction or Facility Rehabilitation Needs Estimate. – The second part of the capital improvement needs estimates shall include only proposals for real property acquisition and projects involving construction of new facilities or rehabilitation of existing facilities to accommodate uses for which the existing facilities were not originally designed. Each project included in this part shall be justified by reference to the needs evaluation criteria established by the Office of State Budget and Management pursuant to G.S. 143C-8-3.

For capital projects of The University of North Carolina and its constituent institutions, the Office of State Budget and Management shall utilize the needs evaluation information approved by the Board of Governors of The University of North Carolina developed pursuant to G.S. 116-11(9). (1997-443, s. 34.9; 2000-140, s. 93.1(a); 2001-424, s. 12.2(b); 2006-203, s. 3.)

§ 143C-8-5. Six-year capital improvements plan.

(a) General. – The State capital improvement plan shall address the long-term capital improvement needs of all State government agencies and shall incorporate all capital projects, however financed, proposed to meet those needs, except that transportation infrastructure projects shall be excluded. On or before December 31 of each even-numbered year, the Director of the Budget shall prepare and transmit to the General Assembly a six-year capital improvement plan. When preparing the plan, the Director of the Budget shall consider the capital improvement needs estimates submitted by State agencies as required in G.S. 143C-8-4. The plan shall be prepared in two parts.

(b) Repair and Renovations Requirements. – The first part of the capital improvement plan shall set forth repair and renovations requirements that, in the judgment of the Director of the Budget, should be met within each year of the six-year planning period to protect and preserve existing capital improvement facilities. The plan shall identify individual projects in priority order by State agency and shall specify the means of financing.

(c) Real Property Acquisition, New Construction, or Facility Rehabilitations. – The second part of the capital improvement plan shall set forth an integrated schedule for real property acquisition, new construction, or rehabilitation of existing facilities that, in the judgment of the Director of the Budget, should be initiated within each year of the six-year planning period. The plan shall contain for each project (i) estimates of real property acquisition, and construction or rehabilitation costs (ii) a means of financing the project, and (iii) an estimated schedule for the completion of the project. Where the means of financing would involve direct or indirect debt service obligations, a schedule of those obligations shall be presented. (1997-443, s. 34.9; 2006-203, s. 3.)

§ 143C-8-6. Recommendations for capital improvements set forth in the Recommended State Budget.

(a) Budget Director's Recommendations. – The Director of the Budget shall recommend expenditures for repairs and renovations of existing facilities, and real property acquisi-

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tion, new construction, or rehabilitation of existing facilities in the Recommended State Budget in accordance with G.S. 143C-3-5.

(b) Repairs and Renovations in the Recommended State Budget. – The Recommended State Budget shall contain for repairs and renovations of existing facilities: (i) the amount recommended for each State agency, (ii) a summary of the recommendations by project type, and (iii) the means of financing.

(c) Repairs and Renovations in the Budget Support Document. – The Budget Support Document shall contain for each repair and renovation project recommended in accordance with 143C-8-6(b): (i) a project description and justification, (ii) a detailed cost estimate, (iii) an estimated schedule of cash flow requirements over the life of the project, (iv) an estimated schedule for the completion of the project, and (v) an explanation of the means of financing.

(d) Other Capital Projects in the Recommended State Budget. – The Recommended State Budget shall contain for each capital project involving real property acquisition, new construction, building area (sq. ft.) expansions, or the rehabilitation of existing facilities to accommodate new or expanded uses: (i) a project description and statement of need, (ii) an estimate of acquisition and construction or rehabilitation costs, and (iii) a means of financing the project.

(e) Other Capital Projects in the Budget Support Document. – The Budget Support Document shall contain for each capital project recommended in accordance with 143C-8-6(c): (i) a detailed project description and justification, (ii) a detailed estimate of acquisition, planning, design, site development, construction, contingency and other related costs, (iii) an estimated schedule of cash flow requirements over the life of the project, (iv) an estimated schedule for the completion of the project, (v) an estimate of maintenance and operating costs, including personnel, for the project, covering the first five years of operation, (vi) an estimate of revenues, if any, likely to be derived from the project, covering the first five years of operation, and (vii) an explanation of the means of financing. (2006-203, s. 3.)

§ 143C-8-7. When a State agency may begin a capital improvement project.

No State agency may expend funds for the construction or renovation of any capital improvement project except as needed to comply with this Article or otherwise authorized by the General Assembly. Funds that become available by gifts, excess patient receipts above those budgeted at the University of North Carolina Hospitals at Chapel Hill, federal or private grants, receipts becoming a part of special funds by act of the General Assembly, or any other funds available to a State agency or institution may be utilized for advanced planning through the working drawing phase of capital improvement projects, upon approval of the Director of the Budget. (2006-203, s. 3.)

§ 143C-8-8. When a State agency may increase the cost of a capital improvement project.

Upon the request of the administration of a State agency, the Director of the Budget may, when in the Director's opinion it is in the best interest of the State to do so, increase the cost of a capital improvement project. Provided, however, that if the Director of the Budget increases the cost of a project, the Director shall report that action to the Joint Legislative Commission

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on Governmental Operations at its next meeting. The increase may be funded from gifts, federal or private grants, special fund receipts, excess patient receipts above those budgeted at the University of North Carolina Hospitals at Chapel Hill, or direct capital improvement appropriations to that department or institution. (2006-203, s. 3.)

§ 143C-8-9. When a State agency may change the scope of a capital improvement project.

A State agency may increase the scope of a capital improvement project only if the General Assembly authorizes the increase. A State agency may decrease the scope of a capital improvement project if the Director authorizes the decrease. To obtain the Director's authorization for a decrease in the scope of a capital improvement project, a State agency shall submit its request to the Director in writing and shall state the reason for the request. (2006-203, s. 3.)

§ 143C-8-10. Project Reserve Account.

(a) Project Reserve Account. – The Project Reserve Account is created as a reserve account within the Capital Project Fund. When a construction contract is entered for a capital improvement project for which the General Assembly has enacted an appropriation, the appropriation is encumbered for the project's costs of real property acquisition, planning, design, site development, construction, contingencies, and other related costs. If the amount appropriated for the project exceeds the amount encumbered, the excess shall be credited to the Project Reserve Account, unless otherwise required by law. The Director may authorize funds in the Account to be used for any of the following:

- (1) An emergency repair and renovation project at a State facility.
- (2) The award of a project contract when bids for the contract exceed the amount appropriated for it if the project was designed within the scope intended by the appropriation and if the Director finds that all means to award the contract within the appropriation were reasonably attempted.
- (3) A reversion to the principal fund from which revenue was appropriated for a project when the amount encumbered for the project is less than the amount appropriated.

(b) Reporting Requirement. – Whenever the Director authorizes the use of funds from the Project Reserve Account, the Director shall report the action to the Joint Legislative Commission on Governmental Operations at its next meeting. (2006-203, s. 3.)

§ 143C-8-11. Reversion of appropriation and lapse of project authorization.

(a) Reversion of Appropriation. – A State agency shall begin the planning of or the construction of an authorized capital improvement project during the fiscal year in which the funds are appropriated. If it does not, the Director may credit the appropriation to the Project Reserve Account, unless otherwise required by law. If the Director does not credit the appropriation to the Project Reserve Account, the appropriation shall revert to the principal fund from which it was appropriated. The Director may, for good cause, allow a State agency to take up to an additional 12 months to take the actions required by this subsection.

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(b) Lapse of Project Authorization. – Authorizations for capital improvement projects shall lapse if any of the following occur: (i) the appropriation for a capital improvement project reverts, (ii) the construction of a project does not begin during the first two fiscal years in which funds are appropriated, or (iii) the Director redirects funds appropriated for a capital improvement project in accordance with G.S. 143C-6-2. The Director may, for good cause, allow a State agency to take up to an additional 12 months to begin construction of a project; however, if the Director approves an extension of time under this subsection and construction of the project has not begun by the end of the extension, the authorization for the project shall lapse. (2006-203, s. 3.)

§ 143C-8-12. University system capital improvement projects from sources that are not General Fund sources: approval of new project or change in scope of existing project.

Notwithstanding any other provision of this Chapter, the Director of the Budget may, upon request of the Board of Governors of The University of North Carolina and after consultation with the Joint Legislative Commission on Governmental Operations, approve: (i) expenditures to plan a capital improvement project of The University of North Carolina the planning for which is to be funded entirely with non-General Fund money, (ii) expenditures for a capital improvement project of The University of North Carolina that is to be funded entirely with non-General Fund money, or (iii) a change in the scope of any previously approved capital improvement project of The University of North Carolina provided that both the project and change in scope are funded entirely with non-General Fund money. (2006-203, s. 3.)

Article 9.

Special Funds and Fee Reports.

§ 143C-9-1. Medicaid Special Fund; transfers to Department of Health and Human Services.

(a) Political subdivisions may appropriate funds directly to the Department of Health and Human Services for Medicaid programs. Other public agencies and private sources may transfer funds to the Department for Medicaid programs. The Department may accept unconditional and unrestricted donations of such funds. Notwithstanding the provisions of this Article which might forbid such transfer or donation, the University of North Carolina Hospitals at Chapel Hill may transfer funds as provided by the previous sentence of this section.

(b) Contributed funds shall be subject to the Department of Health and Human Services administrative control and shall be allocated only as specifically provided in the Current Operations Appropriations Act, except such contributions shall not reduce State general revenue funding. At the end of any fiscal year, the unobligated balance of any such funds shall not revert to the General Fund, but shall be reappropriated for these purposes in the next fiscal year. (2006-203, s. 3.)

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§ 143C-9-2. Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs.

(a) The Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs is established as an interest-bearing, nonreverting special trust fund in the Office of State Budget and Management. Moneys in the Trust Fund shall be held in trust and used solely to meet the mental health, developmental disabilities, and substance abuse services needs of the State. The Trust Fund shall be used to supplement and not to supplant or replace existing State and local funding available to meet the mental health, developmental disabilities, and substance abuse services needs of the State.

The State Treasurer shall hold the Trust Fund separate and apart from all other moneys, funds, and accounts. The State Treasurer shall be the custodian of the Trust Fund and shall invest its assets in accordance with G.S. 147-69.2 and G.S. 147-69.3. Investment earnings credited to the assets of the Trust Fund shall become part of the Trust Fund. Any balance remaining in the Trust Fund at the end of any fiscal year shall be carried forward in the Trust Fund for the next succeeding fiscal year.

Moneys in the Trust Fund shall be expended only in accordance with subsection (b) of this section and in accordance with limitations and directions enacted by the General Assembly.

(b) Moneys in the Trust Fund for Mental Health, Developmental Disabilities, and Substance Abuse Services and Bridge Funding Needs shall be used only to:

- (1) Provide start-up funds and operating support for programs and services that provide more appropriate and cost-effective community treatment alternatives for individuals currently residing in the State's mental health, developmental disabilities, and substance abuse services institutions.
- (2) Facilitate the State's compliance with the United States Supreme Court decision in *Olmstead v. L.C. and E.W.*
- (3) Facilitate reform of the mental health, developmental disabilities, and substance abuse services system and expand and enhance treatment and prevention services in these program areas to remove waiting lists and provide appropriate and safe services for clients.
- (4) Provide bridge funding to maintain appropriate client services during transitional periods as a result of facility closings, including departmental restructuring of services.
- (5) Construct, repair, and renovate State mental health, developmental disabilities, and substance abuse services facilities.

(c) Notwithstanding G.S. 143C-1-2, any nonrecurring savings in State appropriations realized from the closure of any State psychiatric hospitals that are in excess of the cost of operating and maintaining a new State psychiatric hospital shall not revert to the General Fund but shall be placed in the Trust Fund and shall be used for the purposes authorized in this section. Notwithstanding G.S. 143C-1-2, recurring savings realized from the closure of any State psychiatric hospitals shall not revert to the General Fund but shall be credited to the Department of Health and Human Services to be used only for the purposes of subsections (b)(2) and (b)(3) of this section. (2006-203, s. 3.)

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§ 143C-9-3. Settlement Reserve Fund.

(a) The "Settlement Reserve Fund" is established as a restricted reserve in the General Fund. Except as otherwise provided in this section, funds shall be expended from the Settlement Reserve Fund only by specific appropriation by the General Assembly.

(b) A Health Trust Account is established in the Settlement Reserve Fund. The portion of each Master Settlement Agreement payment identified in Section 6(3) of S.L. 1999-2 shall be credited to the Health Trust Account. The State Controller shall transfer all funds in the Health Trust Account to the Health and Wellness Trust Fund created in Article 6C of Chapter 147 of the General Statutes.

(c) A Tobacco Trust Account is established in the Settlement Reserve Fund. The portion of each Master Settlement Agreement payment identified in Section 6(2) of S.L. 1999-2 shall be credited to the Tobacco Trust Account. The State Controller shall transfer all funds in the Tobacco Trust Account to the Tobacco Trust Fund created in Article 75 of Chapter 143 of the General Statutes.

(d) Unless prohibited by federal law, federal funds provided to the State by block grant or otherwise as part of federal legislation implementing a settlement between United States tobacco companies and the states shall be credited to the Settlement Reserve Fund. Unless otherwise encumbered or distributed under a settlement agreement or final order or judgment of the court, funds paid to the State or a State agency pursuant to a tobacco litigation settlement agreement, or a final order or judgment of a court in litigation between tobacco companies and the states, shall be credited to the Settlement Reserve Fund. (2006-203, s. 3.)

§ 143C-9-4. Biennial Fee Report.

The Office of State Budget and Management shall prepare a report biennially on the fees charged by each State department, bureau, division, board, commission, institution, and agency during the previous two fiscal years. The report shall include the statutory or regulatory authority for each fee, the amount of the fee, when the amount of the fee was last changed, the number of times the fee was collected during the prior fiscal year, and the total receipts from the fee during the prior fiscal year. (2006-203, s. 3.)

§ 143C-9-5. Assignment to the State of rights to tobacco manufacturer escrow funds.

A tobacco product manufacturer that elects to place funds into escrow pursuant to G.S. 66-291(a)(2) may make an assignment of its interest in the funds to the benefit of the State. The assignment applies to all funds, and any earnings and appreciation, that are in the escrow account at the time of the assignment or are subsequently deposited into the escrow account and are not released under the provisions of subdivision (1) or (2) of G.S. 66-291(b) at any time on or before the expiration of 10 years from the date of assignment. The assignment is irrevocable and shall include any reversionary interest in the escrow account and the funds therein that would otherwise belong to the tobacco manufacturer, including the right to receive the escrowed funds pursuant to G.S. 66-291(b)(3).

An assignment of rights executed pursuant to this section shall be in writing and shall be signed by a duly authorized representative of the tobacco product manufacturer making the

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assignment. An assignment is effective upon delivery to the Attorney General and the financial institution where the escrow account is maintained. (2006-66, s. 6.19(d); 2006-221, s. 3A; 2006-259, ss. 40(d), 40.5.)

§ 143C-9-6. JDIG Reserve Fund.

(a) The State Controller shall establish a reserve in the General Fund to be known as the JDIG Reserve. Funds from the JDIG Reserve shall not be expended or transferred except in accordance with G.S. 143B-437.63.

(b) It is the intent of the General Assembly to appropriate funds annually to the JDIG Reserve established in this section in amounts sufficient to meet the anticipated cash requirements for each fiscal year of the Job Development Investment Grant Program established pursuant to G.S. 143B-437.52. (2006-66, s. 6.19(f); 2006-221, s. 3A; 2006-259, ss. 40(f), 40.5.)

Article 10.

Penalties.

§ 143C-10-1. Offenses for violation of Chapter.

(a) Class 1 misdemeanor. – It is a Class 1 misdemeanor for a person to knowingly and willfully do any one or more of the following:

- (1) Withdraw funds from the State treasury for any purpose not authorized by an act of appropriation.
- (2) Approve any fraudulent, erroneous, or otherwise invalid claim or bill to be paid from an appropriation.
- (3) Make a written statement, give a certificate, issue a report, or utter a document required by this Chapter, any portion of which is false.
- (4) Fail or refuse to perform a duty imposed by this Chapter.

(b) Class A1 misdemeanor. – It is a Class A1 misdemeanor for a person to make a false statement in violation of G.S. 143C-6-23(c).

(c) Forfeiture of Office or Employment. – An appointed officer or employee of the State or an officer or employee of a political subdivision of the State, whether elected or appointed, forfeits his office or employment upon conviction of an offense under this section. An elected officer of the State is subject to impeachment for committing any of the offenses specified in this section. (2006-203, s. 3.)

§ 143C-10-2. Civil liability for violation of Chapter.

A person convicted of an offense under G.S. 143C-10-1 is liable in a civil action for any damages suffered by the State in consequence of the offense. (2006-203, s. 3.)

§ 143C-10-3. Suspension from office or impeachment for refusal to comply with Chapter.

(a) State Officer or Employee. – The Governor may suspend from the performance of his or her duties any State officer or employee, except an officer elected by the people, who

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persists, after notice and warning, in failing or refusing to comply with the provisions of this Chapter or any lawful administrative directive issued pursuant to this Chapter. Before acting to suspend, the Governor shall give the accused notice and an opportunity to be heard in his or her own defense. The Governor shall report the facts leading to suspension to the Attorney General who may initiate appropriate criminal or civil proceedings. The Governor may apply to the General Court of Justice for a restraining order and injunction if a suspended officer or employee persists in performing official acts.

(b) Elected Officers. – A State officer elected by the people who knowingly and willfully fails or refuses to comply with any provision of this Chapter or any lawful administrative directive issued under this Chapter is subject to impeachment. (2006-203, s. 3.)

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2.0 BUDGET DEVELOPMENT

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2.1 Governor’s Authority for Budget Preparation

2.1.2 Constitutional Authority

The North Carolina Constitution [Article III, Sec. 5\(3\)](#) empowers the Governor to “prepare and recommend to the General Assembly a comprehensive budget of anticipated revenues and proposed expenditures of the State for the ensuing fiscal period.” The Constitution of North Carolina also provides that the “budget as enacted by the General Assembly shall be administered by the Governor.”

2.1.3 Statutory Reference

North Carolina General Statute [143C-2-1](#) provides that the Governor is Director of the Budget. As such, the Director has responsibility to prepare and recommend the state budget, and the Director’s powers extend to all agencies, institutions, departments, bureaus, boards and commissions of the State of North Carolina. The Governor may -- and does -- delegate certain powers and authorities of the Governor as Director of the Budget to the Office of State Budget and Management (OSBM) ([G.S. 143C-2-1\(a\)](#))

2.2 Biennial Budget

2.2.1 Terms and Definitions

Biennium – The two fiscal years beginning on July 1 of each odd-numbered year and ending on June 30 of the next odd-numbered year ([G.S. 143C-1-1\(d\)\(2\)](#)).

Budget – A plan to provide and spend money for specified programs, functions, activities, or objects during a fiscal year ([G.S. 143C-1-1\(d\)\(3\)](#)).

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Budget year – The fiscal year for which a budget is proposed and enacted ([G.S. 143C-1-1\(d\)\(4\)](#)).

The State of North Carolina operates under a biennial (two-year) budget, with annual updates to the second year of the enacted budget. Further, according to the Constitution, "total expenditures of the state for the fiscal period covered by the budget shall not exceed the total of receipts during that fiscal period and the surplus remaining in the State Treasury at the beginning of the period. Thus, the budget enacted by the General Assembly must be balanced and must include two fiscal years beginning on July 1 of each odd-numbered year ([G.S. 143C-4-1](#))

North Carolina's Constitution ([Article II, Sec. 11\(1\)](#)) requires a session of the General Assembly in odd-numbered years. In 1973 the General Assembly began having annual sessions, meeting in short (reconvened) sessions in even-numbered years to adjust the biennial budget enacted during the previous long session.

2.3 General Requirements of State Budgeting

2.3.1 Information to Support State Budgeting

State agencies and non-state agencies (defined in [G.S. 143C-1-1\(d\)\(24\) and \(d\)\(18\)](#)) are required to submit to the Director any information he may request about their activities or fiscal affairs in the form and at the time requested by the Director ([G.S. 143C-2-1\(b\)](#)). The Director of the Budget is also charged with coordination of efforts to gather and analyze a variety of data that supports state budgeting. ([G.S. 143C-2-2](#)).

2.3.2 All Agencies Included in Budget

All state agencies are included in the Governor's recommended state budget. The legislative and judicial branches are required to provide to the Director an estimate of financial needs for the upcoming fiscal period ([G.S. 143C-3-1](#)) and ([G.S. 143C-3-2](#)), and all other state agencies are required to submit budget requests for the upcoming fiscal period ([G.S. 143C-3-3](#)). All are required to submit information in accordance with the schedule prescribed by the Governor and using the uniform accounting classifications (chart of accounts) adopted by the State Controller. Budget requests are submitted in accordance with detailed budget instructions that are issued biennially by OSBM.

2.3.3 University of North Carolina Unified Request

The Board of Governors of the University of North Carolina is required to submit to the Governor a unified budget request for all of the constituent institutions ([G.S. 143C-3-3\(b\)](#)). This request shall include requests for repairs and renovations funds, capital funds, and information technology. The continuation portion of the unified request shall be divided by budget code and may be submitted separately from the remainder of the request, at the direction of the Board of Governors.

The specific purpose/program codes created for the UNC system pursuant to G.S. 116-35, 116-36, 116-36.1, 116-36.2, 116-36.4, 116-36.5, 116-36.6, 116-44.4, 116-68, 116-220, 116-235,

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116-238 are exempt from budget development requirements, with the exception of requirements related to Article 8 concerning Capital, of Chapter 143C of the General Statutes. These funds shall be governed and accounted for by those statutes unless a conflict arises with Article 8, then Article 8 should be followed.

2.3.4 Non-State Entities

Non-state entities requesting state funds are required to submit budget requests to the Director or a designated agency, pursuant to [G.S. 143C-3-4](#). If an agency is designated to receive such requests, the agency must evaluate the request and forward its evaluation to the Director in accordance with procedures established by the Director.

2.3.5 Governmental and Proprietary Funds Included in Budget

Pursuant to [G.S. 143C-3-5\(d\)](#), the Governor's recommended state budget includes recommended expenditures of state funds from all Governmental and Proprietary funds. These (and other) fund types are defined in [G.S. 143C-1-3](#). Funds of the University of North Carolina which are exempted in [G.S. 143C-1-3\(c\)](#) shall not be included.

2.3.6 Block Grant Plans

Pursuant to [G.S. 143C-7-2](#), the Secretary of each agency that receives and administers federal block grant funds must prepare and submit to the Director of the budget the agency's block grant plan. Plans are required annually. The Director establishes a time and procedure for submitting plans, and is required to submit them to the General Assembly not later than:

- February 28 in odd-numbered years.
- April 30 in even-numbered years.

Since block grant plans are prepared and approved annually, whereas the recommended state budget is prepared, submitted and approved on a biennial basis, the procedures and timelines for submitting block grant plans to the Director of the budget are typically handled outside of the biennial budget instructions, often through memorandum to the department heads and chief fiscal officers of state agencies.

2.4 Role of the Office of State Budget and Management (OSBM)

The role and function of OSBM in budget development is to define the budget process, and to prepare and present the Governor's budget recommendations. In creating this financial plan, which reflects the priorities of the state and balances needs with available resources, the budget office considers a number of factors that impact the budget. The budget office provides technical assistance and analysis to state agencies in developing budget requests and to the Governor and other decision-makers in prioritizing requests and final recommendations.

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2.5 Process for Developing the State Budget

There are five steps in the budget process:

1. Budget instructions to state agencies for submitting budget requests.
2. Development of agency requests.
3. Preparation of the Governor's recommended budget.
4. Release of the Governor's recommended state budget.
5. Legislative review and passage of the final state budget.

2.5.1 Instructions to State Agencies for Submitting Budget Requests

Before a legislative session in even-numbered years, OSBM develops and issues instructions to state departments and institutions for making biennial budget requests. The instructions detail the concepts of the continuation, expansion, and capital budgets as they are to apply to the biennial budget under preparation. (These concepts or components of the state budget are discussed in [Section 2.6.](#)) Instruction is provided for submitting performance information and special requirements for significant information technology requests.

Administrative policies and procedures may vary from one biennium to the next, so new instructions are issued for each budget. Largely, however, most budget development guidelines remain relatively constant from one biennium to the next.

Budget instructions generally include:

- Schedules for submission;
- Forms to be used;
- Allowable price and inflationary rate increases;
- Requirements for supporting schedules;
- Statistics;
- Narrative justifications;
- Priority listings; and
- Required performance information.

OSBM also distributes information to be considered when preparing budget requests, such as:

- Demographic projections,
- Economic trends,
- Inflationary trends, and
- Implications of relevant administrative rulings, court decisions, and federal legislation that may need to be considered in preparing the budget requests.

Instructions also include information about the Governor's policy priorities and, if pertinent, limitations on budget growth.

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2.5.2 Limitations on Budget Growth

Legislative restrictions are placed on growth in the size of the General Fund operating budget in [G.S. 143C-4-6](#) and on the number of permanent positions budgeted in [G.S. 143C-4-7](#). These limitations are factors that must be considered by OSBM in developing the Governor's budget recommendations.

The most recent version of Instructions for Preparation of the Recommended State Budget and the Biennial State Plan can be obtained by contacting OSBM or by visiting the website at <http://www.osbm.state.nc.us>.

OSBM staff studies and analyzes matters that are not exclusively related to the budgets of particular departments (salaries, retirement, tax changes, etc.), and budget analysts work with agency and university campus budget officers regarding acceptable levels for continuation budgets and provide technical assistance and guidance to agencies in developing budget requests.

2.5.3 Development of Agency Budget Requests

Departments are encouraged to have each division or unit prepare the initial division-level budget for programs they are responsible for operating. This will provide for significant input to the budget process and the justification of each program's requests. Emphasis in this process should be on:

- Identifying areas of potential cost savings through productivity increases or program modifications;
- Identifying realignments of existing resources;
- Identifying alternative levels of improved or increased program services;
- Identifying and preparing quantifiable program data measures, and objectives to support the budget request;
- Developing prioritized requests for new or increased funding for operations and capital improvements; and
- Identifying performance measures that are linked to agency services.

Departments are encouraged to conduct their own internal budget hearings to refine and prioritize budget requests.

OSBM review and consideration of budget requests includes the evaluation of agency requests for adherence to budget preparation guidelines, technical accuracy, and need.

2.5.4 Preparation of the Governor's Recommended Budget

During this stage of budget development OSBM reviews the budget documents. At the same time, revenue projections and tax policy is being finalized to determine the level of funding available to support the state's biennial budget. The Governor is also making recommendations about spending priorities.

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2.5.5 Executive Review

The executive review of the budget begins after a department/agency or institution submits its continuation, expansion and capital improvement budget requests to OSBM in the early fall of the even-numbered years. The requests are studied in detail by OSBM staff and questions and concerns are resolved with the agencies and changes are made as necessary for accuracy and completeness. Budget requests are then forwarded to the Governor who will review them in the context of his priorities. The Governor or Governor's appointee may meet with senior departmental managers during this process. The final recommended budget is a result of meetings between the Governor and OSBM staff. At these meetings, economic and revenue forecasts are finalized and decisions are made as to all components of the budget (continuation, expansion, and capital improvements). Balancing the budget may require significant reductions in the continuation operating budget, reductions in the expansion of programs or capital improvement projects requests, and changes to state tax structures.

2.5.6 Required Elements of the Governor's Recommended State Budget

The Governor submits budget recommendations to the General Assembly at each regular session. In odd numbered years, the Governor's recommendations include [\(G.S. 143C-3-5\)](#):

- The Recommended State Budget, presented in a format determined by the Director, which sets forth goals for improving the State with recommended expenditure requirements, funding sources and performance information for each state government program and each proposed capital improvement. It must distinguish continuation budget requirements, program reductions and eliminations, program expansions, new programs, and all proposed capital projects in the context of the Six Year Capital Improvements Plan. Funds needed to support enrollment increases in public schools, community colleges and the university system are included as continuation requirements in the recommended budget.
- A Budget Support Document providing line item detail corresponding to the Recommended State Budget for each budget code and program or purpose. It must:
 1. Use the Uniform Chart of Accounts and include parallel columns displaying the most recent prior year actual expenditures and receipts; the certified and authorized budgets for the preceding state fiscal year; continuation requirements for each year of the biennium under request; proposed expenditures and receipts for each year of the biennium under request; and proposed increases and decreases.
 2. Provide detailed information on recommended capital improvements expenditures.
 3. Project accurate receipts, expenditures and fund balances.
 4. Show line-item detail at no less than the two-digit level in the Uniform Chart of Accounts.

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5. Identify proposed expenditures and the existing or proposed appropriations to support them.
 - A Current Operations Appropriations Act and a Capital Improvements Appropriations Act supporting the Governor's budget recommendations in order to make appropriations for each year of the biennium under request.
 - A biennial State Information Technology Plan as outlined in [G.S. 147-33-72B](#).
 - A statement of General Fund, Highway Fund and Highway Trust Fund availability upon which the budget is based ([G.S. 143C-3-5\(e\)](#)).

In even-numbered years the Governor recommends adjustments to the second year of the enacted budget, which may include program eliminations or reductions, program expansions and new programs, and capital improvements. All recommended adjustments to the enacted budget must be supported by appropriation documentation and the same level of accounting detail as is required in the first year. These recommended changes are presented as amendments to the enacted state budget and incorporated in a recommended Current Operations Appropriation Act and a recommended Capital Improvements Appropriations Act.

Short Session Budget adjustments are generally but not always limited to adjustments of the biennial budget for operating requirements of programs such as increases to reflect changes in the enrollment or population currently served by public schools, prisons and entitlement programs. Adjustments are made to program requirements and financial support based on a new economic and inflationary analysis.

2.5.7 Budget Message

[G.S. 143C-3-5\(f\)](#) requires the Governor's published budget recommendations to be accompanied by a budget message that explains the goals and important features of the budget, the estimated revenue availability, the reasons for changes from the previous biennium or fiscal year, and the anticipated sources of funding for major increases in the continuation and expansion items. The budget message shall also include a fiscal analysis for the upcoming five-year period.

2.5.8 Required Timeline When Administrations Change

[G.S. 143C-3-5\(g\)](#) states that for years in which there is a change in gubernatorial administration, the incumbent Governor shall complete budget recommendations, develop the budget message and deliver them to the Governor-elect by December 15.

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2.5.9 Release of the Governor's Recommended State Budget

Once the budget is finalized, the budget documents are printed and the budget and supporting information is submitted to the General Assembly. At this stage of budget development, the goal is to ensure that the recommended state budget is fully understood by all interested parties, particularly the public and the legislature. The Governor's recommended state budget is the starting point for legislative consideration of the budget.

The Governor's recommended budget is formally presented along with the budget message during the opening days of the General Assembly's session in the winter of the odd-numbered years. The recommended budget document is available to the public at that time.

2.5.10 Legislative Review and Passage of the Final State Budget

Legislative review of the budget begins once the budget is presented. It is traditionally subdivided according to the General Assembly's appropriations committee structure for both House and Senate. Each subcommittee reviews a portion of the budget according to subject matter. House and Senate committees may meet separately or jointly during the appropriation process.

The subcommittees during the past sessions included:

- Education;
- Natural and Economic Resources;
- Justice and Public Safety;
- General Government;
- Capital Improvements;
- Transportation;
- Health and Human Services; and
- Information Technology.

There is also a Finance Committee that is responsible for developing tax recommendations and revenue proposals to ensure sufficient financing for the state's programs.

The Finance Committee and Appropriations Committee work together to come up with the final appropriations package. Traditionally the legislature reviews each component of the Governor's Recommended Budget including continuation, expansion, and capital improvement. The final appropriation package is based on the recommended continuation budget plus adjustments (increases or decreases) approved by the General Assembly. The appropriation package is presented in appropriation bill(s) and an accompanying committee report to the House and Senate. If the House and Senate adopt different versions of the appropriation bill a conference committee is appointed to negotiate the differences. The revised appropriation bill is then presented to the House and Senate for ratification.

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[G.S. 143C-5](#) spells out the legislative rules for enactment of the state budget. The General Assembly is required to approve the Current Operations Appropriations Act by June 15 in odd-numbered years (long session), and by June 30 in even-numbered years (short session).

Typically the legislative review and approval process results in a budget that reflects a combination of the Governor's budget recommendations and legislative priorities for funding. The Governor of North Carolina has the authority to veto the legislatively approved budget.

2.6 Components of the Recommended State Budget

The state budget is made up of funds used to operate existing or new government programs and funds for capital improvements. In developing the Governor's recommended state budget, the budget (and the development process) is considered in three parts: development of the continuation budget, the expansion budget, and the capital improvements budget. All are constructed using the North Carolina Accounting System Uniform Chart of Accounts and each has unique elements and information requirements. Budget instructions fully explain the steps for development of each component. Below is summary explanation of each component.

2.6.1 Continuation Budget

Continuation Budget Defined

The continuation budget is the part of the state budget necessary to continue the current level of services when adjusted for inflation, mandated rate increases such as Social Security, annualization of programs and operation of new facilities.

[G.S. 143C-3-5\(b\)\(1\)](#) requires that funds needed to support enrollment increases in public schools, community colleges and the university system are required by statute to be included in the continuation budget.

The continuation budget is prepared jointly by the budget analyst and appropriate agency personnel. A printout called the Worksheet I is the starting point for the development process. This worksheet is generated from the Budget Preparation System (BPS). The Worksheet I includes prior year actual expenditures, current year certified and authorized budgets, and recommended adjustments for the biennium under request. The budget is constructed in line-item detail using the Uniform Chart of Accounts.

2.6.2 Expansion Budget

Expansion Budget Defined

The expansion budget refers to the establishment of new and/or pilot programs and the expansion of existing programs and salary increases and/or benefits for teachers and state employees. The expansion request also may include:

- Programs previously supported by federal and/or private grants that have expired.
- Increases to support additional persons being served by a state program and/or higher per capita cost to provide that service.

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- Major (nonrecurring) equipment (other than replacement which is typically a continuation budget adjustment).

The expansion budget is prepared by the agency on a form called the Worksheet II.

During this phase of budgeting, agencies may make recommendations and/or the Governor may explore options to realign funding, identify efficiencies and/or eliminate funding for certain programs resulting in budget reductions.

2.6.3 Information Technology (IT) Information Technology Defined

According to [G.S. 147-33.81](#), "information technology" means electronic data processing goods and services, telecommunications goods and services, security goods and services, microprocessors, software, information processing, office systems, any services related to the foregoing, and consulting or other services for design or redesign of information technology supporting business processes.

IT is an increasingly important part of state government programs and operations. A request for new or expanded funding for information technology is considered through the expansion budget process. The Governor is required in [G.S. 143C-3-5\(b\)\(4\)](#) to submit as part of the Budget Support Document the biennial State Information Technology Plan (described in [G.S. 147-33-72B](#)) for consistency in facilitating the goals outlined in the Recommended State Budget.

2.6.4 Requirements for IT Budget Requests

In addition to providing the requisite information in Worksheet II forms, pursuant to [G.S. 143C-3-3\(e\)](#), agencies other than the University of North Carolina General Administration and the Administrative Office of the Courts, requesting significant state resources for the purpose of acquiring or maintaining information technology must provide the following:

- A statement of need for IT and related resources, including expected improvements to program or business operations, and a review and evaluation of that statement by the State Chief Information Officer (CIO).
- A statement of requirements for state resources and an evaluation of that statement by the State CIO.
- A statement by the State CIO providing viable alternatives, if any, for effectively and economically meeting the agency's needs.
- For acquisitions, an explanation of the method by which the acquisition will be financed.

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2.6.5 Capital Improvement Budget

Capital Defined

Capital improvements are defined as real property acquisitions, new construction, rehabilitation of existing facilities, and repairs and renovations ([G.S. 143C-1-1](#)). These types of expenditures are accounted for in the capital budget code of a department or institution.

The establishment of a capital improvement project requires approval of the General Assembly or the Director of the Budget. Requests to establish capital projects funded from General Fund appropriations must be submitted through the biennial capital budget process. Capital projects funded from non-General Fund sources that cost \$300,000 or greater must be established through the biennial capital budget process or through consultation with the Joint Legislative Commission on Governmental Operations.

2.6.6 Capital Improvement Needs Estimate (Budget Requests)

The capital budget development process begins when state agencies and the University Board of Governors submit their six-year needs estimates to the Director of the Budget by September 1 of even-numbered years ([G.S. 143C-8-4](#)). Needs estimates are submitted using [Worksheet III](#) (the first year of the six-year needs estimate is considered an agency's official request). Transportation infrastructure is not included in this process. Detailed procedures for submitting Worksheet III are outlined in the biennial budget instructions provided by OSBM.

Capital improvement needs estimates are requested in two parts: Repair and Renovations and New Capital Projects. New Capital Projects include new construction, land acquisitions, and major rehabilitation of existing facilities. ([G.S. 143C-3-3](#)).

2.6.7 Repair and Renovation Requests must include:

- A description of current deficiencies (FCAP) and proposed corrections with a review and evaluation of that proposal prepared by the Department of Administration;
- An estimate of project costs;
- A certification of project feasibility by the Department of Administration as described in [G.S. 143-341 \(OC-25\)](#); and
- An identification of any receipts available to support the project.

2.6.8 New Capital Project Requests must include:

- An estimate of space needs and other physical requirements with a review and evaluation of that estimate prepared by the Department of Administration;
- An estimate of project costs and cash flow requirements approved by the Department of Administration;
- A certification of project feasibility by the Department of Administration as described in [G.S. 143-341 \(OC-25\)](#);
- An identification of any receipts available to support the project.

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- An estimate of maintenance and operating costs, including personnel, for the first five years of operation; and
- An estimate of revenues to be derived from the project for the first five years of operation.

2.6.9 Six-Year Capital Improvement Plan

On or before December 31 of even-numbered years, the Director of the Budget is required to transmit a six-year capital improvement plan to the General Assembly ([G.S. 143C-8-5](#)). The agencies' Needs Assessments are used to develop the Capital Improvement Plan which schedules the State's long-term capital expenditures, recommends a financing plan, and integrates debt management principals. Capital projects are prioritized based on capital improvement needs criteria that includes but is not limited to (i) preservation, adequacy and use of existing facilities, (ii) health and safety considerations, (iii) operational efficiencies, and (iv) projected demand for governmental services ([G.S. 143C-8-3](#)).

Like the Needs Assessment, the Capital Improvement Plan is prepared in two parts. The Repair and Renovations part of the Capital Improvement Plan must identify projects in priority order by State agency and shall specify the means of financing. The New Capital Projects part of the capital plan must contain (i) estimates of real property acquisition, construction, or rehabilitation costs; (ii) means of financing; (iii) an estimated schedule to complete the project; and (iv) a schedule of any debt service obligations.

2.6.10 Capital Budget

The Director of the Budget recommends capital improvement expenditures for the upcoming fiscal year in the Capital Budget. Capital projects recommended in the first year of the six-year Capital Improvement Plan are known as the Recommended Capital Budget and require additional supporting information in a Budget Support Document ([G.S. 143C-8-6](#)).

2.6.11 Repairs and Renovations

- Project description and justification;
- Detailed cost estimate;
- Estimated cash flow schedule over the life of the project
- Estimated construction schedule through completion
- Identified means of financing

In addition to the requirements for Repairs and Renovation projects, the Budget Support Document requires the following for New Capital Projects:

- Statement of need
- Detailed cost estimate to include acquisition, planning, design, site development, construction, contingency, and other related costs.
- Estimated maintenance and operating costs, including personnel, for the first five years of operation;

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- Estimated revenues derived from the project for the first five years of operation

2.6.12 Short Session Capital-Budget Development

The six-year Capital Improvement Plan is updated after the Regular Session of the General Assembly to reflect actual capital authorizations. Agencies are invited to submit Worksheet IIIs for emergency capital needs that have emerged since the development of the capital plan. These Worksheet IIIs and the capital plan developed for the Regular Session are used to develop the Recommended Capital Budget for the Short Session of the General Assembly.

2.7 Results Based Budgeting

As directed by statute [G.S. 143C-3-5](#), the Governor is required to develop budget recommendations for the upcoming biennium that include not only recommended expenditure requirements and funding sources, but also performance information for each State government program. As defined by the State Budget Act, performance information includes organizational structure, agency activity statements, performance indicators, and analyses of program efficiency and effectiveness. This performance information is collectively known as “results-based budgeting” and became a required part of all agencies’ budget submissions beginning with the 2007-09 biennium.

2.7.1 Results-based budgeting is comprised of the following six components

- **Mission Statement.** A description of an organization’s basic purpose (its fundamental reason for being) that specifies its major functional role and communicates its values.
- **Goals.** A broad statement of what a department or institution wants to achieve over a long period of time. Goals explain how an agency will meet its mission
- **Fund description.** A description of the purpose of the programs, services, activities, or functions funded in the fund code. It provides justification for the expenditure of the funds.
- **Service Statement.** A description of the set of specific activities, lines of business, or work processes that are funded by a particular budget code or fund code.
- **Service Analysis.** An allocation of funds and personnel to each of the service statements supported by a fund or budget code.
- **Performance Measures.** A quantitative characterization of the quality of, need for, or impact of a service provided, ideally to help determine whether a desired outcome has been attained.

These results-based budgeting components provide expanded budget and program information in an effort to improve public understanding of why an agency exists, what the agency does, how much money its services cost, and the effectiveness of its services. They also help explain and justify the expenditure of state taxpayers’ money. Ultimately, this information is designed to improve funding, planning, and management decisions in state government.

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2.8 Transition from Ratified to Certified Budget

Certified Budget Defined

[General Statute 143C-1-1](#) defines Certified Budget as the budget as enacted by the General Assembly including adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organizational or budget changes directed by the General Assembly but left to the Director to carry out.

Once the General Assembly enacts the budget and it is signed into law by the Governor, it becomes the spending plan for the state, against which actual revenue collections and expenditures are monitored.

The budget ratified by the General Assembly is certified to each agency by OSBM. The Certified Budget is prepared on the Budget Preparation System (BPS) and is issued to the agency. When the budget is an operating budget, a Certified Budget (BD 307) is issued. When the capital budget is certified, a Capital Improvement Certified Budget (BD 306) is issued. Information from the Budget Preparation System is transferred automatically to the North Carolina Accounting System (NCAS).

2.9 Systems Supporting the Budget

2.9.1 Budget Preparation System

The Budget Preparation System (BPS) is designed to provide the various user departments with computerized procedures to develop their budget requests to the Governor, and for the Governor to prepare budget recommendations to the Legislature.

There are several purposes for the system:

- Assist the various state departments, institutions, agencies, and OSBM in eliminating most of the clerical effort of typing, proofing, summarizing, etc.
- Provide total and summary information for each department.
- Create an automated file for certification once the budget is approved.

The scope of BPS includes financial, narrative, and statistical data. BPS develops a master file of budget request data and summarizes and reports the data according to the various requirements of the agencies and OSBM. Narrative and statistical data are contained in separate files for use in the printed recommended budgets. BPS has been designed to computerize the budget process in accordance with OSBM's detailed instructions.

[This link](#) to the Budget Preparation Systems Manual has the most recent version of the manual, or it can be obtained by contacting OSBM.

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2.9.2 North Carolina Accounting System (NCAS)

[General Statute 143B-426.39](#) assigns the responsibility for approving both new accounting systems and changes in existing systems to the Office of State Controller. The North Carolina Accounting System (NCAS) is an accounting system that facilitates internal control over fiscal operations and provides a structure for recording accounting data for the purpose of preparing standardized and meaningful financial statements and reports. NCAS accommodates various management reporting requirements, including budget requirements.

NCAS is a comprehensive accounting system with many types of accounting classifications for various financial reporting requirements. The diversity of the accounting functions within the department will dictate how many classifications are used. These various classifications are the heart of the system and allow for the posting of accounting transactions for later retrieval and reporting.

The use of a uniform chart of accounts makes it possible to summarize expenditure data. As a result, total dollars budgeted and expended for services and commodities for the entire operation of the State of North Carolina can be determined.

Equally as important as the actual accumulation of dollar amounts is the common terminology that the chart produces. By having definitions for the various expenditure and revenue objects, much doubt is removed when questions arise regarding what is included in an object. Comparability between agencies becomes more meaningful.

The Office of the State Controller has prepared the North Carolina Accounting System Information Guide that describes how to record transactions and develop reports.

The NCAS Information Guide is available [on-line](#).

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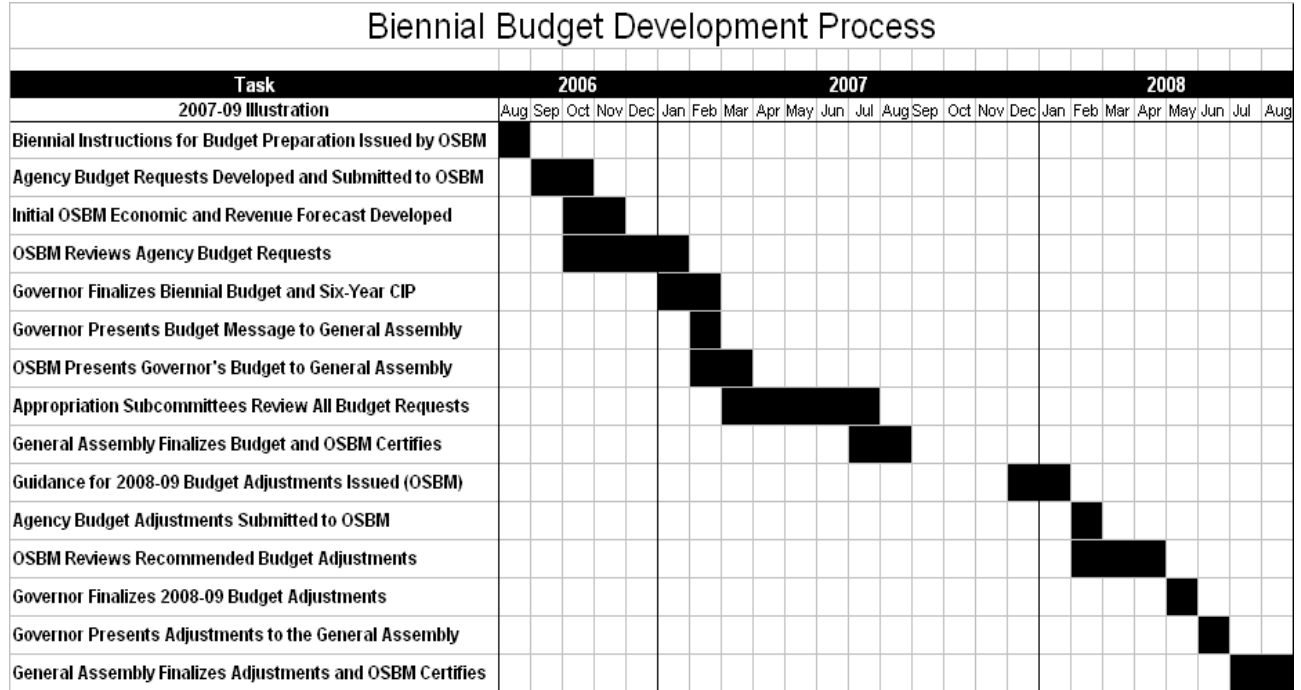
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Chart 1

Biennial Budget Development Process (for illustrative purposes only)

The budget development timeline shown below illustrates the process that was actually used to develop the FY 2007-09 budget.



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3.0 BUDGET EXECUTION

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3.1 Governor’s Authority for Budget Execution

3.1.2 Constitutional Authority

The North Carolina Constitution (Article III, Sec. 5(3)) provides that the “budget as enacted by the General Assembly shall be administered by the Governor.”

3.1.3 Statutory Authority

As provided in [G.S. 143C-2-1\(a\)](#), the Governor is the Director of the Budget. As Director, the Governor has the responsibility to administer the budget as enacted by the General Assembly. The Governor has delegated the authority to perform certain powers and duties of his role as the Director of the Budget to the Office of State Budget and Management (OSBM).

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3.1.4 Role of OSBM

The role and function of OSBM in budget execution is to formally certify the legislatively enacted budget and to administer the budget to ensure that appropriations are expended for the purposes for which they were authorized. This is accomplished through interpretation of legislation and other governing language and developing and issuing budget policies and procedures to assist agencies. The budget office also monitors and considers requests to make budget adjustments within the framework of the State Budget Act, other relevant state and federal legislation, and rules and policies. The OSBM provides technical assistance and guidance to state agencies in carrying out their delegated responsibilities related to budget execution.

[G.S. 143C-6-1\(a\)](#) provides that all appropriations of State funds made to State agencies and non-state entities shall only be expended for the purposes for which they were authorized as recommended by the Governor to the General Assembly, as amended and enacted by General Assembly. It further provides that the Governor is responsible for ensuring that appropriations are expended in strict accordance with the budget enacted by the General Assembly.

3.2 Certification of the Budget

As Director of the Budget, the Governor shall certify to each State agency the amount appropriated to it for each program and each object code from all governmental and proprietary funds. The certified budget for each State agency shall reflect the total of all appropriations enacted for each State agency by the General Assembly in the Current Operations Act, the Capital Improvements Appropriations Act, and any other act affecting the State budget. The certified budget for each State agency shall follow the format of the Budget Support Document as modified to reflect changes enacted by the General Assembly. ([G. S. 143C-6-1\(c\)](#)).

3.2.1 Certified Budget

The certified budget, as defined in [G.S. 143C-1-1\(d\)\(7\)](#), is the budget as enacted by the General Assembly including adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organizational or budget changes directed by the General Assembly but left to the Director to carry out. The budget enacted by the General Assembly will be put into place for each agency through the budget certification process. Items in (i), (ii), and (iii) may be accomplished on a type 11 budget revision.

3.2.2 Authorized Budget

The authorized budget (adjusted certified budget) is composed of the certified budget plus allowable internal budget revisions (type 14 budget revisions) and adjustments that must be approved by OSBM (on type 12 budget revisions). This is the working budget and is reflected on the monthly budget report (BD 701).

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3.3 The Total State Budget by Source of Funds

3.3.1 Definition of State Funds

[G.S. 143C-1-1\(d\)\(25\)](#) defines State funds as, “Any moneys including federal funds deposited in the State treasury except moneys deposited in a trust fund or agency fund as described in [G.S. 143C-1-3](#).”

3.3.2 General Funds

The general fund is made up of tax revenues (non-transportation) such as sales tax, individual income tax, corporate tax, insurance premium tax, and franchise tax. In addition, the general fund includes non-tax revenues such as income from the treasurer’s investments, fees received from the court system, miscellaneous fees charged for state services, transfers from the highway fund and the highway trust fund, and Medicaid disproportionate share receipts.

3.3.3 Highway Funds

The highway fund/highway trust fund is comprised of revenues from transportation-related activities. Generally, these revenues do not respond to inflationary changes as do the general fund revenues. Highway fund revenues include the highway related motor fuel tax, motor vehicle tax, motor vehicle registration fees, driver’s license fees, and non-tax revenues such as income from the treasurer’s investments.

3.3.4 Federal Funds

Federal funds are received directly by the state to support various programs. Examples would include: Medicaid, Temporary Assistance to Needy Families, Elementary and Secondary Education, highway construction, Low Income Energy Assistance Block Grant, Community Development Block Grant, Social Services Block Grant, Child Nutrition in Public Schools, Child Care and Development Fund (CCDF), Public Health block grants, and WIC (Women, Infants and Children) Nutrition Program, along with a host of other federally funded programs.

3.3.5 Departmental Receipts

Departmental receipts come from a variety of State agency activities and sources. Pursuant to [G.S. 143C-1-1\(d\)10](#), departmental receipts are fees, licenses, federal funds, grants, fines, penalties, tuition, and other similar collections or credits generated by State agencies in the course of performing their governmental functions that are applied to the cost of a program administered by the State agency or transferred to the Civil Penalty and Forfeiture Fund pursuant to [G.S. 115C-457.1](#), and that are not defined as tax proceeds or nontax revenues. Departmental receipts may include moneys transferred into a fiscal year from a prior fiscal year.

Note: Although classified as departmental receipts, Federal Funds are outlined above because they represent a significant portion of the budget and are a major source of revenue for the state.

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3.4 Structure of the Budget

3.4.1 Fund Types (Budget Codes)

The Office of State Budget and Management (OSBM) in consultation with the Office of State Controller (OSC) assigns a five digit number based on the budgetary necessity and classification into the proper fund type for budgetary reporting. Pursuant to [G.S. 143C-1-3](#) the State Controller shall account for State resources through use of fund types (budget codes) which are described below. The Controller may not establish a fund type that differs from the listed fund types unless the Governmental Accounting Standards Board has approved the use of the different fund type. However, if a conflict exists between a description used in this section and the definition of the corresponding fund type issued by the Governmental Accounting Standards Board, it is presumed that the definition issued by the Governmental Accounting Standards Board shall prevail. Additionally, the Controller shall keep the total number of budget codes to the minimum number practical.

If an agency needs to establish a new budget code, please review “Establishment of a Budget Code” which appears later in the Budget Execution section.

Governmental Funds

- (1) Capital Projects Funds – Accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.
- (2) Debt Service Funds – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- (3) General Fund – Accounts for all financial resources except those required to be reported in another fund.
- (4) Special Revenue Funds – Accounts for the proceeds of specific revenue sources, other than trusts for individuals, private organizations, or other governments or for major capital projects, that are legally restricted to expenditure for specified purposes.
- (5) Permanent Funds – Accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Funds

- (6) Enterprise Funds – Accounts for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Each of these criteria should be applied in the context of the activity's principal revenue sources.
 - a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.

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- b. Laws or regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues.
 - c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.
- (7) Internal Service Funds – Accounts for any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Agency and Trust Funds

- (8) Agency Funds. – Accounts for resources held by the reporting government in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.
- (9) Investment Trust Funds. – Accounts for the external portion of investment pools reported by the sponsoring government.
- (10) Pension and Other Employee Benefit Trust Funds. – Accounts for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans.
- (11) Private-Purpose Trust Funds. – Accounts for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Designation – If State resources are designated by law as a fund or an account within a fund and there is a conflict between the legal designation and the appropriate accounting designation of the State resources, then the Controller shall determine the appropriate designation of the State resources based on the intended use and financial treatment of the State resources as set out in the law establishing the fund or account. The Controller shall determine the fund type of all separate funds and account for them accordingly.

The specific purpose/program codes created for the UNC system pursuant to G.S. 116-35, 116-36, 116-36.1, 116-36.2, 116-36.4, 116-36.5, 116-36.6, 116-44.4, 116-68, 116-220, 116-235, 116-238 are exempt from all requirements of budget execution, with the exception of 1) budget execution requirements of Article 8 concerning Capital, of [Chapter 143C](#) of the General Statutes and 2) budget execution requirements which are required to ensure compliance with provisions of [G.S.116.36.1](#). These funds shall be governed and accounted for by those statutes unless a conflict arises with Article 8, then Article 8 should be followed. Even though these funds are non-state funds, exempt from Chapter 143C, and/or Agency and Trust Funds as defined in [G.S.](#)

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[143C-1-3\(a\)](#), they are not exempt from budget manual policies such as travel, personnel regulations, and any other budget policies based on General Statutes other than G.S. 143C.

3.4.2 Purpose or Program (Fund Number)

As defined by [G.S. 143C-1-1 \(d\)\(23\)](#), a purpose or program is a group of objects or line items that support a specific activity outlined in a recommended or enacted budget. In the North Carolina Accounting System (NCAS), the fund/purpose is the first four positions of the center number. The last eight positions of the center number are available to the agency for defining responsibility areas or alternate reporting needs. These eight positions will accommodate reporting needs currently associated with Responsibility Cost Center (RCC), Federal Responsibility Center (FRC), Program number and District. All twelve positions of the Center are not required for building an agency's Center key. Only the first four positions are required. Additional positions of the Center structure should be used as necessary to define organization, funding source, project number, program, grant identifier, and other reporting needs.

3.4.3 Object or Line Item (Account Numbers)

As defined by [G.S. 143C-1-1\(d\)\(20\)](#), an object or line item is an expenditure or receipt in a recommended or enacted budget that is designated in the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller.

The account number describes the purpose of expenditure, the type of revenues received, and the balance sheet accounts required for Generally Accepted Accounting Principles (GAAP).

More information about the state accounting system is available at the Office of State Controller web page at <http://www.ncosc.net/>. A brief description of each group of expenditure and revenue accounts is outlined below.

3.4.4 Expenditure Accounts

The following major account groups for expenditure/object of expenditure/line item (53 XXXX) are recognized:

- 1XXX - Personal Services (salaries and benefits) -- Expenditures incurred for services rendered by permanent and temporary employees and the related fringe benefits. Special employee awards and settlements, as well as compensation to board members, are also included in this expenditure group. For general government agencies, the funding source should dictate which category (Undesignated, Appropriated or Receipts) should be used to record these expenditures. Undesignated should be used when a cost allocation process allocates the expenditures to the appropriate funding source designation. For universities, this allocation is not required.

- 2XXX - Purchased Services -- Expenditures incurred for services required to ensure the ongoing operation of State government facilities and government services. These ser-

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VICES may be provided by external commercial firms, other state agencies, and/or other divisions within the same organization. Services provided within the State entity paid through a state payroll system would not be charged to this account group (e.g., Dual Employment-Account 1450). Also included in this account group are reimbursements for travel costs related to official State business.

- 3XXX Supplies -- Expenditures incurred for the purchase of supplies or materials expected to be consumed within the normal course of operating a department, facility or institution and which are generally recurring in nature. This account group should exclude purchases of tangible items which are more properly classified in the Property, Plant and Equipment group.
- 4XXX Property, Plant, & Equipment -- This account class includes payments for acquiring legal ownership to real property, to construct additions to buildings, and to furnish buildings with equipment, furniture, furnishings and machinery. Equipment should possess both of the following characteristics: it is not consumable or expendable and has an expected useful life of longer than one year. This property may require entry into the fixed asset system if the capitalization criteria are met.
- 5XXX Other Expenses and Adjustments -- Expenditures incurred for other miscellaneous operational costs such as legal or permit costs, pension payments, debt service, depreciation/amortization and other financial report adjustments.
- 6XXX Aid & Public Assistance -- Allocations or distributions of funds to direct recipients, providers or other agencies for some designated program, assistance or special project.
- 7XXX Agency Reserves -- This account group includes agency reserves, which are defined as budgetary appropriations that are not available for disbursement until transferred to budgeted expenditure accounts. Actual expenditures should not be posted to the 537XXX accounts; these accounts should only be used for budget purposes to post to the related 737XXX and 787XXX budgetary accounts.
- 8XXX Intragovernmental Transaction -- This account group consists of operating transfers, reimbursements, residual equity transfers and transfers of appropriations.

3.4.5 Revenue Accounts

The following major accounts for revenue/object of receipt/line item (43 XXXX) are recognized:

- 1XXX Tax Revenues -- Revenues generated from taxes levied in accordance with general statutes.

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- 2XXX Grants -- Revenues received from Federal, State, local or municipal governments, or private organizations to be used or expended for a specific purpose, activity, or facility.
- 3XXX Investment Income (interest) -- Revenues derived from financial investments or loans made by the state which includes interest earned for the use of financial resources over a period of time. **Program Revenue** – Investment earnings that **are** legally restricted for use in specific functions or programs. **General Revenue** – Investment earnings that **are not** legally restricted for use in specific functions or programs.
- 4XXX Sales, Service and Rentals -- Revenue collected from the sale of services, rentals, or physical property.
- 5XXX Fees, Licenses, and Fines -- Revenue collected for the issuance of fines, permits, licenses, or fees from licensed activity, in payment for certification from the state or in payment of a violation in state law.
- 6XXX Contributions and Donations -- Included are gifts, donations and contributions received from private organizations and individuals. Also included are employer contributions to the state unemployment compensation fund, and employer and employee contributions made to one of the retirement systems, Death Benefit Plan, or the Disability Income Plan, all of which are administered by the State.
- 7XXX Miscellaneous -- Revenues from sources not classified elsewhere, such as sale of items not normally held for resale, collections and recoveries.
- 8XXX Intra-Governmental Transactions -- This account group consists of operating transfers, residual equity transfers, and transfers of appropriations.

3.5 General Provisions for Budget Execution

3.5.1 Budget Execution Overview

After the OSBM issues a certified budget at the beginning of each fiscal year, OSBM and departments begin adjusting the budget for changes that have occurred during the development of the budget and changes authorized by the General Assembly. With the exception of internal budget revisions left to departments, OSBM revises both the authorized and certified budgets using its statutory authority and/or acting on behalf of the Governor under the Governor's Constitutional role and authority as Director of the Budget.

[G.S. 143C-6-4](#) outlines the appropriate circumstances and methods by which a department or agency may, upon approval of the Director of the Budget, exceed the certified amount for a line item. Additionally, this statute specifies the limits placed in making those transfers among line

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items, funds (purpose or programs), or by increasing expenditures funded by departmental receipts.

3.5.2 Authorizations for Budget Adjustments

[G.S. 143C 6-4](#) places legal restrictions on adjustments to departmental budgets. When the budget is certified on Form BD 307, the agency must set up a certified and an identical authorized budget. As budget revisions are processed during the fiscal year, authorized changes to departmental budgets can be illustrated by comparing the certified and authorized budget.

3.5.3 Budget Authority Prior to Expenditure of Funds

Budget revisions must be requested and approved prior to any commitment and/or expenditure that would exceed the amount budgeted. Pursuant to [G.S. 143C-6-8](#), purchase orders, contracts, salary commitments, and any other financial obligations by state agencies shall be subject to the availability of appropriated funds. OSBM will not consider any commitment as a determinant in the review of budget revisions.

For State agencies and universities with internal systems, all budget revisions must be approved before they may be entered into an agency's or university's internal system. If the revision is entered without approval, the agency or university may be required to re-open the month the posting occurred and re-certify the month end BD 701. State agencies and universities should not make direct entries into NCAS as a way to correct a budget revision that was not posted correctly.

3.5.4 Changes to Expend All Available Funds

According to [G.S. 143C-6-2\(a\)](#) appropriations are maximum and conditional and can only be accessed and used by a state agency and the UNC system when the funds are available on a statewide basis and are sufficient to support the use. Budget revisions are not allowed for the sole purpose of making it possible to expend all receipts and appropriations.

3.5.5 The University of North Carolina Management Flexibility Revisions (G.S. 116-30.2, G.S. 116-14(b1), and G.S. 116-30.3)

Universities or NCSSM designated as special responsibility constituent institutions (SRCI) pursuant to [G.S. 116-30.1](#) and the UNC system President are permitted by statute to move funds within a budget code at the discretion of the Chancellor or the President via a type 14 budget revision. These are known as internal or "management flexibility" revisions. The UNC system is allowed to process any internal revisions under the parameters of [Article 1 of Chapter 116 of the General Statutes](#). These statutes provide management flexibility in the movement of budget and use of funds.

Budget flexibility revisions in the university system must conform to the SRCI guidelines found in the UNC Policy Manual published by UNC-General Administration (UNC-GA). All budget codes within the UNC system are required to enter a type 14 budget revision in OSBM's budget

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revision system to align the code's internal and OSBM's official system. This revision is required to be done no less than once a quarter.

Universities or NCSSM designated as special responsibility constituent institutions (SRCI) pursuant to [G.S. 116-30.1](#) and the UNC System President are permitted by statute to carry forward up to two and one-half percent (2 ½ %) of the unexpended fiscal year-end General Fund appropriation (also known as "management flexibility carry forward"). Pursuant to [G.S. 116-30.3](#), these "management flexibility carry forward" requests are considered appropriated and should be adjusted on a type 11 budget revision so that both the certified and authorized budgets are modified.

Universities may not budget or adjust receipts, distribute reserves, transfer appropriation to another budget code, or process any action that would have an impact on the certified budget through a flexibility revision as these actions must be approved by OSBM. The OSBM or UNC-General Administration can provide additional information.

3.5.6 Two-Year Revisions

Budget revisions prepared in the first year of a biennium and of a continuing nature should budget funds for both years. The two-year revision procedure applies to some position actions, adjustment of salary funds (excluding lapsed salaries), and some non-salary revisions. Unless the budget revision has an "O" in the code section, it will automatically be included in the Worksheet I. Please see Budget Revision Review.

3.5.7 Repeat Revisions

Budget revisions that continue actions from the second year to a new biennium, are called repeat revisions. Repeat revisions are of a continuing nature and apply to some position actions, permanent salary adjustments, and several other expenditure accounts. Repeat revisions must include an "R" in the code section of the budget revision. Please see Budget Revision Review.

3.5.8 Budget Revision Review

Departments and agencies should review all revisions annually to ensure that revisions are repeated or included in the development of the continuation budget as needed. See the Budget Revision Manual, the Budget Preparation Manual and Budget Instructions for additional information or for assistance.

3.5.9 Receipts of Departments and Institutions

Receipts of departments and institutions, collected by and spent by agencies, are included in the certified and/or authorized budgets of the agencies. The total requirements of each budget code are composed of departmental receipts and state appropriations from the general fund or the highway fund.

When it is realized that receipts are declining, state agencies must consult with OSBM to revise the total requirements of the budget before making commitments that could exceed the availabil-

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ity of funds. After making any necessary adjustments, the “adjusted” budget becomes the base budget from which quarterly allotments of funds to departments and institutions are made.

3.5.10 Refund of Expenditures

A refund of an expenditure is any funds returned to the state in the same year as the original payment was made due to an overpayment or because goods were returned to the vendor. Refunds of expenditures are not receipts, but are a decrease of expenditures and should be handled in accordance with policies established by the Office of the State Controller. Sales to students, employees, or patients are not considered refunds of expenditures, but are shown as receipts. It may be necessary to revise the budget, both in requirements and estimated receipts, to properly reflect these transactions.

3.5.11 Refund of Receipts

A refund of receipt occurs when the state disburses funds to an entity from which the funds were originally received and both transactions occur in the same state fiscal year. Refunds of receipts should not be handled as expenditures but rather as a decrease of receipts in accordance with policies established by the Office of the State Controller.

3.5.12 Disbursing Accounts with State Treasurer

Disbursing accounts are available with the State Treasurer as determined by OSC for institutions, public schools, and certain designated departments. Disbursing accounts have funds credited to them only by the Office of State Controller when requested through the Cash Management Control System (refer to Cash Management Manual - Office of the State Controller.)

3.6 Amending the Operating Budget

3.6.1 Revisions for Governmental and Proprietary Funds

Budget revisions must be submitted for all Governmental and Proprietary Funds and approved by OSBM unless authorized under “Internal Budget Revision” procedures or University Management Flexibility in accordance with [G.S. 116-14\(b1\)](#), [116-30.2](#), [116-30.3](#), and [116-30.3A](#). Governmental and Proprietary Funds are defined under the “Structure of the Budget” subsection in the “Budget Execution Section” and include federal funds unless prohibited by federal law. Pursuant to [G.S. 143C-3-5\(d\)](#), all Governmental and Proprietary Funds will be presented to the General Assembly in the Governor’s Recommended Budget and will be certified by OSBM.

3.6.2 Revisions for Agency and Trust Funds

Budget requests for Agency and Trust fund codes generally do not require OSBM’s approval. However, state agencies and universities must continue to:

- Maintain budgets. The UNC system must account for each budget code using an approved methodology that is auditable at any time by OSBM, Fiscal Research, or the State Auditor.

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- Process internal BD 606s (type “14”).
- Use the monthly report on the budget (BD 701) showing the certified, authorized, and actual expenditure columns. The UNC system should have information easily accessible and available in the form and at the time as requested by OSBM.
- Submit requests to establish new positions to the Office of State Budget and Management for approval.

3.6.3 Budget Revision Requirements

Budget revisions (BD 606's) are submitted to OSBM through the automated Budget Revision System (BRS) developed by OSBM. Agencies must use this system to process any revisions to their certified or authorized budgets. The process and procedures necessary to utilize the budget revision system have been incorporated into an operator's manual and is available online at the OSBM website. Any agency that does not have access to the system or has questions regarding the use of the budget revision system should consult with the OSBM budget analyst assigned to their agency at (919) 807-4700. OSBM reviews and approves all budget revisions that require an approval level outside of the agency.

Requests by agencies to OSBM for budget revision approval must include the following items at a minimum:

- The effective date, part payable date for positions (unless it is for the full fiscal year), budget revision number, specific subject of the revision request, budget code number, date submitted, fiscal adjustment requested, and a short concise, yet complete, explanation and / justification. All amounts must be rounded to the next whole dollar.
- Sequential numbering, by budget code and biennium, in three series: Type 11's beginning with 11-0001 for revisions to the certified budget and type 12's beginning with 12-0001 for revisions to the authorized budget. Both type 11 and 12's must be submitted to OSBM. Type 14's beginning with 14-0001 for budget revisions that can be approved internally by the agency (internal type 14 budget revisions also affect the authorized budget but not the certified). The numbered revisions continue consecutively through the biennium.
- Make sure there is a fund and title for both requirements and receipts.
- There is an area on the budget revision entry screen marked “Codes” which allows an agency to designate the budget revision for special processing at certain times in the budget cycle. The appropriate code must be entered on each budget revision when it is prepared. These codes are:
 - O (Omit) - This budget revision should be omitted from the next Continuation Budget because is a one-time budget change.

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- R (Repeat) - This budget revision is a recurring budget change which should be included in the next Continuation Budget if approved before the Worksheet I is finalized. It should be repeated and processed in July of the next biennium if approved after the Worksheet I is finalized and included in the next Continuation Budget.
- L (Lapsed Salary) - This budget revision is transferring lapsed salary and should not be included in the calculation of salary reserve.
- N (Not Posted to Salary Control) - This budget revision is a one-time salary change and should not be posted with Salary Control transactions.
- G (General Assembly) – This budget revision is a non recurring budget revision that the agency requests be submitted to the General Assembly to become recurring.
- T (Termination Date) – This budget revision is to identify those 606’s that have a termination date beyond one fiscal year and should be for all revisions supported with time-limited funds.

It may be appropriate to put both an O and L on a budget revision form.

- Be able to pass a common-sense test by combining several small changes into a single request.
- Adjust requirements, receipts, and appropriations for both years of the biennium when appropriate.
- Provide full and complete explanations and justifications as appropriate.
- If the budget revision concerns an information technology project (as defined in [Section 3.9 Information Technology Budget Policies and Procedures](#)), provide the URL to the system entry in the IT Portfolio Management Tool. The Judicial Branch, General Assembly, individual community colleges, and UNC system are exempt from the IT regulations of Senate Bill 991.

An example of a budget revision (BD 606) is provided in the “Revising the Authorized Budget” subsection below.

3.6.4 Revising the Certified Budget

In order to reflect the actions of the General Assembly, revisions may be made in the certified budget for the following reasons as defined by [G.S. 143C-1-1\(d\)\(7\)](#):

- Distribution to state agencies from statewide reserves appropriated by the General Assembly;

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- Distribution of reserves appropriated to a specific agency by the General Assembly;
- Organizational or budget changes directed by the General Assembly but left to the Executive Branch to carry out.

Requests for revisions in the certified budget for any of these reasons must be submitted to OSBM through the Budget Revision System. All revisions to the certified budget are identified by the six-digit budget revision number beginning with “11” and numbered consecutively for each budget code beginning July 1 of the first year of each biennium (as 11-0001, 11-0002, etc.). All budget revisions changing the certified budget also change the authorized budget.

3.6.5 Revising the Authorized Budget

[G.S. 143C-6-4](#) allows the certified budget to be over-expended in some circumstances. In these cases, the certified budget is not changed, but the authorized budget is revised through the budget revision process. Budget revisions are processed to adjust the authorized budget to meet changing requirements that cannot be shown in the certified budget. Budget adjustments are not allowed that transfer funds from operating accounts to salary and benefit accounts with the exception of receipt-supported positions when there are not additional receipts to budget.

[Pursuant to G.S. 143C-6-4\(g\)](#), transfers or changes within the authorized budget of the UNC system may be made as provided in [Article 1 of Chapter 116](#) of the North Carolina General Statutes. Refer to section 3.5.5 for further guidance.

Some of the changes in the authorized budget must be approved by OSBM. Those revisions (BD 606) are identified with a six-digit number beginning with “12.” Other revisions may be made by a revision (BD 606) processed internally by the department; these are numbered beginning with “14.” The distinction between these will be outlined below. Type “12” and “14” revisions change the authorized budget, but do not change the certified budget.

Pursuant to [G.S. 143C-6-4\(b\)](#), revision in the authorized budget is permitted when:

- (1) It is an object or line item within a purpose or program (fund), so long as the total amount expended for the purpose or program is no more than was authorized in the certified budget for the purpose or program.
- (2) A purpose or program if the overexpenditure of the purpose or program is:
 - a. Required by a court or Industrial Commission order;
 - b. Authorized under [G.S. 166A-5\(1\)a.9.](#) of the Emergency Management Act; or
 - c. Required to call out the national guard.
- (3) A purpose or program not subject to section (2) above, but only in accordance with the following restrictions:

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- the overexpenditure is required to continue the purpose or programs due to complications or changes in circumstances that could not have been foreseen when the budget for the fiscal period was enacted;
- the scope of the purpose or program is not increased;
- the overexpenditure is authorized on a nonrecurring basis; and
- total requirements for a State department shall not exceed the department's certified budget for the fiscal year by more than three percent (3%) without prior consultation with the Joint Legislative Commission on Governmental Operations.

Note: Notwithstanding G.S. 143C-6-4(b)(3), during the 2007-2009 fiscal biennium, a State agency may, with approval of the Director of the Budget, spend more than was authorized in the certified budget for a purpose or program if the overexpenditure is required to accommodate the redistribution of salary reserve balances within a State department.

The Director shall report quarterly, beginning October 31, to the Joint Legislative Commission on Governmental Operations on overexpenditures approved by the Director that fall under items (2) and (3) as listed above ([G.S.143C-6-4\(c\)](#)).

Pursuant to [G.S. 120-76.1](#), whenever an expenditure is required because of an emergency that poses an imminent threat to public health or public safety, or is either the result of a natural event, such as a hurricane or flood, the Governor may take action without consulting the Commission on Governmental Operations (the Commission) if the action is determined by the Governor to be related to the emergency. The Governor shall report to the Commission on any expenditures made due the emergency no later than 30 days after making the expenditure and shall identify in the report the emergency, the type of action taken, and how it was related to the emergency.

Some situations in which the authorized budget would be revised, with a type “12” budget revision (BD 606), would be:

- Repeating a prior year revision in the authorized budget within a purpose or program (fund).
- Budgeting additional receipts to continue the same level of service but not to increase the scope of a program on a nonrecurring basis.
- Other changes between and within funds approved by the Office of State Budget and Management.

An example of an adjustment between funds which must meet one of the criteria listed above to receive approval is as follows:

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State of North Carolina		
DENR	BD 606	NO. 12 XXXX
TITLE	Code	14300
Submitted: 7/24/07	Approved: 7/26/07	Fiscal Year 2007-08
<u>Status</u>		
<u>REQUIREMENTS</u>	<u>Increase</u>	<u>Decrease</u>
Geodetic Survey		
1750-3110 General Office Supplies		\$500
Land Quality		
1740-3720 Educational Supplies	<u>\$500</u>	<u> </u>
TOTAL REQUIREMENTS	\$ 0	\$ 0

3.6.6 Internal Budget Revisions

Agencies may make changes within the authorized budget of each fund/purpose between and among expenditure account object classes 22XX to 5XXX without approval of OSBM. These revisions are assigned to a series beginning 14-0001 and continue sequentially through the biennium. This authorization does not include changes between appropriation supported and receipt supported line items or increases in Governmental and Proprietary Funds. All internal adjustments must be made by an internal authorization document (type "14" BD 606) maintained for accounting and auditing purposes. **The Budget Revision System must be used for internal revisions.** Revisions must be made prior to over expenditure of budgetary accounts. Actual expenditures are to be recorded and reported according to account numbers designated in the North Carolina Accounting System at the appropriate expenditure account number level. Actual receipts are to be recorded and reported according to account numbers designated in the North Carolina Accounting System at the appropriate receipt account number level.

An example of a revision within a fund that may be processed internally is as follows:

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State of North Carolina		
DENR	BD 606	NO. 14 XXXX
TITLE	Code	14300
Submitted: 7/24/07	Approved: 7/26/07	Fiscal Year 2007-08
<u>Status</u>		
<u>REQUIREMENTS</u>	Increase	Decrease
Geodetic Survey		
1750-53 2840 Postage, Freight and Deliveries	\$500	
1750-53 3190 Other Administrative Supplies	—	\$500
TOTAL REQUIREMENTS	\$-0-	\$-0-

Pursuant to [G.S. 143C-6-4\(g\)](#), transfers or changes within the authorized budget of the UNC system may be made as provided in [Article 1 of Chapter 116](#) of the North Carolina General Statutes. Refer to section 3.5.5 for further guidance.

3.6.7 Internal Budget Revisions within Expenditure Account Numbers 1XXX

In addition, within the 1110-1292 and 1410-1999 expenditure account number classification, agencies are authorized within a fund/purpose to over-expend the certified line items listed below without prior approval of OSBM (type “14” BD 606) provided:

- 1) sufficient funds are available on an annual basis in these object classifications in the entire budget code; and
- 2) general or highway funds are not directly or indirectly used to pay for receipt-supported activity requirements.

Agencies are also authorized to move lapsed salary funds into the following line items through a type “14” budget revision on a nonrecurring basis, within a fund/purpose.

The certified line items are:

- EPA Salaries & Wages (NCAS Account Range 1110 - 1192)
- SPA Salaries & Wages (NCAS Account Range 1210 - 1292)
- Supplements to Regular Wages (NCAS Account Range 1410-1464)
- Employee Benefit Costs (NCAS Account Range 1510-1590)
- Other Personal Service Payments (NCAS Account Range 1611-1999)

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Agencies will have to submit a type 12 budget revision and receive OSBM approval when using lapsed salaries to cover the cost of Temporary Salaries, and NCAS account range 1310-1353.

Pursuant to [Article 1 or Chapter 116](#) of the General Statutes, the UNC system may use its flexibility with generated lapsed salary funds and are not subject to the restrictions listed in this section. However, G.S. 143C-6-9 does require that any use of these funds be for one-time, nonrecurring expenditures. Refer to section 3.5.5 for further guidance.

3.6.8 Lapsed Salary Revisions (G.S. 143C-6-9)

Lapsed salary is the dollar amount not expended for salary and associated benefits during the period in which a position is vacant. While internal budget revisions are authorized for those uses of lapsed salary funds listed above, others require the prior approval of OSBM (type “12” budget revision). The following rules apply when using lapsed salaries:

Lapsed salary funds shall not be used for grant-in-aid (6XXX), agency reserves (7XXX), and intra-agency transfers (8XXX). All lapsed salary budget revisions, except those related to covering shortages in personal service line items as outlined above, require prior approval from the Office of State Budget and Management. The agency is responsible for calculating available lapsed salary funds and must submit the information to OSBM when a request for use of lapsed salary funds is made.

An agency may use 50% of total generated lapsed salary funds as follows:

- To cover shortages in any personal services line items as outlined in the section above. These adjustments shall be administered by preparing an internal agency (14-type) budget revision, with the exception of temporary salaries, which must be approved by OSBM through a type 12 budget revision.
- Required by a court or Industrial Commission order, required to call out the National Guard, or authorized under [G.S. 166A-5\(1\) a.9](#). These adjustments shall be administered by preparing a 12-type budget revision.
- Provided that the scope of a program is not increased, an agency may use lapsed salary funds for other purposes on a nonrecurring basis provided that the need is justified and lapsed salaries are the most appropriate source of funds. These adjustments shall be administered by preparing a 12-type budget revision.

An agency may request use of lapsed salary funds that exceed the 50% threshold to deal with complications or changes in circumstances that could not have been foreseen. The agency will have to prepare a thorough justification for this exception and the request will be considered by OSBM on a case-by-case basis.

Where lapsed salary funds are budgeted for contractual services, the following restrictions apply:

- The contract is for temporary services or special project services.

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- The term of the contract does not extend beyond the fiscal year.
- The contract does not impose obligations on the State after the end of the fiscal year.

Lapsed salaries, fringe benefits, and other non-salary funds in the 1XXX expenditure account number class may not be used for the following:

- establishing new positions, including time-limited positions.
- providing salary increases.

An example of a revision using lapsed salary funds is as follows:

State of North Carolina		
DENR	BD 606	NO. 12 XXXX
TITLE	Code L O	14300
Submitted: 7/24/07	Approved: 7/26/07	Fiscal Year 2007-08
REQUIREMENTS:	<u>Increase</u>	<u>Decrease</u>
Forestry		
1210-53 1631 Workers' Compensation "Medical Payments"	\$51,803	
North Carolina Zoo		
1305-53 1211 SPA Regular Salaries & Wages-Appropriated	_____	\$ <u>51,803</u>
TOTAL REQUIREMENTS	\$ -0-	\$ -0-

Pursuant to Article 1 or Chapter 116 of the General Statutes, the UNC system may use its flexibility with generated lapsed salary funds and are not subject to the restrictions listed in this section. However, [G.S. 143C-6-9](#) does require that any use of these funds be for one-time, nonrecurring expenditures. Refer to section 3.5.5 for further guidance.

3.6.9 Salary Reserve Revisions

Salary reserve is the dollar amount created when a position is downgraded or filled at a salary amount less than the amount at which it was previously budgeted (exclusive of hiring rate). Salary reserve can be used to increase the salary of other positions due to promotion and/or reclassification or filling a position at a salary higher than that at which the position was vacated.

A state agency that proposes the use of salary reserve to create a new position or to change the funding source of an existing position shall submit a budget revision to the Director for approval.

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The Director shall review the request to ensure that funds for the action are included in the amount appropriated to the agency. If approval is granted by the Director, the agency and the Controller will be notified of the approval. The Controller shall not honor a voucher in payment of a payroll that includes a new position or a change in an existing position that has not been approved by the Director. ([G. S. 143-C-6-6\(a\)](#)).

Salary reserve may be budgeted for on-going salary requirements, those of a recurring nature, such as increasing the salary of other positions due to promotion/or reclassification or filling a position at a salary step higher than that at which the position was vacated. OSBM has delegated the authority to state agencies to use salary reserve, for the purposes outlined above, within a given fund/purpose without prior approval by State Budget. Salary reserve may be transferred from one fund/purpose to another only with prior approval of OSBM (Type 12 BD 606).

Transfer of salary reserve is allowed only to permanent salary lines of like funding source (i.e. general fund to general fund, receipts or highway fund to receipts or highway funds). Additionally, payments on behalf of employees for hospital-medical insurance, longevity payments, salary increments, legislative salary increases, required employer salary-related contributions for retirement benefits, death benefits, the Disability Income Plan and social security for employees shall be paid from the General Fund or the Highway Fund, only to the extent of the proportionate part paid from the General Fund or Highway Fund, in support of the salary of the employee. The remainder of the employer's contribution requirements shall be paid from the same source that supplies the remainder of the employee's salary ([G.S. 143C-6-6\(b\)](#)). While the University system's flexibility does extend to salary reserve funds, universities must use them with like funding sources as well.

3.6.10 Salary Control System

The Salary Control System is an on-line system with all data maintained on the state mainframe and available to all state agencies. Each agency enters the personnel and budget information needed by OSBM according to the procedures listed in the Salary Control System Manual. The system has two functions: to prevent overspending salary line items on an annual basis and to show the detail transactions necessary to balance one Recommended Budget with the previous one. The transactions start in July and continue through June. There is a separate account for each fund/object/year and optionally for sub-accounts such as RCC's.

Systems support and training are provided by the applications analyst, and policy questions are answered by the salary control analyst. The Salary Control System manual is available on the OSBM website and is updated as procedures and/or programs change.

In accordance with Article 1 of Chapter 116 of the General Statutes and [G.S. 143C-6-5\(c\)](#), the UNC system is not required to utilize the Salary Control System.

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3.6.11 Establishing a Position

When a budget revision includes the request to establish a new position, the identifying information for positions on the budget revision must be entered by each position and in the special field set up for this purpose on the Budget Revision System (BRS). This information is the fund number, expenditure account number, classification, 15-digit position number, annual salary, grade number, scheme number, and full time equivalent. The annualized salary lines must also be completed when not using salary reserve within the fund/purpose and account, to ensure that the budget revision is posted correctly in the Salary Control System. See the Budget Revision System manual. For university positions budgeted on a budget revision, the university must only provide the FTE increase/decrease information in order to accurately budget the initial FTE. The analyst may require additional position information.

Any new receipt-supported position that is to be funded through the budgeting of new receipts must initially be established on a non-recurring basis given that new receipts cannot be budgeted as recurring (See “Revising the Authorized Budget” in Section 3.6). If the position is ultimately intended to be classified as a time-limited position, the position will need to be rebudgeted each year. If the ultimate need is for a permanent receipt-supported position, the position will be included in the Governor’s Recommended Continuation Budget during the long session of the General Assembly or in the Recommended Adjustments document during the short session. If the position is approved for funding by the General Assembly, the status of the position can then be changed to permanent. If funding for the position is not approved, the position must be abolished.

3.6.12 Position Control

Maintaining position control over salaries and salary reserve and maintaining an accurate number of positions is the responsibility of each individual agency. It is the responsibility of OSBM to monitor fiscal control over salaries and wages throughout state government, to monitor the Salary Control System (SCS) and Personnel Management Information System (PMIS), record the establishment of new positions, reconcile certifications and assist agencies and OSBM analysts in reconciling position counts and budgeted salaries, and to insure that each position established has sufficient funds budgeted to support it on an annual basis.

Per [G.S.143C-4-7](#), the total number of permanent positions created by any State entity shall not increase in any fiscal year by a greater percentage rate of change than that of the residential population of the State. This requirement applies to the university system and all of its entities. The UNC system, any special responsibility constituent institution/campus, or affiliated entity, shall provide any information requested by OSBM as necessary to ensure that the UNC system maintains full compliance with this statute. However, in accordance with [G.S. 143C-6-6\(c\)](#), the university is not required to receive OSBM’s permission to create positions within the existing authorized budget, only be able to produce data and/or reports in the form and at the time required to determine compliance with [G.S. 143C-4-7](#).

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3.6.13 Over Realized Receipts Budget Revisions

Agencies may submit to OSBM a request (type “12” BD 606) to use additional receipts on a nonrecurring basis above those certified in Governmental and Proprietary Funds if they are necessary to maintain the anticipated level of services approved by the General Assembly. If the additional receipts are not for the above purpose, the general or highway fund appropriation must be reduced through the allotment process.

[G.S. 116-30.3A](#) limits all receipts that each budget code in the UNC system and the UNC Health Care System may realize over and above the Certified budget to a maximum of 10%. The UNC System may budget these overrealized receipts on a type “12” budget revision on a nonrecurring or recurring basis as appropriate. Pursuant to Chapter 116 of the North Carolina General Statutes, the following receipts received by the UNC system are considered appropriated and should be adjusted on a type 11 budget revision so that both the certified and authorized budgets are modified:

- tuition and fee increases ([G.S 116-40.22 \(c\)](#)),
- use of trust/institutional funds for State activities in the General Fund ([G.S. 116-36.1 \(f\)](#)), and,

[G.S. 143C-6-1\(b\)](#) requires that all receipts, including those of the UNC system, are budgeted in the fund/purpose from which the receipts were collected and appropriations made. Universities may continue to budget tuition in purpose/program (fund) 1990/0990.

An example of a revision to budget over-realized receipts:

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State of North Carolina	BD 606	NO. 12 XXXX
DENR		
TITLE	Code O	14300
Submitted: 7/24/07	Approved: 7/26/07	Fiscal Year
		2007-08
REQUIREMENTS	Increase	Decrease
Water Quality Control		
1690-53 8101 Inter-Departmental Transfer	<u>\$6,651</u>	
TOTAL REQUIREMENTS	\$6,651	
Water Quality Control		
1690-43 5500046 Fish Restock Fee	<u>\$6,651</u>	
TOTAL RECEIPTS	\$6,651	

3.6.14 Agency Procedures for Transferring the Clear Proceeds of Fines, Forfeitures and Penalties to the Office of State Budget and Management

Agencies, including the UNC System, must transfer receipts from civil fines, penalties and forfeitures to OSBM. Agencies must submit the total amount collected minus the OSBM approved cost of processing the fine/ forfeiture.

Remittance of moneys to the Fund

Pursuant to [G.S. 115C-457.2](#), "The clear proceeds of all civil penalties and civil forfeitures that are collected by a State agency and are payable to the County School Fund pursuant to Article IX, Section 7(b) of the Constitution shall be remitted to the Office of State Budget and Management by the officer having custody of the funds within 10 days after the close of the calendar month in which the revenues were received or collected. Notwithstanding any other law, all such funds shall be deposited in the Civil Penalty and Forfeiture Fund. The clear proceeds of such funds include the full amount of all civil penalties, civil forfeitures, and civil fines collected under authority conferred by the State, diminished only by the actual costs of collection, not to exceed twenty percent (20%) of the amount collected." The collection cost percentage to be used by a State agency shall be established and approved by the Office of State Budget and Management on an annual basis based upon the computation of actual collection costs by each agency for the prior fiscal year.

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Appropriation and Transfer of Funds

“The General Assembly shall appropriate moneys in the Civil Penalty and Forfeiture Fund in the Current Operations Appropriations Act. These appropriations shall be made to the State Public School Fund for allotment by the State Board of Education, on behalf of the counties, to local school administrative units on a per pupil basis in accordance with Article IX, Section 7(b) of the North Carolina Constitution.”

The Cash Transfer

On or before 11:00 a.m. on the tenth calendar day of each month, initiate a “Request for Transfer of Funds Between Budget Codes” (AK22) to department code 3005 (Budget Code 23005) through the Cash Management Control System (CMCS) in the amount of the clear proceeds certified during the prior month. (Example: During August 1998, your agency certifies collection of \$1,000. Your agency claims \$10 to cover the collection cost. On or prior to 11:00 a.m. on September 10th your agency initiates a transfer to OSBM in the amount of \$990. The transfer is recorded in CMCS as September activity.)

NOTE: Fax the “Fines, Penalties, and Forfeitures Deposit Documentation” form to OSBM (919-733-0640) documenting the transfer.

The Accounting Entry

For all transfer of fines, forfeitures, and penalties to OSBM, record an operating transfer out using account number 538030 Fines/Penalties/Forfeitures Transfers in the North Carolina Accounting System (NCAS).

3.7 Maintenance of a Balanced Budget

3.7.1 Quarterly Allotment Process

Agencies must submit to OSBM each quarter a request for an allotment of the amount estimated to carry on the agency during the ensuing quarter. Allotments may be made on a more frequent basis as determined by the Director of the Budget. Pursuant to [G.S. 143C-6-8](#), unless otherwise authorized by OSBM as provided by law, any and all purchase orders, contracts, salary commitments, and any other financial obligations by State agencies, including the University of North Carolina, shall be subject to the availability of State funds or non-State funds. When necessary, OSBM will modify allotment requests to ensure that all State agencies remain within their most current available budget.

Requests for a quarterly allotment should be made for the general fund and highway fund as directed by OSBM and submitted to OSBM not less than twenty (20) days before the beginning of the quarter covered by the request. The allotment should be submitted through the OSBM budget allotment module. For more information on using this module, please refer to our online manual on the OSBM website.

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An allotment account for each code is set up quarterly on the books of the Office of the State Controller. The allotment account serves as the control for the requisition of funds and represents the maximum available for the quarter.

3.7.2 Quarterly Allotment Request Format

Allotments are to be submitted reflecting only the Department, Fiscal Period, Budget Code, Estimated Total Requirements, Estimated Receipts, and Appropriation.

The University of North Carolina is to submit allotments according to the following break-out unless they are instructed by their analyst to do otherwise:

- Payroll
- Utilities
- Financial Aid
- Other

TOTAL REQUESTED REQUIREMENTS

TOTAL ESTIMATED RECEIPTS

TOTAL REQUESTED APPROPRIATION

3.7.3 Revisions to Allotments

Agencies may submit a request to change the authorized quarterly allotment to OSBM for approval. Details required for the initial allotment are also required for allotment revisions.

3.7.4 Requisitions for Funds

Agencies on a disbursing account with the State Treasurer have funds made available to them for expenditures by means of requisition of funds through the Cash Management Control System. After the quarterly allotment is received, a requisition for funds is submitted to OSC (refer to Cash Management Manual - Office of the State Controller.)

3.8 Establishment of a Budget Code or Center

[G.S. 143C-1-1\(d\)\(3\)](#) defines a budget as a plan to provide and spend money for specified programs, functions, activities, or objects during a fiscal year. Accordingly, such budgets and associated financial transactions must be accounted for through the use of fund types as prescribed by the Governmental Accounting Standards Board (GASB), as detailed in [G.S. 143C-1-3\(a\)](#) and in accordance with the Budget Code Structure of the North Carolina Accounting System (NCAS) Uniform Chart of Accounts as prescribed by the Office of the State Controller (OSC). Additionally, [G.S. 143C-3-5\(d\)](#), which is consistent with the requirements of the [North Carolina Constitution, Article 3, Section 5\(3\)](#), states that all Governmental and Proprietary Funds, as described in [G.S.143C-1-3](#), shall be included in the Governor's recommended State budget.

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3.8.1 Establishment of a Budget Code

Establishment of a new budget code is initiated by a State agency in support of a specific activity outlined in an enacted budget or in support of new programs funded from federal, local, state, or private agencies. The request for a new budget code should be submitted by the State agency by completion of the “Establishment of New Budget Code and/or Center (Fund)” form. This completed form should be submitted to the OSBM Budget Analyst assigned to that State agency. The request must include the proposed budget code number, all supporting documentation or requirements for the code, and indicate whether the proposed budget code is to be interest bearing. [G.S. 143C-1-4-\(a\)](#) requires interest earned on all funds be credited to the General Fund, and there must be clear directions in law for an exception. OSBM will review the request for budgetary necessity, approve and/or modify, and then by letter authorize the establishment of this budget code to OSC, Department of State Treasurer (DST), and the State Auditor. OSC will review this request for compliance with GASB and the Budget Code Structure of the NCAS Chart of Accounts and, upon approval and/or modification validate the new budget code on NCAS.

3.8.2 Establishment of a Center (Program)(Purpose)(Fund) Number and Title

The “Establish a New Budget Code and/or Center (Fund) and Title” form must be used for the official request to establish a new Center, (Program),(Purpose),(Fund) in a new or existing budget code. (OSBM has traditionally referred to the Program or Purpose number as a “Fund”. However, this term is actually a hold-over from the old Departmental Accounting System (DAS). Once the State implemented NCAS, the new accounting term for “Fund” changed to “Center”. Therefore, all four terms, Center, Program, Purpose, and Fund are used interchangeably.) Completion of this form is required for all budget codes and centers including capital improvement budget codes and federal fund budget codes. The request must be submitted by all State agencies and approved under policies established by both the OSBM and the OSC. The request to establish a new center should be submitted to the OSBM prior to the submission of the budget revision to establish the budget and prior to the State agency adding this new center in the Budget Revision System. Authorization of the center number by OSBM on this form does NOT imply approval of the budget revision (BD 606).

3.8.3 Instructions for the Form

The “Establish a New Budget Code and/or Center (Fund) and Title” form should be used by all State agencies to establish the following:

- new centers (fund) for a new budget code.
- new centers (fund) for an existing budget code.
- new budget codes

Complete all information on the “**Establish a New Budget Code and/or Center (Fund) Number and Title**” form per detailed instructions following the sample form below. The department should allow a minimum of two weeks for an average approval process.

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3.8.4 Budget Code Information

- Line 1: Indicate the State agency name.
Request number - The first two positions represent the agency number in the NCAS, the third position is "F", positions four through seven are the sequential number of all requests by agency for the biennium. For example agency number 16 has two requests: a new center for code 17001 and a change for 27002. The request numbers would be 16F0001 and 16F0002, respectively. (Note: Universities will use the 2nd and 3rd position of the NCAS agency number as the first two positions in the request number)
- Line 2: Indicate the effective date for authorization.
- Line 3: Provide the complete descriptive title of the budget code for the request.
- Line 4: Provide the five-digit budget code number and the authorized budget code title. The official title is limited to 30 digits and should be established in a similar format to the other official budget code titles as authorized by the OSBM and as validated on NCAS by OSC.
- Line 5: Indicate the NCAS Region ("23", "P", or "OPU") used by the State agency, the agency/division number, and if the budget code is interest bearing. Further indicate "yes" if this request is for a new budget code or "no" if the request is for an existing budget code.

3.8.5 Center (Fund) Information

The Center (Fund) Information section provides a complete list of all new center numbers to be assigned to the requested budget code.

- Line 6: **Center (Fund) Number:** Indicate the first four positions of the requested new center.
Title: Indicate the title for the new center. Abbreviate as needed, as the title is limited to 24 digits.
The new center and title will be validated to both the Budget Revision System by OSBM and NCAS by OSC.
- Line 7: **Company Number:** Identify the company number in NCAS for the budget code. If a new company number is to be assigned by OSC leave this blank and OSC will assign a new company number.

GASB Number: To be completed by OSC

Indicate whether the center will be distributing payroll. Indicate whether Recovery (ARRA) funds will be tracked by the center.

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- Line 8: **Signatures by the State agency:** These names are the individuals authorized to approve center request.
- Line 9: **Agency Contact:** Indicate the name, phone number and e-mail address of the individual at the agency for notification of the approval of the center by the OSC. This box must be completed with an email address in order to receive notification of the approved center request, as well as, to provide a contact for additional information that may be needed by OSBM or OSC.
- Line 10: **Justification for the center authorization:**
If this request is for several center numbers, justifications should be completed for each center requested. Agency must give a brief and concise justification for each center request. Include the General Statute reference or other authoritative references such as an Attorney General opinion, court directive, or federal guideline references for accounting in the justification.
- Line 11: **Revenue source for the budget center:** All revenue sources should be identified and described for full evaluation of the type of budget and accounting activity of the center. Revenue sources include, but are not limited to, general fund appropriation, highway fund appropriation, transfers from general fund or highway fund, dedicated revenue, court settlements etc.
- Line 12: Indicate the expenditure and accounting activity, which will be authorized for the requested center. Provide a complete description of any expenditure restrictions or special accounting requirements.
- Line 13: Indicate the purpose statement for the requested center (fund) to be established. The purpose statement should include the program impact or result of the center (fund) and those major activities contributing to that impact.

If Lines 10 through 13 are not completed with adequate information the center request cannot be processed. This information is pertinent for OSBM and OSC to establish the new center.

3.8.6 Change in an Existing Center (Fund) and/or Title

This form should be used by all State agencies to change a center number and/or title. The form is to be completed for all centers.

3.8.7 Instructions for the Form

Complete all information outlined in the procedures on the “**Change in an Existing Fund (Center) Number and/or Titles**” Form. The request should be emailed directly to the budget analyst assigned to your State agency prior to the submission of the budget revision. Authorization

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of the center number or title change does not imply approval of the budget revision. The budget analyst will review the request. OSBM will either email the request to OSC for review and approval or deny the request and return it to the State agency. The agency should allow a minimum of two weeks for an average approval process.

3.8.8 Budget Code Information

Line 1: Indicate the State agency name.

Request number - The first two positions represent the agency number in the NCAS, the third position is "F", positions four through seven are the sequential number of all requests by agency for the biennium. For example, agency number 16 has two requests a new center for code 17001 and a change of center for code 27002. The request numbers would be 16F0001 and 16F0002, respectively. (Note: Universities will use the 2nd and 3rd position of the NCAS agency number as the first two positions in the request number).

Line 2: Indicate the effective date for authorization.

Line 3: Provide the complete descriptive title of the budget code for the request.

Line 4: Provide the five digit budget code number and the authorized budget code title. The official title is limited to 30 digits.

Line 5: Indicate the State agency's region in NCAS, the agency/division number and whether the budget code is interest bearing.

Current Authorized Title/Number

Line 6: **Center (Fund) Number:** Indicate the first four positions of the current center.
Title: Indicate the title for the current center.

Line 7: **Company Number:** Identify the company number in NCAS for the budget code.
GASB Number: Identify the current GASB number.

New Title/Number Requested

Line 8: **Center (Fund) Number:** Indicate the first four positions of the requested new center.
Title: Indicate the title for the new center. Abbreviate as needed, as the title is limited to 24 digits. The title will be validated to both the budget and accounting system as authorized.

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- Line 9: **Company Number:** Identify the company number in NCAS for the budget code. If a new company number is to be assigned by OSC leave this blank and OSC will assign a new company number.
GASB Number: To be completed by OSC.
- Line 10: **Justification for the code/center authorization:** If this request is for several center numbers, justifications should be completed for each center requested. Agency must give a brief and concise justification for center request. Include the General Statute reference or other authoritative references such as, an Attorney General opinion, court directive, or federal guideline references for accounting in the justification.
- Line 11: **Signatures by the State agency:** These names are the individuals authorized to approve center request.
- Line 12: **Agency Contact:** Indicate the name, phone number, and e-mail address of the individual at the agency for notification of the authorization of the center by the OSC. This box must be completed with email address in order to receive notification and the approved center request.

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3.8.9 Notification of Approval

The Office of State Controller will email the OSBM and the individual indicated in the agency contact area of the approved form. This will be the only notification sent by the OSC.

3.9 Information Technology Budget Policies and Procedures

Information technology is defined as electronic data processing goods and services, telecommunications goods and services, security goods and services, microprocessors, software, information processing, office systems, any services related to the foregoing, and consulting or other services for design or redesign of information technology supporting business processes ([G.S. 147-33.81\(2\)](#)).

Pursuant to [G.S. 143C-1-2 \(b\) \(iii\)](#), the unexpended, unencumbered balance of an appropriation for the implementation of information technology projects (IT) shall not revert until the project is implemented or abandoned.

To facilitate implementation of the above, each State agency will be required to set up a 2XXXX budget code. If a project has multiple subprojects that are being tracked separately by ITS or the agency, the subprojects must be budgeted in separate cost centers. Beginning with the 2009-11 biennium, the 2XXXX budget codes for IT projects will be incorporated into the Worksheet I. If the IT project is 100% federally funded, it does not have to be transferred to the 2XXXX IT budget code.

The following guidelines shall be used when creating the 2XXXX budgets:

- Funds appropriated in the Appropriations Act for IT projects shall be certified to an agency's general fund code, and then transferred by an 11 type revision to the established 2XXXX budget code after certification.
- Funds authorized from existing sources in the Appropriations Act for IT projects shall be transferred by an 11 type revision to the established 2XXXX budget code after certification.
- Recurring funding in the continuation budget for existing IT projects shall be certified in the general fund and then transferred by an 11 type revision to the 2XXXX budget code after certification.
- Nonrecurring funding in 2006-2007 will be carried forward for transfer to the 2XXXX IT budget code only if the carry-forward is consistent with current authority under the Executive Budget Act.
- Transfers to the 2XXXX IT budget codes will be approved only for projects submitted in the Project Portfolio Management (PPM) tool.

Effective July 1, 2007, all IT projects that exceed \$500,000 in total requirements and for which state funds have not been appropriated must be submitted as an expansion request. Agencies may seek an exception if it can be documented that the project must be started prior to the legislative

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session in order to comply with state or federal law, rules or regulations. Approval by OSBM for new IT projects funded from existing appropriations that do not exceed \$500,000 is contingent upon all funds being identified prior to initiation of the project.

In accordance with G.S. 143C-1-2(b)(iii), when an IT project is implemented and closed out or abandoned, the unexpended, unencumbered balance of the appropriation shall revert. Agencies shall use the following procedure to revert unexpended, unencumbered IT project appropriation:

- ITS certifies to OSBM and agency that the project is implemented or abandoned.
- Agency submits a type 11 budget revision to budget the funds that shall be reverted. Agency shall use account 538080 - Transfer to Budget Code 19050.
- Agency submits an electronic cash transfer in CMCS to department code 9000 and denotes the transaction will be in budget code 19050 to revert the unexpended, unencumbered cash balance of the IT project. The cash transfer shall occur within 30 days of the notification that the project is implemented or abandoned.
- Agency notifies OSBM analyst when the reversion to budget code 19050 has occurred.

3.10 Capital Improvement Budget Policies and Procedures

3.10.1 Repairs and Renovations Reserve Account

The Repairs and Renovations Reserve is a restricted reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth (1/4th) of any unreserved fund balance as determined on a cash basis, remaining in the General Fund ([G.S.143C-4-3](#)).

The funds in the Repairs and Renovations Reserve Account will be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund ([G.S. 143C-4-3](#)). Funds from the Repairs and Renovations Reserve Account can be used only for the following types of projects:

- Roof repairs and replacements.
- Structural repairs.
- Repairs and renovations to meet federal and state standards.
- Repairs to electrical, plumbing, heating, ventilating and air-conditioning systems.
- Improvements to meet requirements of the Americans with Disabilities Act.
- Improvements to meet fire safety needs.
- Improvements to existing facilities for energy efficiency.
- Improvements to remove asbestos, lead paint, and other contaminants, including the removal and replacement of underground storage tanks.
- Improvements and renovations to improve use of existing space.
- Historical restoration.

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- Improvements to roads, walks, drives, and utilities infrastructure.
- Drainage and landscape improvements.

Funds from the Repairs and Renovations Reserve Account can not be used for new construction or result in additional square footage of an existing facility unless required in order to comply with federal or State codes or standards.

Departments requesting funds from the Repairs and Renovations Reserve must submit an application to OSBM by August 1 of each fiscal year. Universities submit requests to and follow procedures established by the Board of Governors.

The projects requested by Departments should be listed in priority order. For each project, complete the Repair and Renovation Request Worksheet and attach a copy of an approved Cost Estimate (OC-25). Copies of cost estimates (OC-25) previously prepared during the budget preparation process may be submitted if the estimated cost is still accurate. Projects without an approved cost estimate will not be eligible for funding. Only projects supported from general fund appropriations are eligible for funding from the Reserve.

NOTE: Information concerning the Facilities Condition Assessment Program (F-CAP) reports, energy efficiency improvements, and impact to the operating budget must be provided on the worksheet before a project can be considered for funding.

The following is an example of the title page for an agency's submission of projects to be funded by the Reserve for Repairs and Renovations and the worksheet III that needs to be completed for each individual project.

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Repair and Renovation Request Worksheet

1 Priority No. of (Priority for Repair & Renovation projects) Date:

2 Department: Division/Institution:

3 Project Title: Location (County):

4 Contact: Phone: Email:

5 Total Estimated Project Cost:

6 **Type of Project:** (Mark "X" for all that apply)

<input type="checkbox"/> Roof repair/replacement	<input type="checkbox"/> HVAC	<input type="checkbox"/> Renovations to improve use of existing space
<input type="checkbox"/> Structural repairs	<input type="checkbox"/> Americans with Disabilities Act	<input type="checkbox"/> Historical restoration
<input type="checkbox"/> Federal/state mandate	<input type="checkbox"/> Fire safety	<input type="checkbox"/> Improvements to roads, walks, drives and utilities
<input type="checkbox"/> Electrical	<input type="checkbox"/> Energy efficiency	<input type="checkbox"/> Drainage and landscape improvements
<input type="checkbox"/> Plumbing	<input type="checkbox"/> Asbestos, hazardous materials, UST	<input type="checkbox"/> Other (describe below)
<input type="text"/>		

7 **Project Description & Justification** (include short description of type, nature and extent of work required, the need for the project, and the expected impact):

8 Percentage of total expenditure related to energy efficiency improvements: %

9 Was the allocation mandated by the General Assembly? (Y/N):

10 Is an approved OC-25 Cost Estimate attached? (Y/N): OC-25 file attached:

11a Has this facility been inspected by the State Construction Office's F-CAP team? (Y/N):

11b Was the requested project included in their review? (Y/N): FCAP report file attached:
(If yes, please attach a separate sheet with a summary statement or pertinent pages from the F-CAP team's report.)

12 Has this project been previously planned? (Y/N): Year first requested:

13 **Estimated schedule of this project:**

Begin design date: <input type="text"/>	Completion: <input type="text"/>
Begin Construction: <input type="text"/>	Occupancy: <input type="text"/>

14 **Impact on Operating Budget**

Does the requested project impact the operating budget? (Y/N): If yes, describe below

(Please identify, on an annualized basis, any additional costs or savings (reductions) that will result from the completion of this project). Do not include construction costs.

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3.10.2 Capital Defined

“Capital improvement projects” are defined as real property acquisitions, new construction, rehabilitation of existing facilities, and repairs and renovations ([G.S. 143C-1-1](#)). These types of expenditures are accounted for in the capital budget code of a department or institution.

The establishment of a capital improvement project requires approval of the General Assembly or the Director of the Budget. Capital improvement projects for the university systems are requested through the Board of Governors, and capital improvement appropriations are made by the General Assembly to the Board for allocation to the institutions.

The transfer of funds between capital and operating budgets is prohibited. However, departments are allowed to make expenditures in their operating budget for repairs, maintenance and equipment purchases less than \$100,000. Expenditures for repairs, maintenance, and equipment purchases between \$100,000 and \$300,000 may be allowed in the operating budget provided proper budget approval has been obtained from the Capital Section of OSBM. These types of expenditures allowed in the operating budget are not intended to provide supplemental funds for a formal capital project and shall only be used for individual repair and maintenance projects or equipment purchases. The expenditure of funds from the operating or the capital budget for capital improvement projects is subject to laws governing review of plans and specifications, selection of architects, and public bid for construction projects. Contact the Office of State Construction for a copy of the North Carolina Construction Manual.

3.10.3 University 2.5% Management Flexibility Carry Forward ([G.S 116-30.3](#))

One exception may be allowed to the restriction that funds can not be transferred between the capital and operating budgets. The Director of the Budget may grant requests from the Universities to transfer carry forward funds to a capital project under the following criteria:

- The Director of the Budget may establish a new capital project less than \$300,000 from carry forward funds.
- The Director of the Budget may establish a new capital project that is \$300,000 or greater from carry forward funds after consulting with Governmental Operations.
- The Director of the Budget may authorize the use of carry forward funds to increase the cost of an existing capital project.

3.10.4 Establishment of Capital Improvement Projects

Capital improvement projects can be funded from several different sources:

- The General Fund.
- The Highway Fund.
- The Reserve for Repairs and Renovations.

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- Gifts or grants, including federal funds.
- Income from the provision of services, such as dormitory receipts, parking receipts, health services receipts, recreation fees, and other sources of income.
- Overhead receipts and trust funds.
- Insurance Proceeds.
- Revenue bonds approved by the General Assembly, with debt service provided from income such as dormitory receipts, parking receipts, and other sources of income.
- General obligation bonds approved by the General Assembly and a vote of the people, with debt service provided from the General Fund and secured by the full faith and credit of the taxing authority of the State.
- Legislative bonds approved by the General Assembly and limited to an amount not to exceed two-thirds of the amount of debt retired during the previous biennium, with debt service provided from the General Fund and secured by the full faith and credit of the taxing authority of the State.
- Limited obligation bonds approved by the General Assembly without a vote of the people, with debt service provided from the General Fund and secured by a security interest in the facility financed or other, similar real property. Certificates of Participation (COPS) is an example of this type of funding.

Capital improvement projects are established by:

- Authorization from the General Assembly ([G.S. 143C-8-7](#)) .
- Action of the Governor as Director of the Budget.

Funding of capital improvement projects authorized by the Governor is limited to:

- Non-General Fund Receipts.
- Special funds.
- Self-liquidating indebtedness.
- Other funds.
- Any combination of funds, but not including funds appropriated from the General Fund.

3.10.5 Project Cost Increase

A state agency may increase the cost of a capital project after the approval of the Director of the Budget ([143C-8-8](#)). The increase will be reported to the Joint Legislative Commission on Governmental Operations at the next meeting. The increase may be funded by:

- Gifts
- Federal or private grants
- Special fund receipts
- Direct capital improvement appropriations to that agency

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3.10.6 Project Scope Increase

A state agency may increase the scope of a capital project only if the General Assembly authorized the increase ([143C-8-9](#)). The state agency may decrease the scope of a capital project with a written request and approval by the Director of the Budget.

3.10.7 Project Reserve Account

The Project Reserve Account is a reserve account in the capital project fund. If the amount of appropriation exceeds the amount encumbered for real property acquisition, planning, design, site development, construction, contingencies, and other related costs, the excess will be credited to the Project Reserve Account ([143C-8-10](#)). Use of these funds will be reported to the Joint Legislative Commission on Governmental Operations.

Funds in this account can be used for:

- Emergency Repair and Renovations Projects.
- Project bids that have exceeded the amount appropriated when the original scope has not increased.

3.10.8 Reversion of Appropriation

An agency should begin the planning or the construction of an authorized capital improvement project during the fiscal year in which funds are appropriated. OSBM can allow an agency to take up to an additional 12 months to begin construction depending on the circumstances. For any project not begun in this time frame, OSBM shall credit the funds to the Project Reserve Account ([143C-8-11](#)).

If the following actions occur, authorizations for capital improvements projects shall lapse, unless granted an extension of up to an additional 12 months:

- The construction of a project does not begin during the first two fiscal years in which funds are appropriated.
- OSBM redirects funds appropriated for a capital improvement project in accordance with [G.S. 143C-6-2](#).

Procedures for requesting a capital improvement project as a part of the Governor's recommended budget to the General Assembly are outlined in the biennial budget instructions.

For university projects, capital improvement requests are submitted, in accordance with biennial budget instructions from the University Board of Governors, as a part of the Governor's budget recommendation to the General Assembly.

3.10.9 Advance Planning

Pursuant to [G.S. 143C-8-7](#), a State Agency or institution may use non-general funds such as gifts, federal or private grants, excess receipts budgeted to the University of North Carolina Hospitals at Chapel Hill or other receipts for advanced planning through the working drawing phase of capital improvement projects, upon approval of the Director of the Budget.

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3.10.10 Force Account Construction

An agency may desire to use its own personnel for labor in the capital project of some construction projects. This process is termed "force account construction" and OSBM has statutory authority to approve this procedure when the total cost of a project, including all indirect costs of labor, services, materials, supplies and equipment, does not exceed \$125,000. OSBM also has statutory authority to approve force account construction for projects without limitation to the project cost as long as labor costs do not exceed \$50,000 ([G.S. 143-135](#)).

3.10.11 Establishment of Capital Improvement Funds (Forms BD 306 and BD 606)

After either the General Assembly or the Governor authorizes a new capital improvement project, OSBM will notify the agency either with:

- A Capital Improvement Certification (BD 306).
- A letter (Governor's Authorization).

The Capital Improvement Certification (BD 306) is used when a new project is authorized by the General Assembly, and will identify the project, the fiscal scope, and the capital improvement code. Agencies will use the Capital Improvement Certification (BD 306) to enter the project into the NCAS with all funds budgeted under Contingency Reserve.

For capital projects that have been authorized by the Governor, OSBM will notify the agency by letter.

This letter will identify:

- Name of the project.
- Fiscal scope of the project.
- Capital improvement code where the project is to be established.

Upon receipt of this notification, the agency is to immediately submit a new center request and budget revision (BD 606) to establish a budget, as instructed in the letter, with all funds budgeted under Contingency Reserve. The fund or item number will be assigned by the agency or by UNC-General Administration for the member institutions. When the approved budget revision is received by the agency or institution, the project is then entered into the North Carolina Accounting System or the institution's accounting records. A budget revision (BD 606) is not required to distribute funds from the Contingency Reserve into proper expenditure lines after design and construction contracts have been awarded. This distribution is to be made internally by the agency upon approval of the allotment, but the total is not to exceed the authorized budget as reflected on the approved budget revision (BD 606).

3.10.12 Authorization of Code/Center Number and Title

The State Controller will validate the authorized code/center(s) numbers to the North Carolina Accounting system (NCAS). The request to establish a new center number or transfer a center number should be submitted to the Office of the State Controller through OSBM prior to the

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submission of the budget revision in order to establish the budget of a center or transfer the budget of a center. The authorization of the center number or a center number for a transfer does not imply approval of the budget revision (BD 606); the request will require a minimum of two weeks for an average approval.

3.10.13 Capital Improvement Allotments (BD-303)

Capital improvement allotments refer to specific projects that are permanent and do not revert at the end of a quarter or fiscal year as do current operations allotments. No funds may be expended for a capital project without an approved allotment.

- After a budget has been established for a capital project the agency should take the necessary steps to select a designer. This selection is coordinated with the Office of State Construction and the State Building Commission. Once the designer has been approved, the agency should then submit the first allotment for the project. This allotment should request the entire design fee for the project as approved by the Office of State Construction.

- Unless the authority to do so has been delegated by law to an agency, after construction bids are received on a project, the Office of State Construction will review the bids and certify the low bids of qualified contractors. The Office of State Construction will then issue a letter to the agency head approving the award of construction contracts. This award letter also details the approved design fee, the construction contingency and available funds for movable equipment. Before the letter of award is released, it is presented to the State Budget Officer for approval of the availability of funds. At this point, the agency will initiate the second allotment for the project. This allotment will distribute into object lines the funds for all construction contracts, the balance of the construction contingency and the movable equipment as reflected on the award letter. When OSBM approves the allotment, the funds will be available for expenditure on the construction contracts and movable equipment.

3.10.14 COPS Procedures/Guidelines

- All funds from the sale of the special indebtedness must be spent or obligated within three years from the date of sale - preferably within two years.
- All funds must be spent within three days after the Trustee (First Citizens Bank) deposits the funds with the State Treasurer.
- All vendors must be set up to receive electronic payments (exceptions must be approved by OSC).
- Funds will only be drawn down from the Trustee bi-weekly.
- Funds may only be requisitioned for actual invoiced expenses.
- Any funds not expended and all refunds of expenditures must be immediately returned to the Trustee.

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- Funds can not be used to reimburse other projects or expenses unless written permission is granted from OSBM. The proposed reimbursement expenditures must be included in the Reimbursement Resolution authorized by the Department of State Treasurer.
- The proceeds from special indebtedness are tax-exempt. In order to maintain the tax-exempt status, private use of facilities funded from special indebtedness are greatly restricted as long as the debt is outstanding. Private use is any direct or indirect use in a trade or business that is carried on by any person or entity other than governmental units, however, use as a member of the general public is not considered private use for this purpose.
- It is the State's policy that proceeds from special indebtedness cannot be used to compensate or support the salaries of in-house facilities staff or other state employees for services related to completing the projects.
- Copies of all invoices must be kept for six years after the debt is repaid. For example, if the special indebtedness has a 20 year amortization, all records of invoices must be kept on file for 26 years.
- Each agency must prepare a budget revision to establish the total authorized budget for the approved projects.
- Allotments will be submitted with each requisition and should only allot the amount of the requisition.
- Agency budget codes have been set up by OSBM, but the individual project codes must be set up by each agency.
- At the beginning of every quarter, agencies must provide OSBM with an updated cash flow model for each project.

The process for the requisition of funds and the payment of invoices is as follows:

Agencies shall receive invoices from vendors and certify that these invoices are due and payable.

- **Monday:** Agencies must submit their request for requisition of funds on the Monday of the week of the disbursements to OSBM.
- **Tuesday:** OSBM reviews requisition requests and notifies the Trustee of needed funds by submitting the "Form of Requisition."
- **Wednesday:** The Trustee will wire funds to the Department of State Treasurer on Wednesday for deposit in an OSBM budget code.
- **Wednesday:** OSBM will remit to OSC a Funds Request Worksheet.
- **Thursday:** OSC records a Journal Entry and allocates a wire transfer to agency budget codes (4XXXX).
- **Thursday:** OSC will approve requisitions from agencies and release funds.
- **Thursday:** Agencies will send electronic payments to vendors for approved invoiced expenses.

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3.10.15 Closing-Out Capital Improvement Projects

After final payments have been made for construction, design contracts, and all movable equipment purchases have been completed, the project is ready to be closed. It is the responsibility of the agency budget officer to review all active capital projects periodically and immediately close those that are complete. The procedures to be followed in closing a project are outlined as follows:

Projects funded via direct appropriation from the General Assembly.

- The agency will move any remaining balances to a line item entitled “Transfer to Budget Code 19973.”

- Once the funds have been moved to the transfer line, the agency is to submit an allotment for the Transfer to General Fund. Upon receipt of the approved allotment, a check is issued payable to the State Treasurer and submitted to the State Controller.

Projects funded via transfer from the Reserve for Repairs and Renovations:

- The agency will submit a BD 606 decreasing the agency budget and transferring the appropriation to 4XX02. The XX included in the BD606 should be the corresponding digits to identify the budget year that the BD 606 would occur.

- Remaining Repair and Renovation balances may be transferred after approval from OSBM to Repair and Renovation projects that experience cost overruns in other years.

Projects funded via self-liquidating sources:

- If a balance is shown on the monthly report in the unexpended balance of allotments account for the completed project, an allotment should be submitted reverting the balance to an unallotted status.

- After the project balance is reverted to the unallotted status, a BD-606 is to be submitted reducing the budget to an amount equal to actual expenditures with a corresponding reduction in the receipt line-item.

- If the receipts have previously been deposited, a refund of receipts should be completed transferring the receipt back to its original source.

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3.11 Contingency and Emergency Fund

3.11.1 Procedures Relating to Requests for Contingency and Emergency Funds

Pursuant to [143C-4-4](#) the Contingency and Emergency Fund (C&E) is established within the General Fund. The General Assembly shall appropriate a specific amount to this fund in the Current Appropriations Act or other appropriations bills. Notwithstanding any other provision of law, funds appropriated to the C&E fund may be used only for expenditures required by a court or Industrial Commission order, to respond to events as authorized under [G.S. 166A-5\(1\)a.9.](#) of the Emergency Management Act, or for other statutorily authorized purposes or other contingencies and emergencies. A State agency may request an allocation from the C&E Fund by submitting a letter to the Director and providing any information required by the Director. If the Director approves the request, the Director shall present the request, together with a recommendation to Council of State for its approval. If the Council of State approves the request, the Director shall report on the request at the next scheduled meeting of the Joint Legislative Commission on Governmental Operations.

3.11.2 Method of Allocation from the Contingency and Emergency Fund

Upon receiving the Council of State's approval of a request for funds, OSBM notifies the State agency. The agency should submit a "Type 11" budget revision (BD 606) to OSBM for approval showing an increase in total requirements and a corresponding increase in appropriation by transfer from the C&E Fund (Budget Code 19001).

After review and approval by OSBM, a journal entry is prepared and submitted to the Office of State Controller (OSC) and the State Treasurer (DST). This journal entry will be posted to the Cash Management System by OSC and the Core Banking System by DST.

3.12 Federal Fund Budget Policies and Procedures

All federal funds received directly from the federal government by any state agency subject to provisions of the State Budget Act shall be initially accounted for in a federal funds budget code (3XXXX) in accordance with the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller. The funds in the federal fund budget code will be transferred to the appropriate budget codes where the actual expenditures will occur. In accordance with [G.S. 116-36.1](#), federal funds, including overhead receipts, received by the UNC system are permitted to be budgeted in university trust fund codes.

All recurring or otherwise anticipated federal funding shall be fully reflected in these operating codes for the regular biennial budget request. Anticipated federal funds include all funds that can be expected based upon previous funding levels, current federal grant award letters received by the agency, or applications for federal funds submitted by the state agency. All anticipated federal funds must be accurately reflected each fiscal year. Federal receipts must be budgeted according to an agency's internal federal spending plan.

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If an agency's federal spending plan is adjusted during the fiscal year, any movement of federal funds between funds must be realigned with a type "12" budget revision on a nonrecurring basis. Anticipated federal funds that are not fully reflected in the biennial request but are instead budgeted during the fiscal year must be budgeted with a type "12" budget revision for a nonrecurring purpose, adjusting the authorized budget only. Federal funds that are budgeted and not received will result in a decrease in agency requirements (expenditures) commensurate with the decrease in anticipated federal receipts.

Any changes or receipts of unanticipated funds during the biennium that continue the same level of service but do not increase the scope of a program can be budgeted on a non recurring basis. All federal funds shall be budgeted and accounted for in a manner that provides clear and complete information and accountability for both state and federal fiscal years.

Each state agency receiving federal funds must develop procedures for the internal coordination and fiscal review of all federal grant applications and formula grant plans. Procedures must comply with special provisions or statutes applicable to federal funds. The regulations apply to all those federal funds that must be budgeted by state agencies except for university institutions.

3.12.1 Applications for Funds

Pursuant to [G.S. 143C-7-1](#), a state agency that submits to the federal government or to any other party an application for funds must also provide to the Office of State Budget and Management (OSBM) a copy of the application along with any related information required by OSBM. In lieu of submitting a hard copy of the application, agencies are required to maintain a copy of the application in their files for review by OSBM upon request. Additionally, agencies are required to submit the "Application for Grants Funds" form that summarizes key information about the grant such as, identifying agency information, the purpose of the grant and grant period, total funds requested and the need for additional FTEs. An electronic copy of the form is due to the appropriate OSBM budget analyst at the time the agency submits the grant application to the funding entity. A copy of the form and detailed form instructions can be downloaded from the OSBM website at <http://www.osbm.state.nc.us/osbm/forms.html>.

Upon notification from the granting entity of a grant award, the state agency must update and resubmit the "Application for Grant Funds" form (line 29) with the actual amount of the grant award received for each of the fiscal years covered by the grant.

Agencies that receive grant awards, either governmental or nongovernmental, outside of a traditional application process are still required to report the receipt of new and/or increased grant funds on the "Application for Grant Funds" form.

All State agencies that receive funds pursuant to an application must include in any related contract or other grant instrument a clause specifically stating that the expenditure of money depos-

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ited in the State treasury is subject to acts of appropriation by the General Assembly ([G.S. 143C-7-1\(b\)](#)).

The only exceptions to the application of grant funds requirements are for The University of North Carolina and its constituent institutions unless the federal granting entity has financial requirements consistent with those outlined above and applicable to most state agencies.

3.12.2 Requisition and Disbursement of Federal Funds

Federal funds received directly from a federal agency shall be initially deposited in a federal fund budget code (3XXXX), either through deposit of a federal check or through the letter or credit voucher and deposit procedure. Disbursements from a federal fund budget (depository) code may be made only to a general, special, or other operating fund budget code. This may be done through a check/deposit procedure or through the cash management system electronic funds transfer system. The center/fund and account should be noted in the transfer documents. Regular cash requisitions and disbursement procedures would apply to subsequent operating fund transfers. Agencies should comply with the policies and procedures established for the Cash Management Plan by the Office of the State Controller.

3.12.3 Special Reports on Federal Funds

OSBM may require information from State agencies, including the UNC System, on federal fund grants, expenditures, indirect cost collections, and other areas relative to any federal funds. Agencies should maintain records indicating federal catalog numbers and titles, types or categories of grants, indirect cost rates and budget and expenditures by state and federal fiscal years, and any other information that would be helpful in making requested periodic special reports on federal funds.

3.12.4 Cost Allocation/Indirect Cost Policy

It is the policy of the State of North Carolina to maximize the recovery of direct and indirect costs for administering and implementing federal grants. All state agencies, including the UNC system, use a statewide indirect cost plan (SWCAP) and a state information processing services indirect cost plan (SIPS-CAP) to recover the State's central service costs as allowable per the U.S. Office of Management & Budget (OMB) Circular A-87.

The Office of the State Controller prepares and gains approval from the federal government, and distributes the central service cost plans. Each agency is responsible for integrating these central services costs into their costs plans in order that they recover the optimum allowable indirect costs from their federal grants.

Individual cost plans are the responsibility of the agency.

An indirect cost proposal(s) must be prepared at least annually in all State agencies to cover all divisions and institutions that receive federal funds unless the cognizant federal agency specifies

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another time interval. All proposals should be reviewed by the chief fiscal officer and agency head to assure that:

- The correct amount of state government's central services costs is included in the proposal.
- All allowable cost items are included.
- The indirect cost rates are within appropriate ranges and are at a maximum level.

Exceptions to the development of a proposal will be granted by OSBM to any department that can demonstrate in writing that the costs and procedures required to develop and implement indirect cost recovery are greater than the benefits derived. Factors that need to be considered include the amount and type of federal grants received, an estimate of the indirect cost rate, and an evaluation of the costs of any necessary accounting changes.

A cost allocation plan that directly accounts for overhead costs in recovering administrative costs from federal grants may be used instead of an indirect cost rate.

Pursuant to [G.S. 116-36.1](#) the UNC system is permitted to retain all of its indirect costs in university trust funds but must be able to report on them at the time and in the form as requested by OSBM.

3.12.5 Indirect Cost Proposals

Each State agency or university, should prepare an indirect cost proposal annually unless the cognizant federal agency specifies another time interval. This proposal should be prepared in accordance with OMB Circular A-21.

A copy of the final negotiation agreement between the cognizant federal agency and the institution should be available for inspection. A summary explanation of any differences between the proposal and approved rates should accompany the agreement copy.

3.12.6 Indirect Cost To Be Included In Federal Grant Requests

The chief fiscal officer will be responsible for assuring that full indirect costs are claimed on each federal grant or contract application, except those specifically excluded by the Office of State Budget and Management. Requests for exemptions should be communicated in writing through department fiscal officers. Exemptions to claiming indirect costs in grant applications will be considered and granted by OSBM on a case-by-case basis if either of the following circumstances can be demonstrated in writing by an agency:

- Federal statutory or administrative restrictions or prohibitions of indirect costs claims.
- Extraordinary circumstances exist that may jeopardize the institutions' best interest in negotiating for and receiving a federal grant.

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All exemptions granted will be available for inspection at the agency or university including those cases where indirect costs are formally foregone in the grant or contract application as a means of meeting cost sharing or matching requirements.

3.12.7 Budgeting Indirect Costs

All indirect costs (or overhead receipts) should be deposited in an appropriate state budget code. OSBM must grant spending approval prior to the budgeting of indirect costs and overhead receipts. Indirect cost funds **will be reverted to the general or highway fund unless OSBM grants the spending approval.** The UNC system is permitted to budget these indirect costs along with the federal funds in their institutional trust funds but must report as required by OSBM.

3.12.8 Reporting Requirements

OSBM may need information on federal fund expenditures, indirect cost collections, and other areas relative to federal funds. Agencies should maintain records indicating federal catalog numbers and titles, types or categories of grants, indirect cost rates, budget and expenditure amounts by state and federal fiscal years, and any other information which would be helpful in making requested special reports on federal funds.

3.12.9 Budget Procedures for Handling Transfers Between Block Grants

Where federal block grants allow for the transfer of funds to other block grants, the procedures for transferring funds will be as follows:

- The need for additional funds must be established by the appropriate agency head, supported by an analysis of that need and the additional cost associated with it. Based upon the need for additional funds, the agency head will request of the Governor, as Director of the Budget, the transfer of funds from other block grants.
- The agency head will determine and report to the Governor if excess funds are available for transfer to other block grants. An analysis should accompany the report explaining why excess funds are available and why other related programs within the block grant do not require additional funds.
- The Governor will determine the need for the transfer of funds between block grants based on reports of additional needs and reports of excess funds.

Appropriate budget procedures will be used to transfer the funds within a department or between departments.

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3.13 Intra State and Non-state Funds

Any agency subject to the provisions of the State Budget Act receiving funds directly from a state grant from another division or department or from non-state funding will budget those funds to the appropriate general, special, or other funds budget code. All recurring or otherwise anticipated funding shall be fully reflected in these operating codes for the regular biennial budget. Any changes or receipts of unanticipated funds during the biennium shall be processed through the budget revision (BD 606) process and comply with applicable laws pertaining to the budgeting of unanticipated receipts. All funds shall be budgeted and accounted for in a manner that will provide clear and complete information and accountability on a state fiscal year basis.

3.13.1 Applications for Intrastate and Non-state Funds

State agencies must notify the Governor, through OSBM, when submitting grant requests to organizations. This notification is not required for continuation project grants and formula grants that are included in the agency's certified budget, or for interdepartmental grants involving the transfer of funds between agencies within the same department.

3.13.2 Indirect Costs

Procedures described for federal funds are applicable for intrastate and non-state funds that are eligible for indirect cost. (See Section [3.12.4](#))

3.14 Disbursement of Special Appropriations

3.14.1 Special Appropriations Definition

Special appropriations are funds appropriated from the General Fund by the General Assembly to supplement the budgets of local governments and nonprofit corporations for regional and statewide programs in the areas of human services, education, cultural activities, fire protection, community development, and economic development. Funds are either appropriated from the state's General Fund directly to the non-state entity or appropriated to a state agency for transfer to a non-state entity. If the appropriation is a direct appropriation, the funds are budgeted (certified) in the Special Appropriations Reserve in the Office of State Budget and Management. If the appropriation is made to a state agency, funds are budgeted (certified) in that agency's operating budget code.

3.14.2 Special Appropriations Letter to Recipient

After the appropriation is made, a letter should be sent by the agency in which funds are budgeted to the recipient organization stating that the General Assembly has appropriated funds to the organization and the purpose for which the funds are to be expended. Special appropriations can only be expended for the authorized projects and purposes specified in the appropriating legislation.

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3.14.3 Request for Payment of Appropriation Form

Included with the letter to the recipient organizations should be a “Request for Payment of Appropriation” form, which must be filled out completely and notarized by the recipient organization (see example below). The form should specify the recipient, amount, and purpose of the appropriation. Any matching requirements or other restrictions imposed by the General Assembly should also be specified. The following additional information should be attached to the “Request for Payment of Appropriation” form:

- Charter
- By-laws
- List of board members
- Tax-exemption letters
- Conflict of interest policy ([G.S. 143C-6-23\(b\)](#)) and
- Sworn statement of no overdue tax debts ([G.S. 143C-6-23\(c\)](#)), as defined in [G.S. 105-243.1](#).

Upon return of the requested information and successful review by the appropriate state agencies, disbursements can be made. Before disbursement is made, OSBM may require recipients of special appropriations to supply information demonstrating that the recipient is capable of managing funds in accordance with law and has established adequate financial procedures and controls. If, during an agency’s review of a recipient, the agency needs assistance in procuring additional information from the recipient, the state agency should immediately contact their OSBM budget analyst.

The following is an example of the “Request for Payment of Appropriation” form:

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REQUEST FOR PAYMENT OF APPROPRIATION(S) FROM NORTH CAROLINA GENERAL FUND

(SEE LETTER ENCLOSED)

2006-07 Allocation: \$

Purpose:

Part A. TO BE COMPLETED BY ALL RECIPIENTS

1. Contact's Name: _____ Telephone: _____
2. Contact's Position in Organization: _____
3. Federal Identification Number _____
4. Kind of Organization: Corporation ____ Trust ____ Partnership ____ Government ____
Unincorporated Association ____ Other ____
5. Match Required (Circle One): Yes/No On a ____ to ____ basis.

If matching is required, is cash match in hand? Yes ____ No ____

If the required match is not in hand, by what date and from what source does the organization expect to have the cash match?
6. Fiscal Year of Non-State Entity (e.g. year ending June 30, December 31, other) _____

=====

Part B. TO BE COMPLETED BY ALL NON-GOVERNMENTAL RECIPIENTS

1. Please enclose the following:
 - a. Articles of Incorporation and by-laws, trust indenture, partnership agreement, etc.
 - b. List of Board of Directors/Trustees.
 - c. Policy addressing conflicts of interest.
 - d. Sworn Statement of no overdue tax debts

=====
Part C. TO BE COMPLETED BY ALL RECIPIENTS. FORM MUST BE NOTARIZED

Signature of individual making request

Notary Public (official seal)

Date Notarized

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3.14.4 Special Appropriations - Disbursements

Pursuant to 09 NCAC 03M.0700, prior to disbursing any State funds, each agency shall sign a contract with the grantee that contains the provisions outlined in 09 NCAC 03M.0703. In addition, pursuant to 09 NCAC 03M.0401, all granting agencies must register their grant program with OSBM's Community Resource Information System (CRIS) prior to disbursing any State funds.

A letter of disbursement shall accompany the first check sent to a recipient organization. The letter of disbursement shall outline all reporting and spending requirements associated with the special appropriation.

Pursuant to [G.S. 143C-6-21](#) and the State's Cash Management Plan, the Director of the Budget has discretion to disburse annual special appropriations totaling more than \$100,000 on a quarterly or monthly basis. Annual special appropriations of \$100,000 or less shall be paid in a single payment unless provided otherwise by State or federal law.

Pursuant to [G.S. 143C-6-23](#), 09 NCAC 03M.0205, and 09 NCAC 03M.0401, a state agency that disburses a special appropriation to a non-state agency must identify the recipient to the State Auditor and OSBM. Each state agency shall provide each grantee with the accounting form and other requirements prescribed by the State Auditor and OSBM. Refer to <http://www.ncauditor.net/NonProfitSite/regulations.aspx> for specific forms that are required based on the received amount.

3.14.5 Special Appropriations Subject to Matching Requirements

Special appropriations subject to a matching requirement should be disbursed and expended in accordance with [G.S. 143C-4-5](#), non-state match restrictions.

3.14.6 Issuance of Warrants Requirements

Pursuant to [G.S. 143B-426.40G](#), all warrants issued for non-state entities shall be delivered by the appropriate agency to the entity's legally designated recipient by United States mail or its equivalent, including electronic funds transfer.

3.15 Summer School Accounting and Reporting Guidelines - Higher Educational Institutions

3.15.1 Adaptation of Academic Calendar to Fiscal Year For Budget Reporting

Because of the variability in the number, length, and scheduling of individual summer sessions, all of the various summer sessions within a fiscal year, will be **determined by the date a session ends**, and will comprise a Summer School for budgetary and reporting purposes.

All Full Time Equivalent students for a summer session and all expenditures and revenue for that session must be accounted for and reported in the fiscal year in which the session is completed.

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Under the academic calendar currently in effect at most institutions, the traditional first session of a Summer School is completed in the fiscal year just closing and the traditional second session of a Summer School is completed shortly after the beginning of a new fiscal year. Using the date a session is completed to determine the fiscal year in which the actual expenditures, receipts and statistical data are accounted for and reported will result in "split session" accounting and reporting for the traditional Summer School.

Budget reports for a fiscal year will reflect the second session of one traditional Summer School (to be completed shortly after a new fiscal year begins) and the first session of the next Summer School (to be completed at the close of a fiscal year). As a result of Session Law 2005-276 (the 2005 Appropriations Act), Summer School must remain completely receipt-supported.

3.15.2 Transfer of Advances (Revenue Collections)

Any revenue collected at the close of a fiscal year as advanced payment of tuition and fees for the summer session that begins in a succeeding fiscal year and encumbered expenses to include payroll must be transferred to the new fiscal year. Institutions must request authority for the transfer from OSBM by budget revision (BD 606). This is done through the carry forward process.

3.15.3 Students Accounts Receivable

Institutions of higher learning should comply with the policy established by the Office of the State Controller as it relates to Student Account Receivable.

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4.1 Payment of Obligations

The State of North Carolina operates on a cash basis. State agencies should pay all bills when due so as to take advantage of discounts offered and so as not to endanger the credit of the state. When bills are not paid within the time specified in the contracts made by the Division of Purchase and Contract, it becomes increasingly difficult to make favorable contracts for the state's needs. Early payments should not be made because it is an added cost to the state through loss of interest on deposited funds. (For additional information refer to the [Cash Management Manual](#), Office of the State Controller.)

4.1.2 Discounts

Discounts are due to be taken by a certain number of days after goods or materials are received in good and proper condition or by a certain number of days after invoices are received if determined to be in the best interest of the state. The level of interest rates should be a major consideration. Discounts, if taken, should be taken within the discount period. If discounts are taken, vendors are entitled to payment within this period. Most state contracts and purchase invoices provide for the discount period. These provisions are generally known to the state agencies.

The following will be used as the basis for determining time in connection with discounts offered:

- When final inspection and acceptance of supplies and materials are at the point of origin, time is computed from the date of delivery to the common carrier; or,

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- When final inspection and acceptance of supplies and materials are at the destination, time is computed either from date of delivery to the destination, or from date the correct invoice is received, if such date is later than the date of delivery.

4.1.3 Payment of Awards to Employees for Employee Suggestion System

While [G.S. 143-340\(1\)](#) establishes the State Employee Incentive Bonus Program, the program regulations have been developed by the Employee Suggestion System Advisory Committee and are presented in the Suggestion System Policy Manual (Office of State Personnel). The manual contains the procedures for computation of the employee awards and for the payment of the awards. The agency implementing a suggestion shall be responsible for payment of cash awards. The amount of the award is subject to Social Security tax and federal and state income tax but is not subject to retirement withholdings.

4.2 Encumbering Funds

4.2.1 Purpose and Policy

All unencumbered balances of maintenance appropriations shall revert to the State Treasury to the credit of the general fund or special funds from which the appropriation and/or appropriations were made and/or expended at the end of each fiscal year; except that capital expenditures for the purchase of land, the erection of buildings, new construction or renovations in progress shall continue in force until the attainment of the object or the completion of the work for which the appropriations are made; except that maintenance appropriations to the General Assembly shall remain available until expended, unless otherwise provided by the Legislative Services Commission.

Pursuant to [G.S. 116-30.3](#), the UNC system shall not carry forward any funds in an amount greater than 2.5% of the institution's fiscal year ending authorized General Fund appropriation. Only unearned revenue collected for goods or services, such as summer school, provided in the subsequent fiscal year and approved by OSBM may be allowed to be carried forward above the 2.5% threshold.

As used in this section, "unencumbered" means not obligated in the form of purchase orders, contracts, renovations in progress or salary commitments.

4.2.2 Encumbering Funds for Next Fiscal Year

Where an obligation or commitment has been made in one fiscal year which cannot be concluded or liquidated in that year and funds have been set up in the budget for the succeeding fiscal year for expenditures relating to the same class of obligations or commitments, the obligations or commitments must be paid out of funds budgeted for the succeeding fiscal year; and funds cannot be encumbered in the prior fiscal year to meet any such obligation or commitment. However, where no funds, or insufficient funds, have been set up in the budget for the succeeding fiscal year for expenditures relating to the same class of obligations or commitments, the Director of the Budget may, in justified cases, permit funds to be encumbered in the year in which the ob-

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ligation originates and the encumbered funds will be transferred into the succeeding fiscal year or biennium for use in liquidating the obligation or commitment.

4.3 Closing Accounts at End of Fiscal Year

4.3.1 Liquidation of Obligations

The fiscal year ends on June 30th and all obligations should be liquidated by the end of the fiscal year. State agencies and institutions for the most part maintain their records on a budget reporting basis. At year end the required adjustments are made to various accounts in order to accurately state accrued revenues and expenditures. OSBM will issue special memorandums annually designating the specific closing dates.

Quarterly allotments provide funds for the payment of salaries and other operating expenses as due. No commitments can be made that will overdraw the allotment for the quarter or that will overdraw the budget subhead against which the commitment is made.

All state contracts for supplies and materials and equipment are made with definite times for payments. All invoices must be settled in accordance with the provisions of the contract under which the purchases were made.

Voucher registers for June should cover payments for all invoices for which the goods have been received, all payrolls and all other obligations that are in order for liquidation during the fiscal year being closed. Warrants must not be drawn for invoices unless materials/services have actually been received. Memorandum invoices will not be accepted.

4.3.2 Receipts

All expendable or on hand receipts will be credited in the State Controller's Cash Management accounts and in the State Treasurer's accounts to the allotment account of the fourth quarter for all deposits made up to and including June 30. All amounts due the state and its departments and institutions, applicable to the current fiscal year, should be collected by the end of June and deposited to the credit of the State Treasurer.

Deposits of receipts made after June 30 applicable to the fiscal year just closed should be recorded in the accounts to indicate receipt as of June 30.

- Mark deposit tickets appropriately to show that they belong to the period ending June 30.
- Show on receipts register as of June 30th (last work day).
- Do not record any receipts back into the previous (old) year that do not belong to that year.
- No receipts that belong to the year just closed should be held out and deposited to the credit of the New Year. The Cash Management Act requires revenues to be deposited

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immediately, (the only difference is which day is recorded as the day of receipt - old year or New Year).

4.4 Imprest Cash Funds

4.4.1 Definition

An imprest cash fund is a fixed sum of money used for making change in a cash receiving function. It is also used to meet emergency payments such as freight and express bills, with later reimbursement. An imprest cash fund, using budgeted funds, may be established by request of OSBM. Increases to existing imprest cash funds must also be approved in advance by OSBM.

4.4.2 Process of Request

The request to establish an imprest cash fund should be submitted on a budget revision (BD 606) in the following manner (using line item numbers appropriate to the agency's budget):

Requirements	Increase	Decrease
1230-53 5950 Petty/Imprest Cash	\$100	-0-
Estimated Receipts		
1230-43 7992 Imprest Cash Redeposit	\$100	-0-

After approval by OSBM, a warrant (or check) would be drawn payable to Imprest/Petty Cash and the custodian of the fund and charged to the expenditure line item Imprest/Petty Cash Fund. The warrant would be cashed and the proceeds placed in a drawer (or box appropriate for safe-keeping and use.)

In a cashier receipting operation, the fund would be used to make change. Receipts would be stored with the cash funds during the business day. At the end of the day, the receipts would be removed from the drawer and deposited in the appropriate bank account. The amount remaining in the drawer should be the full amount of the fund (i.e., imprest amount such as \$100 in example).

In a petty disbursing operation, due bills are paid from the fund with the paid invoices (with customary number of copies) remaining with the fund until reimbursed. At periodic intervals, the fund should be replenished by a warrant (or check) drawn to Imprest/Petty Cash Fund in the amount of specific invoices. The warrant would be charged to appropriate line items determined by the nature of the invoices. Invoices covered by the warrant would be attached to the file copy of the warrant. The full amount of the fund must at all times remain constant and will therefore consist of cash and/or paid invoices for which cash was spent.

At the end of the fiscal year, the full cash amount of the fund should be restored to the pre-established level and redeposited to the allotment account by June 30th closing.

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Reporting on and accounting for imprest cash funds is similar to handling of other items of expenditures and receipts.

4.5 Vendors failure to show sales tax

4.5.1 Tax on sales by the State of North Carolina

Sales tax is to be added to the sale price of taxable tangible personal property sold at retail by the state, and the tax is to be collected from the purchaser and remitted to the Department of Revenue in accordance with regulations of the Secretary.

4.5.2 Intradepartmental Sales

A sale by one state department to another department or area, under the same administrative head as the seller, is not subject to sales tax. These transactions are considered transfers rather than sales.

4.5.3 Sales tax added to the purchase price

[G.S. 105-164.7](#) states that the sales tax is assessed on the consumer and shall be added to the sale price when sold at retail. In every instance where an agency of the state makes a sale that is subject to the tax, the tax shall be shown separately and added to the sale price of the article.

4.5.4 Separation of sales required

[General Statute 105-164.24](#) provides that: "Every retailer shall keep separate records disclosing sales of tangible personal property taxable under this article and sales transactions not taxable because exempt under [G.S. 105-164.13](#) or elsewhere excluded from taxation."

It is essential that the accounting records show separately taxable sales and exempt sales in order to facilitate sales tax reporting and providing auditable records of transactions.

4.5.5 Separation of tax required

[General Statute 105-164.11](#) provides that: "When the tax collected for any period is in excess of the total amount which should have been collected, the total amount collected must be paid over to the Secretary less the compensation to be allowed the retailer as hereinafter set forth."

Sales tax collections are to be recorded in a separate receipts line item entitled "Sales Tax--Net."

4.5.6 Payment of sales tax collections to the Department of Revenue

Sales tax collections paid to the Department of Revenue are to be charged (as a refund of receipts) to the receipts line item "Sales Tax-Net" and recorded as a disbursement before the close of the disbursement records for the month in which tax is collected.

The Secretary of Revenue's regulations specify that, for most merchants, taxes are due monthly by the 20th of each month on sales that took place the previous month. Retail merchants with average state and local tax remittance of \$10,000 or more are required to remit sales taxes collected during the first 15 days of the month by the 25th, and taxes collected during the last half

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of the month by the 10th of the following month. A late payment penalty and interest is imposed if the tax is paid after the due date.

4.5.7 Sales Tax on Meals

[G.S. 105-164.4](#) levies and imposes a sales tax upon every person or group, whether public or private, who engages in the business of selling tangible personal property at retail. Sales of meals or other prepared foods to employees, guests, etc., by state hospitals and other institutions are subject to retail sales taxes, and such taxes must be collected.

However, meals sold or served in dining rooms regularly operated by state educational institutions or student organizations when such meals are served exclusively for students of that institution are not subject to sales taxes. Institutions to which this regulation applies should not assume liability for or pay any sales taxes without first collecting such tax as an addition to the established price of the article sold.

4.5.8 Sales Tax Exemptions

The General Statutes provide that sales for resale, and for manufacture and resale, are not subject to sales tax. Reference should be made to the General Statutes or the Department of Revenue as to exemptions.

4.5.9 Refund of Local Sales and Use Tax

[G.S. 105-164.14\(e\)](#) allows a quarterly refund of local sales and use taxes paid indirectly by the state agencies on building materials, supplies, fixtures, and equipment...subject to the provisions of the General Statutes. Reference should be made to the General Statutes and the Department of Revenue procedures to obtain this refund.

4.5.10 Proceeds from the Sale of Equipment

The following are guidelines and procedures as to the budgeting and handling of receipts from sale of equipment (office equipment, automobiles, trucks, tractors, etc.). Special procedures are delineated in [G.S. 143-63.1](#) for the sale of state-owned firearms. [G.S. 20-187.2](#) also prescribes laws that apply in dealing with disposal of firearms.

Proceeds from the sale of equipment that was originally purchased through a general fund budget code (including capital improvement codes) are subject to this provision. Special funds, including the Department of Transportation, public schools, and Community College institutions are not subject to these regulations.

Receipts from the sale of surplus equipment that are not budgeted may be recorded in a separate receipts line item.

These receipts that are in excess of amounts estimated in a certified general fund budget must be deposited as non-tax revenue as directed by the Office of the State Controller.

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4.5.11 Net Proceeds from Sale, Lease or Rental of Land

[G.S. 146-30](#) defines the term "net proceeds" as "the gross amount received from the sale, lease, rental, or other disposition of any state lands, less:

- Such expenses incurred incident to that sale, lease, rental, or other disposition as may be allowed under rules and regulations adopted by the Governor and approved by the Council of State; and
- A service charge to be paid into the "State Land Fund."

In the event the "net proceeds" amount cannot be accurately calculated using the above methodology, in limited circumstances an agency may retain an amount or percentage with prior permission from OSBM.

[G.S. 146-30](#) provides that the net proceeds from the sale, lease, rental or other disposition of lands by a state agency be deposited with the State Treasurer to be credited to the general fund. The Wildlife Resources Commission, the Department of Agriculture and Consumer Services, the Department of Environment and Natural Resources (State Parks), and the Department of Health and Human Services (Butner) are exempt from this provision. Any agency having funds derived from the sale, lease, rental or other disposition of lands should draw a check or prepare an electronic fund transfer for the total of the net proceeds made payable to the State Treasurer and mail to the Office of State Controller. The Office of State Controller should receive these funds within 5 days of receipt of the net proceeds by the agency.

4.6 Repayment of Money Owed to the State

4.6.1 State Employees and Certain Local Educational Entity Employees

[G.S. 143-553\(a\)](#) states that "All persons employed by an employing entity . . . [see definition contained in [G.S. 143-552](#), as enumerated in [G.S. 143B-3](#) of the "Executive Organization Act"] who owe money to the state and whose salaries are paid in whole or in part by State funds must make full restitution of the amount owed as a condition of continuing employment." The employee is allowed a reasonable period of time to make the repayment. Employment shall be terminated if the employee ceases to make payments or discontinues a good faith effort to make repayment.

[G.S. 143-554](#) gives an employee the right to appeal the termination to the State Personnel Commission according to the normal appeal and hearing procedures provided by Chapter 126 of the General Statutes.

4.6.2 Public Officials

As stated in [G.S. 143-557](#), "If after investigation under terms of this Part an appointing authority has determined the existence of a delinquent monetary obligation owed to the State by a public official, he shall notify the public official that his appointment will be terminated 60 days from the date of notification unless repayment in full is made within that period."

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The appointing authority shall allow the public official, if he/she is financially unable to make payment in full, to continue his/her appointment as long as an attempt to repay the obligation is made in good faith.

4.6.3 Legislators

[G.S. 143-559](#) states "Whenever a representative of any employing entity... has knowledge that a legislator owes money to the State and is delinquent in satisfying this obligation, this information shall be reported to the Legislative Ethics Committee... for disposition."

4.6.4 Collection of Outstanding Debts

Follow these procedures for the collection of outstanding debts:

- Send OSBM a list of names and Social Security numbers of individuals with past due accounts owed to the state. Do not include names of individuals with past due accounts when satisfactory provisions have been made for repayment.
- OSBM will compare the lists with lists of employees who are members of the Teachers and State Employees Retirement System or who are on a central payroll.
- OSBM will provide notice if any of the individuals on the lists are employed by a state department, agency or institution, Community College system, or by a city or county Board of Education.
- Write the agency or department employing the individual having a past due account and state: (a) the individual's name, amount of money owed, and for what reason the money is owed; (b) that a written notice has been sent to the employee stating that full restitution of the amount owed is a condition of continued employment ([Chapter 143, Article 59 of the North Carolina General Statutes](#)); (c) that the employee obtain and provide written evidence from the department owed that a satisfactory arrangement for payment has been agreed upon; and (d) that the employee be given a reasonable time period to accomplish (c) above. If the employee does not provide this evidence, steps must be taken to terminate employment unless the employee is pursuing administrative or judicial remedies.

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4.6.5 Set-off Debt Collection Act

[Chapter 105A of the General Statutes](#) authorizes the Department of Revenue to assist claimant state agencies, per request, in the collection of qualifying delinquent accounts. The department will identify those entitled to individual income tax refunds of at least \$50, and upon receipt of a final certification of the debt from respective claimant agency, set-off the applicable amount. Periodically, the department will remit to the respective claimant agencies the net proceeds collected that shall be the gross proceeds collected, less the 15 percent (15%) collection assistance fee. A transmittal statement will be included reconciling the amount of the remittance with the gross proceeds collected per individual set-off, so that the claimant agency can credit the debtor's obligation with gross proceeds collected as required by [G.S. 105A-14\(b\)](#). Claims for set-off must be filed with the Department of Revenue in accordance with the provisions of Article 1 of Chapter 105A and the rules and procedures set by the Department of Revenue as authorized under [G.S. 105A-16](#).

4.7 Legislation on the Establishment of Committees

4.7.1 Establishment of Committees

The head of each principal department may create and appoint committees or councils to consult with and advise the department. The General Assembly declares its policy that insofar as feasible, such committees or councils shall consist of no more than 12 members, with not more than one from each congressional district. If any department head desires to vary this policy, he must make a request in writing to the Governor, stating the reasons for the request. The Governor may approve the request, but may only do so in writing. Copies of the request and approval shall be transmitted to the Joint Legislative Commission on Governmental Operations. The members of any committee or council created by the head of a principal department shall serve at the pleasure of the head of the principal department. ([G.S. 143B-10](#))

4.7.2 Per Diem: Travel and Subsistence

Committee and Council members may be paid per diem and necessary travel and subsistence expenses, within the limits of appropriations and in accordance with the provisions of [G.S. 138-5](#). Per diem, travel, and subsistence payments to members of the committees or councils created in connection with federal programs shall be paid from federal funds unless otherwise provided by law.

4.7.3 Report on Committees and Councils

An annual report listing committees or councils, the total membership of each, the cost in the last fiscal year and the source of funding, and the title of the person(s) who made the appointments is to be submitted to OSBM for presentation to the Joint Legislative Commission on Governmental Operations by March 31 of each year.

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4.7.4 Membership Dues

Membership dues paid from state funds for state departments, institutions and agencies to organizations shall be kept to a minimum. Department heads or his/her designee must review and approve all memberships to determine that the benefits accruing to the state from such memberships will exceed the costs. Membership dues shall not be paid from state funds for individual state employees or for the benefit of an individual state employee unless the benefit of the membership is for the state and the position for which the individual is employed.

Membership dues paid from state funds should be for the benefit of the state and not for an individual. If the state is to benefit from an individual's membership in an organization, that benefit should derive not because of the individual, but because of the individual's position with state government regardless of who is in the position.

Additionally, although the membership may be in the name of the individual, this membership terminates when the individual terminates his employment with the state or moves to another department.

4.7.5 Academic Assistance - License and Certificate Fees

The academic assistance program provides reimbursement of academic costs if funds are available at the agency level, and/or time off the job if the course is available only during working hours and the employee completes the course in good standing, as defined in the Education Assistance Program policy in the State Personnel Manual. Academic courses/degrees from accredited community colleges/colleges/universities via traditional classroom, video-based, distance learning, web-based, e-learning and certain correspondence courses are eligible. Exceptions to policy may be approved by the department head. Academic courses are defined by the Office of State Personnel (OSP) as a course/degree provided by an accredited community college/college/university. The course must provide academic credit (as opposed to CEU's), be listed in the college/university course catalog and charge tuition in the traditional meaning of tuition (as opposed to only registration fees). Accreditation must be via an accrediting agency authorized by the US Department of Education.

Completion of the course, workshop, or seminar should have a direct benefit to the organization. The improved knowledge, skills and abilities gained by the employee should benefit the individual in completion of his/her current and/or potential job duties. Management should consider workforce planning, succession planning and career development in approving employees to receive academic assistance.

Incumbent employees who meet minimum academic requirements for employment and for whom certification/licensing is required *after employment* or is deemed desirable by management and approval by the agency head or designee are eligible for academic assistance (reimbursement) under the following conditions specified by OSP:

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- Certification/licensing is mandated
or
- Certification/licensing is a policy requirement of the employing agency.

Even if the state requires the employee to have and maintain a professional license or certificate as a condition of employment, then fees directly associated with obtaining that license or certificate are not reimbursable. Costs associated with maintaining a professional license or certificate as a condition of employment are reimbursable.

Courses, workshops, or seminars *not* involving academic credit, which may grant CEU's or CPE's or other completion recognition and where instruction is usually in modules, 2-3 days in duration, and which charge a registration fee (although sometimes referred to as tuition) may be paid for by the agency in advance of the training directly to the provider rather than as a reimbursement to the employee. Approval is by the department head or his/her designee and contingent on the same restrictions as academic assistance outlined in the State Personnel Manual.

Tuition fees (associated with academic credit) are charged to account 532941, Academic Assistance Program. Course registration fees (associated with training) are charged to account 532930, Registration Fees, or to account 532942, Other Employee Educational Expense. For more information on tuition and registration fee eligibility, please consult the Academic Assistance Program policy in the [State Personnel Manual](#).

4.8 Vending Operations

The following definitions apply to vending operations.

Vending Facility

A vending facility includes a snack bar, cafeteria, restaurant, cafe, concession stand, vending stand, cart service, or other facilities at which food, drinks, novelties, newspapers, periodicals, confections, souvenirs, tobacco products or related items are regularly sold.

State property or state building

State property or state building means a building and/or land owned, leased, or otherwise controlled by the state, exclusive of schools, community colleges and universities, the North Carolina State Fair, and the State Legislative Building.

The vending facilities operated by state departments, institutions, boards, and commissions or operated on state property are subject to the control of the state. The payments received, whether by contract, fixed or variable rate, a percentage basis, or gross or net profit, are state funds and the net proceeds are subject to appropriation by the General Assembly.

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Receipts or payments from vending operations shall be deposited in the appropriate fund as determined by OSBM.

4.8.1 Operation of Vending Facilities Supported from State General or Highway Funds Location

Vending facilities operated on state property supported from the general or highway funds are considered General or Highway Fund operations. Proceeds from vending facilities are to be deposited in departments' and institutions' general or highway fund operating codes as a receipt. All expenditures of profits must be authorized by OSBM by a budget revision (BD 606).

4.8.2 Operation of Vending Facilities Supported from Other Funds Institutional Trust Funds as Defined by [G.S. 116-36.1](#)

Universities that have facilities supported from institutional trust funds and which have vending operations in those facilities may retain proceeds from such operations in their trust funds. Proceeds from vending facilities shall be expended in accordance with G.S. 116-36.4. Universities must be able to report on vending proceeds at the time and in the form as requested by OSBM.

4.8.3 Institutional Student Auxiliary Enterprises

Proceeds from vending operations located in university facilities supported from institutional student auxiliary enterprises (housing, food, health and laundry), are to be deposited into the appropriate special fund operating budget.

Exceptions

Aid to the Blind

[Article 3 of Chapter 111 of the North Carolina General Statutes](#) - Operation of vending facilities on state property requires that state agencies upon request of the Department of Health and Human Services give preference to visually handicapped persons in the operation of vending facilities on state property. It is the responsibility of each department and institution to inform the Department of Health and Human Services of existing or prospective locations for vending facilities or coin-operated vending machines.

National Guard Facilities

[G.S. 127A-138\(b\)](#) states that funds earned from vending machine commissions shall remain with National Guard units and the expenditure of these funds shall be in accordance with rules prescribed by the Secretary of Crime Control and Public Safety.

4.8.4 Expenditures of Funds

Expenditures of profits may be authorized by the Office of State Budget and Management for the same type of expenditures as currently permitted by law from general and highway funds. Expenditures of profits should be as closely associated to the population or program surrounding the vending facilities as possible. Examples:

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- Recreational equipment for inmates.
- Field trips for patients.
- Costs associated with operating the vending facility such as rental of space, utilities and equipment.

4.8.5 Alcoholic Beverages and "Set-ups"

Payment or reimbursement for alcoholic beverages or "set-ups" can not be made from state funds. Individuals must bear these costs. They can not be included in registration fees or paid from state funds. Law enforcement personnel in the pursuit of their duties and industrial development personnel are exempt from this provision.

4.9 Intercollegiate Athletics and Intramurals

In accordance with a ruling by the Attorney General's office, payment or reimbursement for intercollegiate athletics or intramurals cannot be made from state funds. These cost must be paid out of student athletics and activity fees or non-state funding sources, such as private and foundation grants, that are specifically charged or designated for that purpose.

4.10 Advertising and Marketing Costs

State funds may be used to purchase advertising space or marketing materials provided those funds have been appropriated or received for that purpose.

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<u>Discounts</u>	<u>Repayment of money owed to state</u>
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5.0 Travel Policies and Regulations

5.0.1 Purpose

Statutory regulations for per diem, transportation, and subsistence allowances for state departments, agencies, boards, commissions, committees, and councils are contained in [G.S. 138-5, 138-6, and 138-7](#). It is the intent of this section to provide statements of policy to enable state departments and agencies a comprehensive reference for uniform interpretation to pay or reimburse allowable state travel expenses pertaining to official travel and subsistence.

5.0.2 Employee Responsibility

An employee traveling on official state business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes, delays, or luxury accommodations and services unnecessary, unjustified, or for the convenience or personal preference of the employee in the performance of official state business are prohibited. The state has authorized the use of credit cards (American Express and Diner's Club) for employees during travel on official state business. These cards are distributed at the discretion of the department head. Employees will be responsible for unauthorized costs and any additional expenses incurred for personal prefer-

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ence or convenience. Employee misuse of state-issued credit cards is grounds for termination. Pursuant to G.S. 138-6 (c) requests for reimbursement shall be filed within 30 days after the travel period ends for which the reimbursement is being requested.

5.0.3 Official State Business

These policies are intended to apply only to those state employees or other persons on official state business. Official state business occurs when the state employee or other person is traveling to attend approved job related training and/or work on behalf of, officially represent, or provide a state service upon the state's request. Travel that would not directly benefit the state will not be reimbursable.

5.1 Travel Policies for State Employees

5.1.1 Per Diem Compensation

Per diem compensation is not applicable for state employees, only to members of State Boards, Commissions, Committees and Councils who do not receive any salary from state funds for their services.

5.1.2 Subsistence Rates

Subsistence is an allowance related to lodging and meal costs (including gratuities) ([G. S. 138-6](#)). For the purposes of determining eligibility for allowances, travel status means being away from the employee's normal duty station or home and, while traveling, the employee must be acting in his/her official capacity as required by his/her work activities.

The maximum allowable statutory rate for meals and lodging (subsistence) is \$97.75 for in-state travel and \$111.75 for out-of-state travel. The Director of the Budget revises the subsistence rate periodically based on the percentage change in the Consumer Price Index for All Urban Consumers ([G.S. 138-6\(a\)\(5\)](#)). The payment of sales tax, lodging tax, local tax, or service fees applied to the cost of lodging is allowed in addition to the lodging rate and is to be paid as a lodging expense ([G.S. 138-6\(a\)\(3\)](#)).

The employee may exceed the part of the ceiling allocated for lodging without approval for over-expenditure provided that the total lodging and food reimbursement that the employee is entitled to for that day does not exceed the maximum allowed daily subsistence ([G.S. 138-6\(a\)\(3\)](#)).

The following schedule shall be used for reporting allowable subsistence expenses incurred while traveling on official state business:

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	<u>In-State</u>	<u>Out of State</u>
Breakfast	\$ 7.50	\$ 7.50
Lunch	\$ 9.75	\$ 9.75
Dinner	\$16.75	\$19.00
Lodging (actual, up to)	<u>\$63.75</u>	<u>\$75.50</u>
Total	\$97.75	\$111.75

5.1.3 Tips and Gratuity

Reimbursable gratuity or tips must be considered reasonable for items that are not already covered under subsistence. Excessive tips will not be reimbursed. A reasonable tip would be one that a prudent person would give if traveling or conducting personal business and expending personal funds.

For further guidance, the following information is provided when calculating a tip:

- Airports: Baggage Handling/Skycaps = no more than \$2 per bag;
Shuttle Drivers = no more than \$2 per bag.

- Parking/Auto Related: Valets = \$2 per car when collecting the car;
Taxi Drivers = 15% of the fare and \$1 - \$2 a bag.

5.1.4 Out-of-State Travel

Out-of-state travel status begins when the employee leaves the state and remains in effect until the employee returns to the state. However, in-state allowances and reimbursement rates apply when employees and other qualified official travelers use hotel and meal facilities located in North Carolina immediately prior to and returning from out-of-state travel during the same travel period.

5.1.5 Authorization for Lodging

Prior written approval by the department head or his or her designee must be obtained in order to qualify for reimbursement for overnight stays. Supervisory personnel certifying the reimbursement request as necessary and proper must require documentation from the traveler to substantiate that the overnight lodging was necessary and accomplished. The travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station or home, whichever is less, to receive approved reimbursement. "Duty station" is defined as the location where the employee is assigned. The designation of an employee's home as the duty station requires the approval of the department head.

5.1.6 Reimbursement for Lodging

Each employee is responsible for his or her own request for reimbursement. The travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station or home, whichever is less. Requests for reimbursement shall be filed within 30 days after the travel period ends for which the reimbursement is being requested. [G.S. 138-6\(c\)](#). Spe-

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cific dates of lodging must be listed on the reimbursement request, and substantiated by a receipt from a commercial lodging establishment, not to exceed \$63.75 per night for in-state lodging or \$75.50 per night for out-of-state lodging.

Telephone access fees for business calls are considered a miscellaneous expense. Telephone access fees for personal calls are only reimbursable if they comply with the policy found later in this section.

5.1.7 Excess Lodging

Excess lodging authorization for in-state, out-of-state, and out-of-country travel must be obtained in advance from the department head or his or her designee. Excess lodging is allowed when the employee is in a high cost area and unable to secure lodging within the current allowance, or when the employee submits in writing an opinion that his/her personal safety or security is unattainable within the current allowance. Excess lodging authorization is not allowed for reason of convenience or personal preference for the employee. The employee may exceed the part of the ceiling allocated for lodging without approval from department head of his or her designee provided that the total lodging and food reimbursement does not exceed the maximum daily subsistence.

5.1.8 Third Party Lodging

Reimbursement for lodging in an establishment that is being rented out by a third party or an establishment treated as an apartment building by state or local law or regulation is not allowed unless approved by OSBM in advance. Requests for third party lodging must provide evidence of savings to the state. An exception may be granted for requests that do not show a savings with sufficient justification to support the necessity for third party lodging.

In each case where third party lodging is being considered, the applicant must provide their budget officer and OSBM all details regarding the arrangement, including the amount to be charged, the length of stay, and contact information. A signed rental agreement must be presented to receive reimbursement.

5.1.9 Penalties and Charges Resulting from Cancellations

Penalties and charges resulting from the cancellation of travel reservations (including airline, hotel, or other travel reservations and conference registration) shall be the department's obligation if the employee's travel has been approved in advance and the cancellation or change is made at the direction of and/or for the convenience of the department. If the cancellation or change is made for the personal benefit of the employee, it shall be the employee's obligation to pay the penalties and charges. However, in the event of accidents, serious illness, or death within the employee's immediate family or other critical circumstances beyond the control of the employee, the department may pay the penalties and charges.

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5.1.10 Authorization for Meals

Prior written approval by the department head or his or her designee must be obtained in order to qualify for reimbursement for meals. Supervisory personnel certifying the reimbursement request as necessary and proper must require documentation from the traveler to substantiate that the payment for meals was necessary and accomplished.

5.1.11 Reimbursement for Meals

Each employee is responsible for his or her own request for reimbursement. Tips for meals are included in the meal allowance. Each meal reimbursement rate must be listed on the reimbursement request. Departure and arrival times must also be listed on the reimbursement request. The costs of meals included in other related activities (registration fees, conference costs, hotel registration, etc.) may not be duplicated in reimbursement requests. An employee may be reimbursed, if requested, for breakfast even if their lodging establishment offers a free continental breakfast.

State rules and guidelines shall take precedence over federal guidelines governing the use of federal grant funds, unless specifically exempted by OSBM in advance.

5.1.12 Meals during Overnight Travel

A state employee may be reimbursed for meals, including lunches, while on official state business when the employee is in overnight travel status. The destination must be located at least 35 miles from the employee's regularly assigned duty station (vicinity) or home whichever is less to receive approved reimbursement.

5.1.13 Meals during Daily Travel

Employees may be reimbursed for meals for partial days of travel when in overnight travel status and the partial day is the day of departure or the day of return. The following applies:

- Breakfast: depart duty station prior to 6:00 am and extend the workday by 2 hours.
- Lunch: depart duty station prior to Noon (day of departure) or return to duty station after 2:00 p.m. (day of return).
- Dinner: depart duty station prior to 5:00 p.m. (day of departure) or return to duty station after 8:00 p.m. (day of return) and extend the workday by 3 hours.
- The travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station (vicinity) or home, whichever is less.

Allowances cannot be paid to employees for lunches if travel does not involve an overnight stay; however, employees can be eligible for allowances for the breakfast and evening meals when the following applies:

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- Breakfast (morning): depart duty station prior to 6:00 am and extend the workday by 2 hours.
- Dinner (evening): return to duty station after 8:00 pm and extend the workday by 3 hours.
- The travel must involve a travel destination located at least 35 miles from the employee's regularly assigned duty station (vicinity) or home, whichever is less.
- Allowances for the breakfast and evening meals for employees working nontraditional shifts must have prior approval of OSBM.

5.1.14 Meals and Day-to-Day Activities

State employees may not be reimbursed for meals in conjunction with a congress, conference, assembly, convocation or meeting, or by whatever name called, of employees within a single state department, institution or agency, or between the employees of two or more state departments, institutions or agencies to discuss issues relating to the employee's normal day-to-day business activities.

5.1.15 Meals for Required Employee Attendance

A state employee may be reimbursed for meals, including lunches, when the employee's job requires his attendance at the meeting of a board, commission, committee, or council in his official capacity and the meal is preplanned as part of the meeting for the entire board, commission, committee or council. Such board, commission, committee, or council must include persons other than the employees of a single state department, institution, or agency.

5.1.16 Meals and Commercial Air Travel

Employees are allowed to claim reimbursement for meals even though they are shown and offered as a part of one's flight schedule on a commercial airline.

5.1.17 Excess Meals

No excess reimbursement will be allowed for meals unless there are predetermined charges, or the meals were for out-of-country travel. The department head or his or her designee may grant excess subsistence for meals for out-of-country travel.

5.1.18 Convention Registration

State law allows reimbursement of the actual amount of convention registration fees as shown by a valid receipt or invoice [\[G.S. 138-6\(a\)\(4\)\]](#).

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5.1.19 Passports

Reimbursement for cost incurred in obtaining or renewing a passport may be made to an employee who, in the regular course of his duties, is required to travel overseas in the furtherance of official state business. Passport expenses are chargeable to the same fund that supports the employee's trip.

5.1.20 Transportation by Common Carrier

Reimbursement for air, rail, or bus fare is limited to actual coach fare, substantiated by receipt. Reimbursement for check – in fees is limited to actual costs substantiated by receipt.

5.1.21 Transportation by International Flights

Employees traveling internationally on overseas flights may be reimbursed actual business class fare (substantiated by receipt) with prior approval of the department head or his or her designee.

5.1.22 Frequent Flyer Miles

Frequent flyer miles earned by a state employee while traveling on state business at state expense are the property of the state. Frequent flyer miles accumulated by an individual state employee during previous state business trips should, to the extent possible, be used by the state employee accumulating the frequent flyer miles while traveling on future state business trips.

5.1.23 Coupons or Certificates for Reduced Air Fare

Coupons or certificates for reduced air fare if acquired by a state employee while traveling on state business at state expense are the property of the State and should be used, to the extent possible, by the state employee on future state business trips.

5.1.24 Fees and Service Charges

With sufficient justification and documentation and with approval of the department head or his or her designee, state employees can be reimbursed for usual, customary, and reasonable fees and services charges imposed by travel agents for assistance in making travel arrangements.

5.1.25 Transportation by Personal Vehicle

Actual mileage is reimbursable. Mileage is measured from the closer of duty station or point of departure to destination (and return). The business standard mileage rate set by the Internal Revenue Service (**55 cents per mile effective January 1, 2009**) will be paid. Parking fees, tolls, and storage fees are reimbursable when the required receipts are obtained. A state employee shall be reimbursed the business standard mileage rate set by the Internal Revenue Service when using their personal vehicles for state business when the round trip does not exceed 100 miles or when a state-owned vehicle is not available. However, if a state employee chooses to use a personal vehicle when a state-owned vehicle is available, all departments and agencies will reimburse the employee at the motor fleet rate for mileage of **33 cents per mile**.

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5.1.26 Transportation by a Rental Vehicle

Rental vehicles may be used, however, rental vehicles are not to be used at state expense solely for the convenience or personal preference of the employee. A receipt is necessary for reimbursement. No reimbursement will be made for rental insurance purchased because state employees are covered under the state's auto insurance program. However, reimbursement for automobile rental insurance will be permitted for individuals engaged in state business during travel to international destinations.

5.1.27 Transportation by State Vehicle

Procedures for obtaining and using state vehicles owned by the Division of Motor Fleet Management (Department of Administration) are set out in the [Rules and Regulations](#) provided by that division. Every individual who uses a permanently assigned state-owned passenger motor vehicle, pickup truck, or van to drive between his official workstation and his home, shall reimburse the state for these trips at a rate computed by the Department of Administration.

5.1.28 Transportation by Chartered Aircraft

The use of charter aircraft must be approved by the department head or his or her designee, provided the following is substantiated and put in writing:

- A state aircraft is not available or not appropriate for the size of the party traveling or the destination airport.
- The use of a charter flight is more economical than a commercial flight.
- The use of a charter flight is necessary because of unusual travel circumstances.

5.1.29 Use of Aircraft Owned by a State Employee

Reimbursement for costs incurred in the use of aircraft, owned by a state employee, on official state business may be approved by the department head or his or her designee, provided the following is substantiated and put in writing:

- The use of the aircraft owned by a state employee is necessary because of unusual travel circumstances and is not for the sole convenience of the employee who owns the plane.
- The use of the aircraft, owned by a state employee, at the rates published below, is cheaper than any other method of air travel.
- The allowable reimbursement rate for aircraft owned by a state employee is \$.68 per mile per passenger.

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5.1.30 Non-state Employee Riders

Non-state employees may accompany state employees in state-owned vehicles when they have a business interest in the purpose of the trip and their presence is related to state business. Students of state universities, colleges, and institutions may be passengers in state-owned vehicles to attend athletic events and other activities officially sanctioned by the institution, provided the proper account is reimbursed at the standard mileage cost rate by the student activity fund involved. Spouses and children of state employees may accompany them in state-owned vehicles, if space is available and all travel is strictly for official state business [[G.S. 143-341\(8\)\(i\)\(7\)](#) grants Department of Administration rule-making authority in this area]. Hitchhikers are not permitted to ride in state-owned vehicles.

5.1.31 Transportation by State Vehicle at Destination

At the employee's destination, state-owned vehicles may be used prudently for travel to obtain meals, but not for private purposes or for entertainment while off duty. No common carrier or public transportation fares are reimbursable on a trip on which an employee uses a state-owned vehicle, unless it is shown that such transportation was more economical in a particular situation.

5.1.32 Commuting

No reimbursement shall be made for the use of a personal vehicle in commuting from an employee's home to his duty station. (No mileage reimbursement is allowed to employees on "call back" status.) For the state's policy on compensation to employees on "call back" status, see the [State Personnel Manual](#).

5.1.33 Use of Public Safety Vehicle for Commuting

No state employee shall be exempt from payment of reimbursement for commuting except as provided for in [G.S. 143-341\(7a\)](#). The provisions of this rule do not apply to clearly marked police and fire vehicles or unmarked law-enforcement vehicles that are used in undercover work and are operated by full-time sworn law enforcement officers whose **primary duties** include carrying a firearm, executing search warrants, and making arrests. The Department of Administration shall report quarterly to the Joint Legislative Commission on Governmental Operations on individuals who use state owned vehicles between their official work stations and their homes, who do not reimburse the state for these trips.

The rate of reimbursement shall approximate the benefit derived from the use of the vehicle as prescribed by federal law and shall be determined by the Department of Administration. Reimbursement shall be for 20 days per month regardless of how many days the individual uses the vehicle to commute during the month. Reimbursement shall be made by payroll deduction each month from the employee's check and deposited as a refund of expenditure to the fund/center and account that the motor fleet bill is paid.

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5.1.34 Travel to/from Airport at Employee's Duty Station

Reimbursement for travel between the employee's duty station or home (whichever is less) and the nearest airline terminal (or train/bus station if applicable) and for parking may be made under the following circumstances.

For travel by:

- Taxi or Airport Shuttle - Actual costs with receipts.
- Private car - the business standard mileage rate set by the Internal Revenue Services for a maximum of two round trips with no parking charge, or for one round trip with parking charges. Receipts are required for airport parking claims.
- Use of Public Transportation – In lieu of using a taxi or airport shuttle, employees can be reimbursed without receipts \$5 for each one-way trip either from the airport to hotel/meeting or from the hotel/meeting to the airport or the actual cost of the travel with the submission of receipts.

5.1.35 Travel to/from Airport at Employee's Destination

Reimbursement for travel to and from the airline terminal (or train/bus station if applicable) at the employee's destination may be made where travel is via most economical mode available as listed below:

- Taxi or Airport Shuttle service – Actual costs with receipts.
- Rental vehicles - may be used with the prior approval of the department head or his or her designee; however, rental vehicles may not be used for the sole convenience of the employee (receipt required).
- Use of Public Transportation – In lieu of using a taxi or airport shuttle, employees can be reimbursed without receipts \$5 for each one-way trip either from the airport to hotel/meeting or from the hotel/meeting to the airport or the actual cost of the travel with the submission of receipts.

5.1.36 Parking

Parking expenses are reimbursable while in the course of conducting official State business as long as such expenses are determined reasonable and clearly show that there was care taken to keep the costs to the State as low as possible. Any parking rates considered excessive and only for the convenience of the traveler will not be reimbursable. For example, excessive or inappropriate parking would be the use of an airport's hourly parking lot for an overnight trip.

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5.1.37 Travel Involving Trips Other than to and from the Airport

The actual cost of taxi and shuttle service fares are reimbursable when required for travel on official state business. The request must be documented with a receipt. The use of public transportation is reimbursable for actual costs with a receipt.

5.1.38 Authorization for Out-of-Country Travel

All out-of-country travel must be authorized by the department head or such department official designated by him or her.

Out-of-country travel status begins when the employee leaves the country and remains in effect until the employee returns to the country. If the employee and other qualified official travelers use hotel and meal facilities located outside North Carolina, but within the continental United States, immediately prior to and upon returning from out-of-country travel but during the same travel period, out-of-state subsistence rates shall apply.

5.1.39 Travel Advances

All employees who travel on state business may be issued advances when authorized by the department head or his or her designee in order that personal funds will not be required. Fiscal records must be maintained by the department for proper control.

Eligibility for advances and reporting requirements are as follows:

- **State Employees who have been issued state credit cards** for travel purposes should not be issued travel advances, unless there is substantiated justification.
- **Travel advances for occasional travel** must not exceed the estimated cost of the trip and may not be issued more than five working days prior to the date of departure. Advances must be deducted from the reimbursement request on the travel expense report which shall be submitted within 30 days after the travel period or June 30, whichever comes first.
- **Travel advances for regularly scheduled travel** for employees who travel each month may be made thorough an annual advance of funds equal to the average monthly expense. All reimbursement requests shall be filed and paid monthly for incurred expenses and the advance must be repaid as of June 30 annually or earlier if required by the agency. If it is determined that the monthly reimbursement has averaged less than the annual advance-ment, the advance must be reduced to the newly established amount.

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5.2 Travel Policies for State Officials

5.2.1 Political Functions

State officials, both elected and appointed, sometimes attend political functions or meetings. The following policies are intended to be guidelines for the payment from state funds for travel and subsistence costs surrounding the attendance of state public officials at political functions or meetings.

5.2.2 Travel Related to a Political Function

No state funds may be used to pay travel and/or subsistence costs for a state official while attending a political function or meeting. In the event a state-owned aircraft is used, the reimbursement rate will be the actual operating cost rate per flight hour. If a state-owned vehicle is used, the reimbursement rate to the state will be the motor pool rate.

5.2.3 Travel Related to Official State Business that includes Political Functions

If a trip includes both official state business and political functions or meetings, state funds may be used to pay up to one-half of the travel and/or subsistence costs. In the event that a state-owned aircraft is used, the cost to the state will be charged at the regular rate per flight hour and the charge to a non-state source will be at the actual operating cost rate per flight hour. If a state-owned vehicle is used, the reimbursement rate to the state will be the motor pool rate.

5.2.4 All Other Travel

Travel reimbursement policies and regulations for all other travel for state officials is the same as for state employees.

5.3 Travel Policies for Members of State Boards, Commissions, Committees, and Councils (Other than Licensing Boards and Members of the General Assembly)

5.3.1 Per Diem Compensation

Pursuant to [G.S. 138-5\(a\)\(1\)](#), non-state employees who are members of state boards, commissions, committees, and councils shall receive \$15 per day of official service. State employees and members of all state boards, commissions, and councils whose salaries or any portion of whose salaries are paid from state funds shall receive no per diem compensation from state funds for their services. It is the responsibility of the fiscal officer of the Board, Commission, Committee, or Council to insure that such per diem compensation is not paid to state employees.

5.3.2 Subsistence

Meal subsistence for non-state employee members of state boards, councils, commissions, or committees is a daily, lump-sum allowance payable per day of official service. Meals and lodging are to be reimbursed as follows:

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In-State Travel:

- \$34.00 for meals.
- Actual expenses up to \$63.75 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.

Out-of-State Travel:

- \$36.25 for meals.
- Actual expenses up to \$75.50 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.

5.3.3 Excess Subsistence

Authorization for excess expenses for in-state or out-of-state travel may be granted by the department head or the board chairperson head or his/her designee when such costs are included in registration fees and/or there are predetermined charges.

5.3.4 Authorization for Out-of-state travel

Expenses for out-of-state travel on official business shall be reimbursed only upon authorization obtained in the manner prescribed by regulations governing out-of-state travel for state employees.

5.3.5 Transportation

Transportation policies and regulations are the same as for those for state employees, except that a mileage reimbursement rate set by any other law by reference to [G. S. 138-6\(a\)\(1\)](#) is established at 25 cents a mile, not the IRS rate.

5.3.6 Subsistence of State Employees serving as Board Members

As allowed under [G.S. 138-6](#), a state employee who is a member of a state board, commission, committee or council that operates from funds deposited with the State Treasurer, may be reimbursed for actual cost of any meal (including lunch) eaten while on official state business if the meal is preplanned as part of the meeting for the entire board, commission, committee, or council. However, when an overnight stay is required, the state employee is limited to a daily reimbursement as follows:

Subsistence

In-State Travel

- \$34.00 for meals.
- Actual expenses up to \$63.75 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.

Out-of-State

- \$36.25 for meals.

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- Actual expenses up to \$75.50 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.

5.3.7 No Overnight Stay

When an overnight stay is not required, the state employee is allowed actual cost of any meal (including lunch) eaten while on official state business if the meal is preplanned as part of the meeting for the entire board, commission, committee or council.

5.3.8 Other Meals

If the employee is eligible for reimbursement for any other meal, that reimbursement is limited by the same reimbursement amounts and regulations as those allowed for in-state and out-of-state travel by a state employee who is not a member of a state board, commission, committee, or council.

5.3.9 Meetings

Refreshments (i.e., coffee, soft drinks, cookies, doughnuts) may be served at official board meetings. Reimbursement may be paid from state funds for actual cost not to exceed \$4.50 per member and required staff, per meeting per day. "Required Staff" shall be defined as an employee who, in the regular course of his duties, is expected to attend the meeting and any other employee whose presence is necessary to accomplish a purpose of the meeting.

5.4 Travel Policies for Agency Committees Not Established by

G.S. 143B-10(d)

An employee of any department, institution, or agency that operates from funds deposited with the State Treasurer, who is appointed to an agency committee not established by G.S. 143B-10(d), is subject to subsistence policies and regulations that apply to state employees.

Non-state employees who are members of agency committees not established by G.S. 143B-10(d) shall follow the travel policy in Section 5.7 Travel Policies for Non-State Employees.

5.5 Travel Policies for Licensing Boards (Other than State Employees)

5.5.1 Per Diem Compensation

Pursuant to [G.S. 93B-5](#), non-state employee members of licensing boards shall receive \$100.00 per day of official service. State employees and members of all licensing boards whose salaries or any portion of whose salaries are paid from state funds shall receive no per diem compensation from state funds for their services. It is the responsibility of the budget officer of the licensing board to insure that such per diem compensation is not paid to state employees.

5.5.2 Subsistence

Subsistence policies and regulations are the same as for those for state employees.

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5.5.3 Convention Registration

Convention registration policies and regulations are the same as for those for state employees.

5.5.4 Transportation

Transportation policies and regulations are the same as for those for state employees, except that a mileage reimbursement rate set by any other law by reference to [G. S. 138-6\(a\)\(1\)](#) is established at 25 cents a mile, not the IRS rate.

5.5.5 Meetings

Refreshments (i.e., coffee, soft drinks, cookies, doughnuts) may be served at official board meetings. Reimbursement may be paid from state funds for actual cost not to exceed \$4.50 per member and required staff, per meeting per day. "Required Staff" shall be defined as an employee who, in the regular course of his duties, is expected to attend the meeting and any other employee whose presence is necessary to accomplish a purpose of the meeting.

5.6 Travel Policies for Members of the General Assembly Serving on State Boards, Commissions, Committees, and Councils

5.6.1 Per Diem Compensation

Pursuant to [G.S. 120-3.1](#), per diem compensation is not applicable.

5.6.2 Subsistence

A member of the General Assembly shall receive a subsistence allowance for meals and lodging at a daily rate (which is currently \$104) equal to the maximum per diem rate for federal employees traveling to Raleigh, N.C., as set out at 58 Federal Register 67959 (December 22, 1993), while the General Assembly remains in session, and, except as otherwise provided in this subsection when, with the approval of the Speaker of the House in the case of Representatives or the President Pro Tempore of the Senate in case of Senators, the member is:

- Traveling as a representative of the General Assembly or of its committees or commissions.
- Otherwise in the service of the state.

5.6.3 Excess Subsistence

A member who is authorized to travel, whether in or out of session, within the United States but outside of North Carolina may elect to receive, in lieu of the amount provided in the preceding paragraph, a subsistence allowance of twenty-six dollars (\$26.00) a day for meals, plus actual expenses for lodging when evidenced by a receipt satisfactory to the Legislative Services Officer, not to exceed the maximum per diem rate for federal employees traveling to the same place, as set out at 58 Federal Register 67950-67964 (December 22, 1993) and at 59 Federal Register 23702-23709 (May 6, 1996) ([GS 120-3.1\(a\)\(3\)b](#)).

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5.6.4 Transportation

A member will receive a travel allowance at the rate equal to the business standard mileage rate set by the Internal Revenue Service whenever the member travels, whether in or out of session, as a representative of the General Assembly or of its committees or commissions, with the approval of the Legislative Services Commission.

5.6.5 Convention Registration

Convention registration policies and regulations are the same as for those for state employees.

5.7 Travel Policies for Non-State Employees

5.7.1 Non-state Employees

For the purposes of this section, non-state employees are those on official state business whose expenses are paid by the state and subject to state regulations, such as prospective professional employees, public school and community college employees, students on official state business, and attendants of handicapped state employees traveling on official state business (provided advance approval is obtained from department head or designee).

Non-state employees traveling on official state business whose expenses are paid by the state are subject to these regulations, including statutory subsistence allowances, to the same extent as are state employees. Travel expenses for members of a non-employee's family are not eligible to be paid by the state. No travel advances will be made to non-state employees.

5.7.2 Prospective Professional Employees

A department head or his or her designee is authorized to approve reimbursement of transportation expenses of prospective professional employees visiting state departments for employment interviews. These expenses are limited to transportation and subsistence for 3 days (5 days if one is a Saturday) at the in-state rate. The department head or his or her designee may approve excess lodging expenses.

5.7.3 Post-secondary Students

Student travel expenses while working as an employee of the state are considered official state business when traveling on behalf of their position and shall be paid from the same source of funds from which the employee is paid. Non-employee students at state institutions who travel on official state business are reimbursed from the General Fund consistent with payments for state employees. All other student related travel must be paid from non-General funds supporting that particular organization or activity. Funds specifically appropriated or legally directed for student travel are authorized to be used for student travel expenses. Official state business is defined in [section 5.0.3](#).

Approval for non-employee General Fund student travel must be signed by the student's department head. To substantiate and account for services related to non-employee General Fund student travel, the student and department head should enter into a signed agreement to document

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the required official state business and the travel reimbursement commitment. This agreement shall be signed by the department head and shall be a part of the department's prior approval documentation required for overnight travel.

The purchase of food or beverage for students at higher education institutions is not allowable unless the student is in travel status. However non-General funds may be used for these purposes if such funds have been established and authorized for such purposes.

5.7.4 Attendants

Payment of travel and subsistence expenses (motel and meal costs) for attendants for handicapped employees while traveling on official state business may be reimbursed to the same extent as are state employees if advance approval is obtained from the department head or his or her designee.

5.7.5 Expert Witness Fees

A person used by any state department, agency, commission, committee, licensing board, or council as an expert witness may be reimbursed an agreed upon fee by said group. All travel costs will be reimbursed the same as for state employees.

5.8 Conferences, Seminars, Workshops, Training Sessions and Retreats

5.8.1 External Conference Definition

External conferences are those that involve the attendance of persons other than the employees of a single state department, institution or agency. Payment for meals is allowable if included in the registration fee, but such fee must not consist exclusively of meal or it will not be allowable unless meeting overnight travel criteria. The registration fee is typically made for defraying the cost of speakers, building (room) use, handout materials, breaks and lunches at conferences and conventions. These fees are charged to other services "Registration Fees." The agency may require itemization and/or documentation of expenses. Conferences sponsored or co-sponsored by a state department are authorized when they meet the limitations and requirements listed below.

5.8.2 Exception Regarding Conference Meals

Pursuant to G.S. 138-6(a)(3), a university or state agency cannot use funds to pay for conference meals for state employees at which a conference fee was not charged, unless the following conditions are met:

Federal grants, other grants, state, or institutional trust funds (as defined in G.S. 116-36.1) may be used for meals if the conditions attached to those funds allow for the provision of meals for a conference. The university or agency must have documentation of the conditions. If this is the case, then meals may be provided to state employees even if a registration fee was not charged. The employee may not request reimbursement for the meal.

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5.8.3 Requirements and Limitations for External Conferences

The conference is planned in detail in advance, with a formal agenda or curriculum.

There is a written invitation to participants, setting forth the calendar of events, the social activities, if any, and the detailed schedule of costs.

Assemblies should be held in state facilities; however, non-state facilities can be rented and the cost charged to a state agency without allocation to participants' daily subsistence allowances.

The sponsoring department may charge registration fees to participants for costs of external conferences.

Registration fees may not include costs of entertainment, alcoholic beverages, setups, or flowers, and/or promotional (gift) items. Registration fees collected and not used to defray expenses of the particular conference may not be used for other programs and must revert to the general or highway fund as applicable ([G.S. 138-6\(a\)\(4\)](#)).

Sponsoring departments may provide refreshments for "coffee breaks" provided there are twenty or more participants and the costs do not exceed four dollars and fifty cent (\$4.50) per participant per day.

When assemblies are to be held under the sponsorship of a state department in which the funding for all participants is budgeted, lump-sum payments to a conference center or an organization may be made upon written authorization from the department head or his or her designee. The authorization must provide the following:

- The number of persons expected to attend.
- The purpose and duration of the conference.
- The specific meals to be served at the conference (law prohibits lunches being provided to state employees unless registration fees are charged to all attendees).
- The approximate daily subsistence cost per person.
- The name of the conference center, hotel, caterer, or other organization providing the service.

It is the responsibility of the departments to ensure that reimbursement for meals included in the lump-sum payment is not also included in reimbursement payments made to state employees who are conference participants.

5.8.4 Internal Conference Definition

Internal conferences are those that involve the attendance of employees within that particular department, institution or agency only. No payment for meals is allowable unless overnight travel criteria are met. A routine staff meeting is not an internal conference.

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5.8.5 Requirements and Limitations for Internal Conferences

- The conference is planned in detail in advance, with a formal agenda or curriculum.
- There is a written invitation to participants, setting forth the calendar of events and the detailed schedule of costs.
- No excess travel subsistence may be granted for internal departmental meetings, conferences, seminars, etc., and such meetings must be held in state facilities when available. No registration fee may be charged.
- Sponsoring departments may provide refreshments for "coffee breaks" provided there are twenty or more participants and costs do not exceed four dollars and fifty cent (\$4.50) per participant per day.
- A department cannot use state funds to provide promotional or gift items to be distributed at the conference.
- A department cannot use state funds to support or underwrite a rally, celebration, or similar function.
- A department cannot use state funds to support or underwrite a meeting, assembly, conference, seminar, or similar function by whatever name called that promotes any cause or purpose other than the mission and objective of the department.

5.8.6 Training Session Definition

Employee training involves courses that further develop an employee's knowledge, skill, and ability to perform the duties of his/her present job, such as courses on computer usage or management skills development. These courses generally have a set fee, are of relatively short duration, and are not part of a curriculum the employee is participating in leading to an educational degree.

5.8.7 Requirements and Limitations for Training Sessions

- Fees for training courses that provide training in specific areas are charged in the accounting system to "Employee Training" under "Other Services."
- Departments sponsoring training sessions may provide refreshments for "coffee breaks" provided there are twenty or more participants and costs do not exceed four dollars and fifty cent (\$4.50) per participant per day.
- Departments may reimburse employees for training books and materials related to training sessions, provided those books are required to participate in the training sessions.

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These books are considered property of the department and not the personal property of the employee.

5.8.8 Management Retreat Definition

A management retreat is a meeting or series of meetings consisting of a department or division head and his or her top assistants and coworkers. Retreats are sometimes held at a site other than the usual workplace and are held no greater than once a year.

5.8.9 Requirements and Limitations for Management Retreats

State employees who are elected by a vote of the people or appointed by the governor, the president of The University of North Carolina, the chancellors of the constituent institutions of the university, the executive director of University of North Carolina Hospitals at Chapel Hill, chairman of the State Board of Education, and the president of the Community College System may authorize an annual management retreat. Expenditures are permissible in a manner as if it were an internal conference.

5.9 Informal Meetings with Guests of Department Heads

5.9.1 Informal Meeting Definition

An informal meeting is a meeting consisting of a department head or his/her designee and non-state employees during which official state business is discussed for the majority of the meeting. Informal meetings are one-time occurrences and are not held on a recurring or routine basis.

5.9.2 Requirements and Limitations for informal meetings

State employees who are elected by a vote of the people or appointed by the governor, the president of The University of North Carolina, the chancellors of the constituent institutions of the university, the executive director of University of North Carolina Hospitals at Chapel Hill, chairman of the State Board of Education, and the President of the Community College System, or their designee when given prior written approval by the department head for a specific event, may be reimbursed from state funds for actual costs of meals for themselves and individuals who are not state employees who are their guests, when accompanying them in the course of conducting official state business. Cost of meals and other expenses for family members of the above referenced state officials are not reimbursable.

5.10 Telephone Calls

5.10.1 Long Distance

Employees are not allowed to charge long distance phone calls to the state for calls made of a personal nature, except as stated below. All long distance calls that are to be paid by the state are those made pursuant to the employee conducting official state business.

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5.10.2 Reimbursement

Official phone calls are reimbursable under "Miscellaneous." Individual calls over \$5.00 must be identified as to point of origin and destination.

5.10.3 Allowable Personal Calls

An employee who is in travel status for two or more consecutive nights in a week is allowed one personal long distance telephone call for each two nights for which reimbursement to the employee may not exceed \$3.00 for each in-state call or \$5.00 for each out-of-state call. Documentation is required for reimbursement.

5.10.4 Employee emergency calls

Employees may use the state network system, state credit card, or may be reimbursed for a personal long distance call(s) if such call(s) is/are of an emergency nature as determined by the department. An example is a call made when an employee calls home to inform someone that the travel period has been extended beyond original plans due to unforeseen reasons.

5.10.5 Mobile Telephones

Because mobile telephone charges (cellular and digital) are based on measured use, no personal calls should be made on mobile telephones except in case of emergency as determined by the department. Mobile telephone calls to conduct official state business should only be used when more economical means of telephoning are not reasonably available.

If an employee uses his/her personal mobile telephone in conducting state business, the employee can be eligible for reimbursement. In order for the agency to reimburse the employee, the employee must indicate on his/her telephone bill the reimbursable calls, individuals called, and nature of calls and submit the telephone bill to their supervisor for approval. If the supervisor approves the calls as state business related, the agency will reimburse the actual billed cost of the call.

5.10.6 Use of Telephone with Computer Hook-ups

Employees traveling on state business who need to transmit data electronically (including email) or use the Internet for state business purposes should use the most cost-efficient manner available, including services available through the State's Information Technology Services (ITS) access.

5.10.7 Exceptions

Any exception to the rules and regulations as herein stated in the State Budget Manual, except those expressly delegated, must be approved in advance by OSBM.

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5.11 Mobile Communication Device

5.11.1 Mobile Communication Device

Employees whose job duties include the frequent need for a mobile communication device (MCD) may be assigned a state-owned device or may receive an allowance for the use of an employee-owned device. For the purpose of this policy a MCD is any device that provides two-way communication.

5.11.2 State-owned Devices

Any state agency or institution may elect to acquire and provide a mobile communication device to an employee upon justification of necessity and approval from proper internal authority. A statewide term contract has been executed and all executive State governmental agencies must use this contract while other state entities may use this contract when purchasing MCD and/or services ([Statewide IT contracts](#)).

The device is considered state property and is to be used for state business purposes only. A review should be conducted annually to re-justify the business need for each state-owned MCD that has been issued.

5.11.3 Employee-owned Devices

Any state agency or institution may elect to provide an allowance to an employee for the business use of their personal MCD. The following requirements must be followed:

1. State agencies and institutions must develop an initial business case for the use of MCD allowance.
2. The business case must be submitted and approved by OSBM prior to the implementation of a MCD allowance policy. Concurrently, the agency's internal policies and procedures for the MCD allowance must be submitted to OSBM.
3. State agencies and institutions must develop a flat or tiered allowance, based upon the volume of use, for the business use of personal MCDs.
4. Necessity of a MCD allowance must be justified, documented and approved by the proper internal authority.
5. Each individual MCD allowance must be reviewed and justified every fiscal year.

This allowance would be taxable and employees personal MCD records could be subject to the North Carolina public records law ([General Statute § 132](#)).

An employee receiving a MCD allowance may not be reimbursed for business or personal calls allowable during travel status as outlined in section [5.10 Phone Calls](#).

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6.0 PERSONNEL POLICIES AND REGULATIONS

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6.1 Fiscal Policies and Regulations Related to Personnel

6.1.2 Salary Control

The Salary Control Unit in the Office of State Budget and Management serves as a control point for all matters regarding salary. Its functions include:

- The establishment and maintenance of records necessary to prevent the overcommitment of budgeted salaries.
- The processing and approval of all budget revisions involving salary reserve transfers.
- The compilation of data on position counts and vacancies.

Unless authority has been delegated to an agency, all budget revisions (BD-606) related to salary go through this unit for approval. Although this unit maintains records on salary reserve balances for control purposes, each departmental budget officer is charged with maintaining salary control records (salary reserve).

6.1.3 Salary Reserve

Additional information can be found in [Section 3, Budget Execution](#).

6.1.4 Unemployment Compensation

[Chapter 96 of the General Statutes of North Carolina](#) provides for full unemployment insurance for all North Carolina employees, both private and public.

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Fiscal management of all state agencies should be knowledgeable of its requirements and provisions. The state personnel manual provides information relating to claims and services for employees.

Under the provisions of [G.S. 96.9\(d\)](#), the State of North Carolina elected in lieu of paying premiums, to become liable for unemployment compensation payments made on its behalf by the Employment Security Commission. Among the requirements is the provision that remittances shall be paid by each employing unit (department) within 25 days of invoicing ([G.S. 96.9\(f\)\(1\)](#)). Late payments are subject to a 10% penalty.

Each agency must give the highest priority to verifying the statement and remitting payment in full to the Employment Security Commission, within the 25-day limit. Questionable items, for which agreement cannot be obtained immediately, should be paid. The Employment Security Commission will give credit on questionable items decided in favor of the agency, and this credit will be applied on the next statement.

Each agency must provide a line item from which this staff benefit will be paid (see chart of accounts). When funding is already budgeted, immediate disbursement should be made. In instances where insufficient or no funding is budgeted, agencies must locate funds within their departments to meet this obligation. Budget requests to transfer funds into the proper line item for disbursement should be made to OSBM. Payments to cover employees not supported from appropriated funds should be paid from the same source that supported their base salaries or from reserves set up for that purpose. OSBM establishes the requirements for the reserve funds based on employment levels and trends. Notification of rate changes will be provided as necessary.

The Employment Security Commission sends detailed statements to the agencies for each fiscal period. Agency identity and budget codes are provided within the account number on the heading of the statement. General fund codes and special fund codes will carry different numbers.

6.1.5 Workers' Compensation

[The North Carolina Workers' Compensation Act, Chapter 97 of the General Statutes](#), as amended, covers all officers and employees of the state, including those who are elected by the public or by the General Assembly, or appointed by the Governor to serve on a per diem, part time or fee basis, with or without the confirmation of the General Assembly.

When an employee of the State of North Carolina is injured on the job, responsibility for claiming Workers' Compensation benefits begins with the injured employee. The injured employee should file the claim with his/her supervisor, personnel officer, or workers' compensation administrator. Each department, institution, or agency should report each accident or injury to the Industrial Commission on forms provided. The provisions of the Workers' Compensation Act and the requirements of the Industrial Commission should be followed in preparing this report.

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Each department, institution, or agency is responsible for properly investigating a Workers' Compensation claim before accepting liability for the injury on behalf of the state. Departments needing assistance in this matter should contact their department's legal staff or the Attorney General's Office.

The State of North Carolina is self-insured for the payment of Workers' Compensation claims. As there are generally no appropriations to cover Workers' Compensation claims, each department, institution, or agency is required to pay its own claims out of its own appropriation.

When necessary, each department should submit a budget revision (BD 606) to OSBM to transfer funds to account number 53 163X.

6.1.6 Workers' Compensation Benefits as follows:

- 53 1630 **Workers' Compensation Summary:** General category for summation of all expenditures that are paid under the workers' compensation program. Budget revisions should reflect the detail level listed below.
- 53 1631 **Medical Benefits:** This includes medical, surgical, hospital, nursing services, medicines, sick travel, rehabilitation services, and medical and surgical supplies.
- 53 1632 **Temporary Disability Payments:** This includes any expenditures paid under an agreement to pay compensation for time lost from work.
- 53 1633 **Permanent Disability Payments:** This includes payment for disfigurement and permanent full and partial disability ratings given at the end of the healing period.
- 53 1634 **Death Benefits:** This includes compensation paid to a surviving spouse or dependent child and allowance for funeral expense.

Unless otherwise approved by OSBM, the use of state appropriated funds, or other public funds, to purchase worker's compensation insurance from private insurance carriers is an inappropriate use of these funds and is not an authorized expenditure.

The State Employee's Disability Salary Continuation Plan includes a provision for coordination of benefits among various insurance plans through a reduction formula.

When an injured worker receives Workers' Compensation benefits, Disability Salary Continuation Plan benefits are reduced accordingly.

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6.1.7 Safety Shoe Allowance for State Employees

In compliance with Occupational Safety and Health Administration (OSHA) and Office of State Personnel policy provisions related to personal protective equipment, and to ensure that State employees are provided ample opportunity to purchase the proper and necessary safety shoes required by the job for adequate foot protection, the annual reimbursement allowance for the purchase of safety shoes is set at \$80 per year. The Office of State Budget and Management and the Office of State Personnel shall review the safety shoe reimbursement practice each biennium in order to adjust the allowance to reflect inflationary changes. Any exception to this policy must be approved in advance by the Office of State Budget and Management.

6.2 Dual Employment

6.2.1 Purpose

The dual employment policy is a statewide uniform policy to be followed when one state department secures the services of an employee of another state department on a part-time, consulting, or contractual basis. It is recognized that conditions vary widely from department to department, however this policy will attempt to cover as many different situations as possible and to strike a sound balance between the interests of the state, the department, the employee and the public. For employees engaged on a full time basis, any additional work for other than a state department is termed secondary employment and is covered in the [State Personnel Manual](#). Form CP-30 should be used for reporting purposes involving dual employment.

6.2.2 Applications and Exclusions

The policy applies to all state employees both subject to and exempt from the provisions of the State Personnel Act and to all state departments.

It does not apply to employees in the public school system nor to employees of institutions in the community college system. Employees in these systems are not state employees (for the purposes of Dual Employment regulations); they are employed by local boards of education and local boards of trustees.

This policy applies only in situations involving one employee and two agencies. For situations involving one employee assuming dual roles within the same agency, see the [State Personnel Manual, "Occasional or Sporadic Employment in a Different Capacity."](#)

6.2.3 Definitions:

Parent department

The state department, agency, or institution having control over the services of the employee, and from which the employee receives his or her regular paycheck.

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Borrowing department

The state department, agency, or institution seeking, on a temporary or part-time basis, the services of an employee of another state department.

Straight-time employee

Generally, an employee with a 40-hour per week work schedule, including employees on rotating shifts and those with split shifts. Permanent employees filling positions subject to the State Personnel Act, with perhaps extremely rare exceptions, are straight-time employees for the purposes of this policy statement. Such persons, except when working odd or split shifts, are considered to be on their own time between 5:00 p.m. and 8:00 a.m. and on Saturdays, Sundays, holidays, and while on annual leave.

Variable-time employee

An employee, though considered to be the incumbent in a full-time budgeted position, may be required to maintain on-duty status (normally, at a fixed work station) for only a limited number of hours per week. An example of a variable-time employee is a teacher in an institution of higher education who for one semester might be scheduled to teach classes for fifteen hours a week, and for the next semester only ten hours but with the added duty of advising students. The hours during which the employee advises might be fixed, or the employee might have the option of scheduling his/her own appointments. Variable-time employees are considered to be on their own time except at those hours when they are required to be in scheduled on-duty status.

Instructional Contractual Services

The employment by one higher education institution of a teacher under contract to another institution: An example of this practice is the exchange of teachers between two proximate institutions, such as the North Carolina School of the Arts and Winston-Salem State University.

Honoraria

Notwithstanding any definitions previously given or henceforth to be given to the word "honorarium," any payment by one agency to an employee of another agency for any type of services is subject to the procedures of the [Uniform Statewide Policy on Dual Employment](#).

6.3 Guidelines

6.3.1 Permission of parent department

The administrative head of the parent department must give approval in writing in each instance of an employee's performing services for pay for another state department.

Approval should be granted or withheld after a careful weighing of the circumstances, considering such factors as the character of the services to be performed, the effect on the morale of other state employees, the ethical considerations involved, the temporary loss of the services of the individual to the parent department, the possibly reduced efficiency of the individual as a result

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of fatigue or inattention to primary responsibilities, the urgency of the situation, possible alternative arrangements, and other pertinent factors. If the administrative head of the department is to perform services for pay for another state department, the Office of State Budget and Management must approve the arrangements.

6.3.2 Statement of employee's immediate supervisor

In any case of services performed for pay for a borrowing department during an employee's "own time", the employee's immediate supervisor must certify in writing that (a) the actual work and any related travel time will be performed outside of regularly scheduled working hours, and (b) the employee will not use "company time" to prepare for the services to the borrowing department.

6.3.3 Payment for services

It is assumed that certain officials will make outside appearances and speeches, which are in fact a part of their normal duties, and such officials should not expect to be paid for these occasions.

If payment is to be made for services, the rate must be agreed upon in advance and may not be increased merely because additional funds become available. Neither are retroactive payments permissible to persons who have already performed services without compensation. Commuting expenses are not reimbursable.

An employee under contract to an educational institution for an academic year (normally, nine months) is ordinarily considered to be a free agent during the summer notwithstanding that such employee may be paid on a twelve month basis.

6.3.4 Professional Service Contract

The state or one of its departments may contract with a professional corporation for the delivery of professional services by one or more of its employees who are also state employees as long as they are in compliance with all other regulations of the [Dual Employment Policy](#). (Historically, this situation has occurred most frequently in agencies/institutions employing physicians who, through their private practice, are also working for another agency/institution through contractual arrangement). Strict adherence to these policies must ensure that employers will know if the same person is working at more than one state job and will be able to see that time which is supposed to be spent at one job is in fact spent at that job and not at another job.

6.3.5 Procedures for Payment

All payments for services must be made by the borrowing department directly to the parent department of the employee borrowed, and not to the employee.

All payments for services of borrowed employees must be made by the borrowing department from dual employment line items. They may not be made from salaries and wages line items. If funds for part-time services are presently budgeted in salaries and wages line items, the Office of

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State Budget and Management will give favorable consideration to requests to transfer these budgeted amounts to dual employment lines if needed. The same would apply to transfer of funds budgeted for temporary wages.

Employee's travel and/or subsistence expenses, if any, incurred in the performance of services for the borrowing department, will be paid directly to the employee by the borrowing department. (Commuting expenses are excluded.)

All payments to the parent department must include the following:

- Payment for employee's services.
- Employer's Social Security contributions computed on the payment for services.
- Employer's retirement contribution computed on the amount of payment from above, if applicable (applicable when the borrowing agency is merely supporting a portion of the employee's regular salary; not applicable for additional compensation beyond the employee's regular salary).

Subject to negotiation between the two departments, payments may include an amount for the overhead expenses of the lending department to cover administrative and other indirect costs; payments may also include amounts for direct costs incurred by the parent department, agency, such as identifiable related expenses for clerical and duplicating services.

If the work (including preparation) is performed during the employee's regular work schedule (normally 8:00 to 5:00, Monday through Friday), and the employee is not on leave, the employee may not under any circumstances receive additional pay.

Compensation must be in accordance with the minimum wage and overtime pay provisions, which require overtime payments of time and one-half the employee's regular rate of pay for the hours worked in excess of 40 in the week. However, if during any given workweek the employee does not perform any work for the parent department, no overtime payment will be required unless the employee works more than 40 hours for the borrowing department.

If a straight-time employee is on authorized leave from regular duties with the parent department, the employee may be paid for the extra work on the same basis as in the paragraph above.

In all cases of additional payment to an employee, the parent (lending) department must make the payment to the employee as an addition to the employee's regular pay. This is necessary to maintain the integrity of the retirement, social security, and federal and state income tax records.

The parent department will budget and receive all payments from the borrowing agency as agency receipts, in an account titled "Reimbursement-Dual Employment." It is not permissible

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to handle such payments as refunds of expenditures. If the conditions above (no additional pay) apply, any receipt from the borrowing agency will be handled by the lending department as an over-realization of the receipts line item.

6.3.6 Maintaining Records

The extent of the practice of cross-hiring in state government must be periodically assessed. Borrowing departments must, therefore, maintain the following information for each instance:

- Employee Information
 - Name of employee borrowed
 - Classification, rank, or title
 - Parent agency of employee
 - Character of services performed (lecture, consultation, etc.)
- Time (hours and days) employed by borrowing department:
 - During employee's regularly scheduled working hours
 - During employee's own time
- Amount of payment to parent department:
 - For services
 - For employer's retirement and social security contributions
 - For indirect expenses of parent department
 - For related direct costs of parent department.

Copies of the parent department head's approval must be attached. If applicable, the statement of the employee's immediate supervisor, referred to under the Guidelines section above, must also be attached.

6.3.7 Instructional Services

For this type of regular-session dual employment, (and not applicable to summer school), the following procedures for payment will apply where the teaching covers one or more courses for an entire academic period (quarter or semester):

- The permission of the administrative head of the parent institution and/or the teacher's immediate supervisor is implied and need not be documented.
- The rate of pay and the amount of any related expenses must be agreed upon in writing in advance.
- Any additional salary payment made to the on-loan teacher for these outside services may be included on the parent institution's regular payroll and may be paid out of the salaries line item carrying the teacher's regular contract salary. In these cases it is not necessary

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to make payments from "Dual Employment Wages", and no budget revision is necessary unless the over-realized receipts from the borrowing agency are required for a substitute teacher.

- Ordinarily, any supplemental pay to the teacher for outside teaching would be handled on the parent institution's payroll as in the following example, where the regular contract pay is \$1,500 per month and the pay for outside services is \$200:

<u>Rate of Pay</u>	<u>Gross Pay</u>
\$1,500	\$1,700

- If the parent institution suffers a loss as a result of the loan of the teacher, the teacher's total compensation should be adjusted. Example: There is a teacher whose nine-month salary for teaching four classes per semester is \$9,000. By arrangement, the teaching assignment at the parent institution for the year is reduced to two classes per semester, but the teacher will teach two classes at another institution. The teacher's regular salary would ordinarily remain the same (the teacher on loan would not receive \$13,500) [9,000 + 4,500] and the borrowing institution would provide one-half of the \$9,000 to be paid. The remaining \$4,500 is available to the parent institution for a substitute teacher.
- The teacher may not be paid for work not yet performed. This means that for each pay period the borrowing institution must send a transmittal (which may be a form letter) and a check to the parent institution. Form CP-30 will be required for these additional payments where the affected payroll is prepared by Central Payroll.
- The borrowing institution will make payments for services from a line item titled "Employee on Loan Payments", transferring funds, upon Office of State Budget and Management approval, from salaries line items as required.

6.3.8 Joint Appointments

It shall be mutually agreed between departments as to which department will be the parent department. Normally, it will be the department who first employed the employee.

In cases of Joint Appointment (involving base pay) the borrowing department will reimburse the parent department for matching social security and retirement contributions. The employer portion of hospital medical insurance will be borne by the parent department and not prorated to the borrowing department.

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6.4 Fees for Employee Training, Tuition, and Executive Development

6.4.1 Employee Training Fees

Fees for courses that provide training in specific areas are charged in the Accounting System to "Employee Training" under "Other Services." Employee training involves courses that develop an employee's knowledge, skill, and ability to perform the duties of his/her present job, such as courses on computer usage or management skills development. These courses generally have a set fee, are of relatively short duration, and are not part of a curriculum the employee is participating in leading to some educational degree.

6.4.2 Tuition Fees

Tuition fees are those costs for courses included in an academic program directly related to the employee's job or field of work and which are necessary to complete a degree program from an accredited educational institution. These expenses are charged to "Employee Educational Expense" under "Other Services". Please consult the [State Personnel Manual](#) for additional information on the State's Educational Assistance Program.

6.4.3 Executive Development Fees

Executive development fees are expenses incurred when an employee participates in the Governor's Executive Management Program administered by the Department of Administration or in other executive development opportunities that would not fit the definition of Employee Training or Tuition fees. Executive development fees are charged to "Other Employee Training Expenses" under "Other Services".

6.5 Contractual Services

6.5.1 Policy for Contractual Services

It is the policy of the state that State agencies shall acquire contractual services only after it is determined that the services cannot be reasonably accomplished by employees of the agency seeking such services. [General Statute 143, Articles 3](#) and [3C](#) and the rules, regulations, and procedures of the Division of Purchase and Contract provide the reference for the procurement of services.

**** NOTE**** OSBM coordinates the efforts of governmental agencies in the collection, development, dissemination, and analysis of official economic, demographic, and social statistics pertinent to state budgeting. To minimize duplication of effort in collecting or developing new statistical series, including contractual arrangements, state agencies must submit to OSBM proposed procedures and funding requirements. ([G.S.143C-2-2](#))

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6.5.2 Types of Contractual Services

Consultant Services

No state agency shall contract to obtain services of a consultant or advisory nature unless the proposed contract has been justified to and approved in writing by the Division of Purchase and Contract in the Department of Administration.

Services of a consultant or advisory nature shall mean work or task performed by independent contractors possessing specialized qualifications to investigate assigned problems or projects and to provide counsel, review, analysis or advice in formulating or implementing improvements in programs or services. These are service contracts of a consultant or advisory nature. It is the policy of the state that whenever possible consultant services shall be obtained from other state agencies when the services available from other state agencies substantially meet the reasonable specifications of the requesting agency.

Service Contracts

A service contract is any agreement in which an independent contractor performs routine or recurrent services requiring specialized knowledge, experience, expertise, or similar capabilities for a state agency for compensation from state funds (i.e. maintenance of building or equipment, food services, audits). The service is not primarily for review, analysis or advice in formulating or implementing improvement in programs or services.

Personal Service Contract

A personal service contract is an agreement for services provided by a professional individual on a temporary or occasional basis (i.e. an engineer or artist). This may also be a consulting service if it is of an advisory nature.

Contracts with Retirees

If an agreement is made with a retired state employee to provide services of a consultant or advisory nature, the proposed contract must be approved pursuant to the requirement of "Consultant Services" above.

An agreement to employ a retired state employee on a contract basis must be made pursuant to the requirements of [G.S. 135-3\(8\)c](#).

Any employee separated from State government and paid severance wages pursuant to [\(G.S. 126-8.5\(b\)\)](#) shall not be employed under a contractual arrangement by any State agency, other than the constituent institutions of the University of North Carolina and the constituent institutions of the North Carolina Community College System, until 12 months have elapsed since the separation. This subsection does not affect any reduction in force right that the employee may have.

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Contracts Between State Departments, Agencies and Institutions

The department budget offices of contracting departments, agencies and institutions must review each contract, prior to its execution, to be sure the terms of the contract are consistent with the budget policies and regulations of the State Budget Manual. If any terms are found to be inconsistent with budget regulations, including travel and subsistence regulations, those terms must be amended to conform to the State Budget Manual or be deleted from the contract. After this departmental review, if the department budget division feels an exception to budget policy is warranted and the need for an exception can be documented, a request for an exception may be made to OSBM prior to execution of the contract.

All payments for services should be made after the service has been satisfactorily performed. Payments shall be made on a quarterly reimbursable basis for an amount equivalent to the percentage of the contract performed and services rendered. If a cash flow problem exists, departments, agencies, and institutions may advance one month's estimated expenses, or one quarter's estimated expenses if the contract is six months or longer duration, to the provider of the services. Such advances must be reported to OSBM immediately.

Contracts Between a State Agency and Private Employment Search Firm

State funds shall not be used to compensate any person, firm, or corporation who assists an individual in obtaining state employment, pursuant to G.S. 126-18. State funds shall not be used to hire a private employment search firm to conduct employment searches related to the filling of professional and managerial vacancies governed by the State Personnel Act.

Certain interdepartmental contracts may involve "dual employment" considerations that are addressed in the [Dual Employment](#) section.

6.6 Moving and Relocation

6.6.1 Conditions and Limitations

An employee's moving expenses may be paid by the state only when:

- A change of residence is deemed to be in the best interest of the state when such a change is required as a result of a promotion within the department or by a change in assignment involving a transfer of the employee for the advantage and convenience of the employing agency. Moving expenses are not allowable for initial employment or if the employee requests the change. Transfer within or between departments if the employee is heavily recruited is termed for the best interest of the state. Exceptions may be made in extraordinary circumstances if advance written approval is obtained from OSBM. Requests must be supported by complete details and justification.

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- Move is accomplished within 90 days. The department head or designee may approve an extension of an additional 90 days. Any extension in excess of the 180 days must be obtained in writing from OSBM.

- The new duty station is 50 miles or more from the existing (or prior) duty station.

Every effort should be made to expedite the movement of the employee's household goods. However, the time allowed for the employee's locating a new residence and moving is the responsibility of the individual department and should be granted as leave-with-pay, for up to a total of 16 hours, which is accounted for as normal workday activities.

6.6.2 Expenses Paid

Maximum payment for various categories of costs is enumerated in this section. Any additional costs must be borne fully by the employee.

6.6.3 Moving of household and personal goods

Payment for movement of household and personal goods includes items such as furniture, clothing, and personal effects. Any items that require special handling and/or packing, such as an animal, a boat, airplane, antiques, satellite dish, campers, woodworking equipment, workshop items, heavy machine equipment, and building materials are not considered as household or personal goods. Payment includes, and is limited to, the cost of actual packing, transporting, and unpacking of a maximum of 15,000 pounds. If the move is on a weight basis (50 miles or more), the maximum cost to be paid can be no more than the lowest available regulated tariff rates. If additional storage is required for any such items, it is the responsibility of the employee and is not reimbursable.

Total transportation charge on any shipment shall be no more than the charge that would apply on the same shipment under the next greater unit of weight at a rate applicable to such next greater unit of weight.

When a shipment exceeds 15,000 pounds, reimbursement shall be based upon the tariff rate of 15,000 pounds, provided reimbursement does not exceed actual poundage costs.

6.6.4 Excess weight authorization

When due to extraordinary circumstances the total weight exceeds the maximum weight allowable, (15,000 pounds) a request, for payment for this excess, which sets forth in detail the nature of such extraordinary circumstances may be submitted for consideration to OSBM.

Except as otherwise provided specifically herein, payment may be made only for basic services performed by the carrier. No payment may be made for expedited service, space reservation, or other special or non-routine services by the carrier.

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6.6.5 Insurance

Payment of transit insurance costs, in addition to that included in the carrier's required base coverage of 60 cents per pound per article, is limited to \$1.25 per pound per article, and coverage for up to 15,000 pounds. Additional coverage is the responsibility of the employee and is not reimbursable.

6.6.6 Appliance Connections

The reasonable costs of disconnection of appliances, as defined in this section, at the old residence and reconnection or reinstallation of the same appliances at the new residence, by the carrier or by a service company may be allowed up to a maximum of \$200. This would include items typically found in performing household operations such as electrical, water, gas hook-up, household appliances, and connection of a single telephone. This would not include items considered unnecessary to household operations such as television antennas, cablevision connection, satellite dish, nor any type of power tools or other equipment associated with home workshops, hobbies, or other activities. Also, utility deposits or the running of utility lines are not a reimbursable expense by the employing agency.

6.6.7 Mobile Homes

In lieu of an allowance for loading and unloading, and insurance coverage, charges not to exceed a total of \$500 are allowable for the following costs associated with the movement of mobile homes utilized as the employee's residence:

- Blocking and unblocking.
- Anchoring and skirting.
- Movement of air conditioners and utility buildings.
- Wheel rental.

Claims for payment for such services, whether performed by the carrier or a service company, must be supported by itemization on the bill of lading or on paid receipts, as applicable, detailing in either case the appliances serviced, the work done, and the individual cost of each such service. Such services performed by the carrier, and for which he assumes complete responsibility, may be invoiced at the applicable tariff rates, and must be further supported by an affidavit signed by the employee verifying that the carrier performed the services.

6.6.8 Employee Travel and Subsistence

Payment for travel expenses incurred in moving the employee and his family from the old residence to the new residence is authorized as follows:

- **For locating new residence**
Transportation, mileage calculated at the statutory rate for a maximum of three round trips by automobile with each trip not to exceed two days (2 days, 1 night) for total house hunting trips not to exceed 6 days (6 days, 3 nights). Subsistence for meal costs as shown in the State Budget Manual travel section for each member of the family per trip.

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If overnight lodging is necessary, subsistence for the following day is allowable. Lodging is limited to one double room.

- **For day of moving**

Mileage calculated at the statutory rate for a one-way automobile trip (a maximum of two cars). Subsistence for meal costs as shown in the State Budget Manual travel section (Section 5) for each member of the family. Employees have two days to complete the move. If overnight lodging is necessary, subsistence for the following day is allowable. Lodging is limited to one double room. The department head or his/her designee can approve any additional time needed.

- **New duty station**

Subsistence at the new duty station is not to exceed five days a week (Monday-Friday or a consecutive five day period, if working a nontraditional schedule). Mileage is limited for one-round trip per week from the employee's current residence to the new duty station, subject to state travel laws and regulations, from the time he begins work until he moves into his new residence, not to exceed a total of 40 consecutive working days, excluding leave off.

6.7 Procedure for Moving and Payment

6.7.1 Arranging the Move

Prior to the actual move, the employee will submit a request for the department head or his/her designee. The request shall include bids from three movers and an estimate of other allowable expenses. These regulations require competitive bids that do not exceed the tariff rates and charges as published and filed with the North Carolina Utilities Commission. Bidders must have all required state and federal licenses and insurance.

Bids included in the request should include:

- Shipment weight.
- Number of cartons.
- Charges for loading and unloading.
- Cost of transit insurance coverage.

Transportation and loading shall be governed by the rules and regulations as contained in tariffs on file with the North Carolina Utilities Commission.

The department head or his/her designee will notify the employee in writing as to the mover receiving the contract. The department head of designee should accept the low bid unless judged not to be the state's advantage and interest. An advancement not to exceed 75% of the estimated moving costs may be made to the employee, but not more than 5 working days before the sched-

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uled move. Reimbursement to the employee will be on the basis of the total bid price of the successful bidder.

6.7.2 Procedure for Payment

Upon the completion of the move, the employee may pay the carrier and/or submit to the department's budget officer vouchers consisting of:

- A bill of lading from the carrier which shows the actual rates and charges for transporting, loading and insurance, itemized by miles, loading charges with numbers and sizes of cartons, insurance coverage, and appliance disconnections and connections, as spelled out in this section.
- For moves over 50 miles, a certified weight ticket obtained by the mover and certifying the actual gross, tare, and net weights. This can be obtained from platform scales at truck stops, weight stations, etc.
- A copy of the letter authorizing the transfer at state expense. The agency shall reimburse the employee or pay the carrier upon receipt of proper documentation.

The expenditure should be charged to an account designated. "Employee Moving Expense" and summarized as an Other Services Account. Reimbursement for appliance connections by a service company may be handled as a separate transaction.

6.7.3 Alternate Procedure

Department heads or his/her designees are authorized to approve moving by an alternate procedure provided proper documentation and receipts supports the move. The agency may reimburse the actual cash expenditure made by an eligible employee in moving his household goods by another method, provided such reimbursement does not exceed that which would have been made if a regulated common carrier had been used. This alternative may be applicable for movement of an employee's goods contained in a house trailer or by a rental trailer or truck or by a nonlicensed mover. It is the responsibility of the department head or designee to determine if this method is cost effective before approval is granted.

6.8 Honoraria

6.8.1 State Employees

A state employee shall not accept an honorarium for an activity where state-reimbursed travel, work time, or resources are used or where the activity can be construed as having a relationship to the employee's state position; such activity would be considered official duty on behalf of the state. A relationship exists between the activity and the employee's state position if "but for" that employee's state position, the employee would not participate in the activity in the same manner or capacity. The employee should make every attempt to avoid the appearance of impropriety.

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An employee may receive an honorarium for activities performed during regular non-working hours or while on annual leave if the following conditions are met:

- All expenses are the total responsibility of the employee or the non-state sponsor of the activity in which the employee is participating.
- The activity has no relationship to the employee's state duties.

Nothing in this policy shall be interpreted as preventing the payment to the state by an outside source for actual expenses incurred by an employee in an activity, or the payment of a fee to the state (in lieu of an honorarium to the individual) for the services of an employee. Any such payments made to the state should be deposited to the departmental account and an appropriate entry should be made to the appropriate revenue line.

6.8.2 Non State Employees

Honoraria are the responsibility of each department, institution, or agency contracting for the personal services of a non-state employee. Each department shall develop a form letter for such invitations and it shall include the amount of the honorarium offered. This amount shall cover any expenses incurred by the non-state employee in lieu of a per diem.

6.8.3 Exceptions

Any exceptions to these rules and regulations, except those expressly delegated, must be approved in advance by OSBM.

6.8.4 Severance Policy

[\(G.S. 126-8.5\)](#) governs the policies and procedures applicable to severance.

6.9 Reporting Misuse of State Property

Pursuant to [G.S. 114-15.1](#), any state employee is required to report any possible misuse of state property to his or her immediate supervisor, who is then required to report this information to the head of the respective department, agency, or institution. The agency, department, or institution head is required to report this information in writing to the State Bureau of Investigation (SBI) within 10 days.

Notification of the SBI within the 10 day period is required even if the agency, department, or institution head is unable to determine whether the allegation is credible. ([1998 Advisory Opinion of the North Carolina Attorney General, #373](#)).

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7.0 RULE ANALYSIS

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7.1 Analysis of Rules

The Administrative Procedure Act, [Chapter 150B](#) of the General Statutes, establishes procedural requirements for the adoption, amendment, and or repeal of administrative rules. They include requirements for agencies on the analysis of rules and approval by OSBM. Compliance with the following procedures will satisfy the minimum analysis and OSBM approval requirements of [Chapter 150B](#) and the policies of the Director of the Budget.

The analysis of rules is used by agencies to anticipate and evaluate the likely consequences of rules. It provides a formal and systematic way of organizing evidence on the key effects of rules. A good analysis is designed to inform the public and other stakeholders of the effects of the proposed action. It can also demonstrate that a proposed action is reasonable and justified.

7.2 Definitions

- “Agency” means any institution, board, commission, bureau, department, division, council, or officer of the state, but does not include any agency in the legislature or judicial branch of state or local government. (See [G.S. 150B-2\(1a\)](#) for further description).
- “Affected Parties” means those persons who bear an economic impact from the proposed rule change.
- “Baseline” means the best assessment of the way the world would look absent the proposed rule change.

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- "Impact analysis" means a realistic estimate of the impact of a proposed rule change including the requirements of a "fiscal note" as listed in [Chapter 150B](#).
- "Local funds" are receipts from nonfederal and non-state governmental units and public interest organizations including county and city funds, third party matching funds, and in-kind contributions.
- "Opportunity Cost" is the value of benefits forgone as a result of choosing a particular action.
- "Person" means any natural person, partnership, corporation, body politic, unincorporated association, organization, or society that may sue or be sued under a common name.
- "Responsible agency fiscal officer" is the person designated by the department to certify that the agency has prepared an accurate impact analysis or fiscal note.
- "Rule" means each agency regulation, standard, or statement of general applicability that implements or interprets laws enacted by the General Assembly or Congress, or amends or repeals a prior rule. Agencies administering federal grants or other programs involving regulations or requirements established by agencies other than the expending department are advised to consider adoption by reference, in establishing agency administrative procedures. (See [G. S. 150B-2\(8a\)](#) for further clarification).
- "Rule Change" means the package of permanent individual rules that are new or proposed for amendment that the agency is requesting to publish together. Collectively this package of rules is the new policy the agency is proposing to implement.
- "Significant rule change" means each agency proposed rule change that may:
 - (a) have a significant effect on the economy, state, or local funds;
 - (b) create an inconsistency with an action taken or planned by another agency; or
 - (c) raise novel policy issues.
- "State funds" are any moneys, including federal funds and any funds appropriated by the General Assembly, deposited in the State treasury except moneys deposited in a trust fund or agency fund as described in [G.S. 143 C-1-3 \(G.S. 143C-1-1\)](#).
- "Substantial economic impact" means an aggregate financial impact on all persons affected of at least three million dollars (\$3,000,000) in a 12-month period. (See [G.S. 150B-21.4 \(b1\)](#) for further clarification).

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- "Small business" means a business entity, including its affiliates, that (i) is independently owned and operated and (ii) employs fewer than 500 full-time employees or has gross annual sales of less than \$6 million.

7.3 When Does a Rule Change Require OSBM Approval?

The following are the categories of rule changes (and accompanying impact analyses) that must be submitted to OSBM for approval before publication. Please note that generally commissions and boards are not exempt from these requirements.

- State impact – Permanent rules that require the expenditure or distribution of state funds. “Expenditure of funds” includes new agency activities required to be implemented by state employees or other agents of the state (contractors, temporary employees, etc.) paid with state funds. These activities must be included even if other agency activities are eliminated to offset the impact of the new activities. In addition, any new agency costs must be included, even if additional receipts may offset the cost. “Distribution of funds” includes funds paid out by the state or reallocation of funds across agencies or divisions. In short, a rule change that causes any additional costs to the state or that moves funds requires OSBM approval. See [G.S. 150B-21.4 \(a\)](#).
- Substantial economic impact – Permanent rules with an aggregate financial impact on all persons affected of at least three million dollars (\$3,000,000) in a 12-month period. Both costs and benefits must be included when estimating this financial impact. For example, a rule change with \$2 million of estimated benefits and \$1 million of estimated costs would have a substantial economic impact and require OSBM approval. There are two exceptions:
 - The agency may request that OSBM prepare an impact analysis for the proposed permanent rule change if it would have a substantial economic impact. See [G.S. 150B-21.4 \(b1\)](#) for further clarification.
 - If the rule change is *identical to a federal regulation that the agency is required to adopt* ([G.S. 150B-21.4 \(b1\)](#)), then a substantial economic impact statement is not required.

7.4 When does a Rule Change Require OSBM Review?

Permanent rules with any impact on local funds require OSBM review. This impact can be either expenditures or revenue. (See [G.S. 150B-21.4 \(b\)](#) and [G.S. 150B-21.26](#)).

7.5 What Must be Submitted to OSBM?

If a rule change requires OSBM approval or review, it must be submitted to OSBM. There are three types of these rule changes that require different information to be submitted to OSBM. Each of these possibilities and required information is highlighted below:

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7.5.1 Not a Significant Rule Change - There are many rule changes that require OSBM approval or review but are only a minor change to policy or have a very small economic impact. These rule changes do not require nearly the same level of analysis as a larger rule change. If an agency feels a proposed rule change is not a significant rule change (as defined above), it should send a brief note to OSBM explaining the rule change including:

- A brief summary of the rule and its likely impact.
- A copy of the proposed rule.
- The title of the rule change and statutory citation.
- The name of the agency proposing the rule.

OSBM will respond promptly with agreement and approval of the rule change and brief impact analysis or disagreement and require that the agency complete an impact analysis for a significant rule change. Examples of rule changes that are often not significant include copying fee adjustments, membership fee changes, minor increases to agency staff workloads, etc.

7.5.2 Significant Rule Change - For significant rules, an agency must submit the following items to OSBM:

- The title of the rule change.
- The name of the agency proposing the rule.
- A copy of the proposed rule.
- An impact analysis including any supporting documentation or spreadsheets as outlined below.
- A citation to the federal law pertaining to the proposed rule, if applicable.

7.5.3 Federally Required - If the rule change is *identical to a federal regulation that the agency is required to adopt* ([G.S. 150B-21.4 \(b1\)](#)) and state and local funds are not affected, then an impact statement is not required. Instead, the agency must submit a Certificate of Federal Requirement ([G.S. 150B-21 \(f\)](#)) that contains:

- The title of the rule change.
- The name of the agency proposing the rule.
- A copy of the proposed rule.
- A citation to the federal law requiring the proposed rule, if applicable.
- A statement setting forth the reasons why the proposed rule is required by law.

7.6 What are the Key Elements of an Impact Analysis for a Significant Rule Change?

A good analysis does not follow a strict formula or template. Different rule changes require different emphases in the analysis, depending on the nature and complexity of the regulation. As a result, there are two tiers for the preparation of an impact analysis. The first tier is required for any significant rule change. The second tier is required for any significant rule change that has a substantial economic impact. In any case, the impact analysis should be reviewed by a responsible agency fiscal officer. The general framework for the two tiers follows.

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7.6.1 Tier 1 – Any Significant Rule Change

Basic Information

This section should include the name of the agency promulgating the rule change and the appropriate agency contact. The title of the rule and statutory reference should also be included. The agency should also identify whether the rule change has a state impact, local impact, and/or substantial economic impact. Finally, for rule changes that have a substantial economic impact, the agency should further identify if the rule change has an impact on small businesses.

Summary of the Proposed Regulation

The following information should be included in this section:

- Statutory authority for the rule change.
- Description of the change – Given the broad intended audience for this analysis, this discussion should be clear, concise and avoid technical jargon.
- Purpose of the rule change – Describe the need for the proposed action, including a clear description of the problem a rule change is intended to address. Discuss any expected improvements in public health, safety, or welfare.

Basic Economic Impact

This section is the heart of the impact analysis and should describe how the agency estimated the impact of the proposed rule change. Below are some general considerations that should be taken into account when evaluating the economic impact of the proposed rule change:

- Scope of Analysis –The appropriate time frame for analysis is dependent on the nature of a specific rule change and should cover a period long enough to encompass all the important costs and benefits likely to result from the rule change. For many rule changes, a per year estimate may be sufficient. For others, such as a rule change with phased implementation over a number of years, the appropriate time frame may be much longer.
- Baseline – The impacts identified should be measured against a baseline. This baseline should be the best assessment of the way the world would look if the rule change is not adopted.
- Cost Estimates – The economic impact of the rule change is the incremental difference between the baseline and the future condition expected after implementation of the regulation. Direct costs as well as opportunity costs should be included. How is the rule change expected to change the current state? What costs are associated with these changes? Agencies must include tables and schedules of the cost estimates. Cost estimates should include state impacts, local impacts, and any private sector or federal impacts. It may be helpful to organize tables by individual rule provision and affected

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party. Cost estimates must be monetized to the greatest extent possible. Where costs are not monetized, they must be listed and described.

- **Benefit Estimates** – Explain how the actions required by the rule change are linked to the expected benefits. A similar analysis should be done for any alternatives considered. Benefit estimates must be quantified in dollars to the greatest extent possible. Where benefits are not quantified they should be listed and described. In addition, benefit estimates should include state impacts, local impacts, and any private sector or federal impacts.
- **Transparency and Reproducibility** – A good impact analysis should be transparent and clearly set out the basic assumptions, methods, and data used.

7.6.2 Tier 2 – Rule Change with Substantial Economic Impact

For rule changes with larger economic impacts, additional analysis is required. These additional analytic requirements are intended to ensure that decision makers have a clear understanding of the benefits and costs of a proposed rule change and any alternatives.

- **Alternatives** – To the extent possible, the impact analysis must identify reasonable alternatives deserving consideration and evaluate the impacts of each. When there is a “continuum” of alternatives to address a particular problem, an agency should examine a preferred option, a more expensive or stringent option, and a less expensive or stringent option.
- **Time Value of Money** – Benefits and costs do not always take place in the same time period. When they do not, an agency should not simply add up all of the expected benefits or costs without accounting for when the impacts occur. Benefits or costs that occur sooner are generally more valuable. Given this preference, a discount factor of 7.0% (see the [Office of Management and Budget’s Circular A-4 on Regulatory Analysis](#)) must be used to adjust future benefits and costs when appropriate. Agencies must include a summary table of annualized costs and benefits. In constructing this summary table, it may be helpful to organize annual costs and benefits by rule provision and affected party.
- **Risk Analysis** – A risk is a factor or possible event that may jeopardize anticipated benefits or increase the cost of a rule change. The agency must evaluate possible risks for their likelihood of occurrence and the impact of the occurrence. The impact should be described in terms of the costs and/or benefits it would affect. The risk analysis should tie into the assumptions and parameters used in the analysis of benefits and costs. Each significant risk should be listed and described. Given the uncertainty of various estimates, it may also be useful to provide a sensitivity analysis to reveal whether, and to what extent, the results of the analysis are sensitive to possible changes in key assumptions.

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7.7 What Persons Must be Discussed in an Impact Analysis?

State Entities Affected

Describe the number of state entities affected by the rule change and briefly summarize how these various entities will be affected. In some cases, it may be useful to organize the discussion by type of state entity affected, depending on the complexity of the rule change.

Local Governments Affected

Describe the number of local government units affected by the rule change and briefly summarize how these units will be affected. In some cases, it may be useful to organize the discussion by type of local government unit affected, depending on the complexity of the rule change.

Federal Government Affected

Describe the number of federal entities affected by the rule change and briefly summarize how these various entities will be affected. For rule changes that are not expected to impact federal entities, agencies should indicate no anticipated impact on federal entities in this section.

Private Sector Entities Affected

Describe the number of private sector entities affected by the rule change and briefly summarize how these entities will be affected. In some cases, it may be useful to organize the discussion by type of entity affected, depending on the complexity of the rule change.

Small Businesses Affected

An assessment of a rule change's impact on small business must also be completed for rules with a substantial economic impact. This assessment should include the following: (1) a description of the type or types of small businesses that will be affected by the rule change; (2) a description of how small businesses will be adversely impacted; and (3) a description of whether, and to what extent, any alternatives to the proposed rule change that would minimize the impact on small entities while accomplishing the objective of the proposed rule change were considered. For rule changes that are not expected to impact small business, agencies must indicate no anticipated impact on small business in this section.

7.8 How Must Information be Submitted to OSBM and How will the Agency be Notified of Approval?

All required submissions of rule information to OSBM must be sent electronically to osbmruleanalysis@ncmail.net. Faxes and paper submittals of information will not be accepted and will not constitute the submittal of a proposed rule change and supporting impact analysis.

Once OSBM has approved the proposed rule change, the agency will be notified and OSBM will post the final impact analysis, title of rule change, and the OSBM approval date on the OSBM website. The agency is responsible for submitting the approved rule change to the Office of Administrative Hearings for publication in the *North Carolina Register*.

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7.9 When Must an Agency get OSBM Approval After it has Published the Text of a Proposed Rule Change?

There are three circumstances when an agency must get OSBM approval after it has published the text of a proposed rule change and possibly already had the rule change approved.

1. If an agency must publish the text of a proposed rule in the *North Carolina Register* that differs substantially from the text of a previous version of the proposed rule published in the *North Carolina Register*, as outlined by [G.S. 150B-21.2 \(g\)](#), and if the previous version of the proposed rule change required an impact analysis, then the agency must have an amended impact analysis and rule change approved by OSBM before it publishes the text.
2. If an agency must publish the text of a proposed rule in the *North Carolina Register* that differs substantially from the text of a previous version of the proposed rule published in the *North Carolina Register*, as outlined by [G.S. 150B-21.2 \(g\)](#), and if the proposed rule would cause the rule change to require an impact analysis, then the agency must have an impact analysis and rule change approved by OSBM before it publishes the text.
3. If the Rules Review Commission objects to the proposed rule change and additional or revised data are requested and prepared for presentation that changes the impact analysis, the impact analysis must be reviewed and approved again by OSBM.

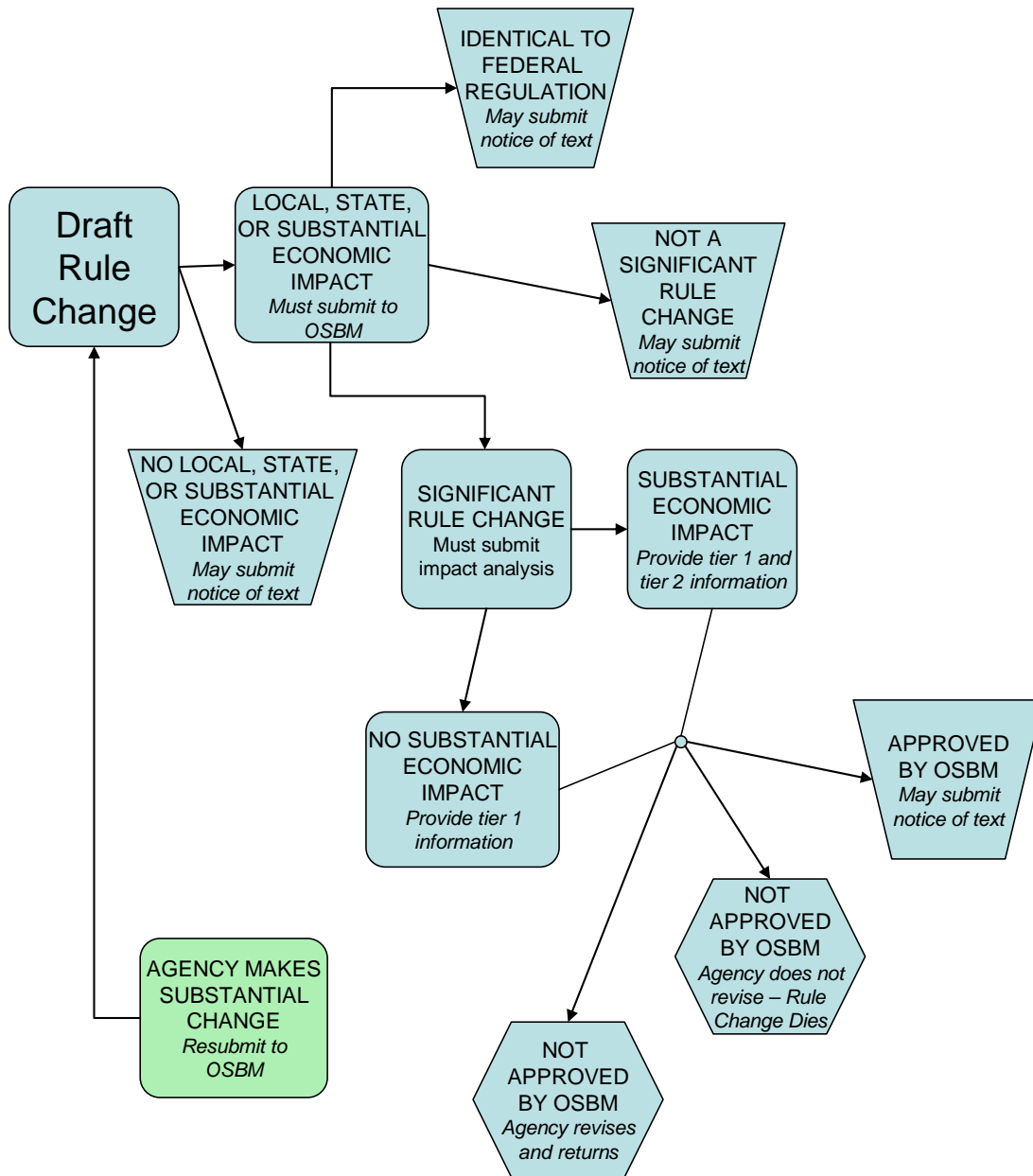
An amended impact analysis should incorporate the new circumstances created by the proposed different rule and be submitted according to the procedures outlined above. If a new impact analysis is required, it should follow the procedures outlined above.

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8.0 REPORTING POLICIES AND GUIDELINES

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8.1 OSBM Reporting Chart

<u>Report Title</u>	<u>Submitted by</u>	<u>Due Date/Frequency</u>	<u>Reference</u>
Monthly Budget Report Year End Budget Report (Close-out BD 701)	Chief Fiscal Officer/ Budget Officer	End of Each Fiscal Year	
Certification of Mailing Lists of Each Public Document	Department Heads	On or by July 1	G. S. 143-169.1
Biennial Fee Report	Chief Fiscal Officer/ Budget Officer	Biennially as pre- scribed by OSBM	G.S. 143C-9-4
Annual Report Listing Committees or Councils	Committee/Council and Department Heads	By March 31	
Community Resource In- formation System	Department Head	By December 31 Prior to disbursing grant funds	Session Laws, 1994 Ch. 769, s. 8.4 09 NCAC 03M.0401

8.2 Monthly Budget Reports

Two complete copies of the June 30 monthly budget reports from each State agency including the universities, are required to be submitted to OSBM each fiscal year. OSBM will access budget data electronically from the North Carolina Accounting System for review of expenditure and revenue data as needed.

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8.2.1 Monthly Report Reviews

Agencies are expected to balance both the certified and the authorized budget for revenues, appropriations, and cash levels for all reporting periods. Budget analysts will monitor the complete Monthly Budget Report (NCAS BD 701) to insure compliance with the State Budget Act and policies of OSBM. Agencies will be notified if differences are found and will be advised of corrective action to be taken. This corrective action may include re-opening the month, correcting the problem, closing out, and re-certifying.

For more details on information included in reports you can visit the [Office of the State Controller's website](#).

8.2.2 Report Period:

The reporting period is each calendar month of the fiscal period.

8.2.3 Report Due Date:

Reports must be available electronically in OSBM and the Office of the State Controller no later than the tenth working day of the following month.

8.2.4 Frequency: Annually.

8.3 Mail List Survey

[General Statute 143-169.1](#) requires that the head of every agency of this state shall certify to the Director of the Budget that the mailing list for each public document issued by his agency has been carefully reviewed, updated and corrected within the previous 12 months. The reviewed, updated, and corrected mailing lists shall be comprised only of those persons and organizations who, within the previous 23 months, have either requested that they be included in such a mailing list, or have renewed a request that they be so included, or are recipients contemplated for receipt of the pertinent public document by expression provision of statute or judicial order.

8.3.1 Reporting Period:

The reporting period consists of a review of the public document mailing list in use the prior twelve months. For example, the report for July 1, 1995 would consist of the fiscal period July 1, 1994 through June 30, 1995.

8.3.2 Report Due Date: On or by July 1 of each fiscal year.

Reports should be submitted to the appropriate OSBM analyst.

8.3.3 Frequency: Annually.

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8.3.4 Certification Letter

A cover letter under the signature of the department head shall be submitted with the mail list report that certifies the department has complied with the legal requirements for state agency public document mailing list update. (Example below)

Memorandum

TO: Director of the Budget

FROM: Department Head

SUBJECT: Mailing List Update Certification

In accordance with G. S. 143-169.1 (State agency public document mailing list to be updated), this correspondence certifies that the mailing list maintained by the Department of _____ have been carefully reviewed, updated and corrected within the past 12 months.

The mailing list is comprised only of the persons and organizations who, within the previous twelve months, have either requested that they be included in such mailing list or have renewed a request that they be so included, or are recipients contemplated for receipt of the pertinent public document by express provision of statute or judicial order.

Attached is the Mailing Lists Report which provides complete information as required for compliance with OSBM reporting as outlined in Section 8 of the State Budget Manual.

8.4 Biennial Fee Report

General Statute [143C-9-4](#) requires that the Office of State Budget and Management shall prepare a report biennially on the fees charged by each State department, bureau, division, board, commission, institution, and agency during the previous two fiscal years. The report shall include the statutory or regulatory authority for each fee, the amount of the fee, when the amount of the fee was last changed, the number of times the fee was collected during the prior fiscal year, and the total receipts from the fee during the prior fiscal year.

8.4.1 Reporting Period:

The reporting period is the biennium immediately preceding the current fiscal year.

8.4.2 Report Due Date: September 30 or as directed.

8.4.3 Frequency: Biennially.

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8.5 Committees and Councils Report

Pursuant to [G.S. 143B-10\(d\)](#) the Office of State Budget and Management must annually compile a report on committees and councils which includes a complete list of committees or councils, the total membership of each, the cost in the last 12 months, the source of funding, and the title of the person who made the appointments.

8.5.1 Reporting Period:

The reporting period is the fiscal year immediately preceding the reporting period. For example, if the report is due February 2001 the reporting period is July 1, 2001 to June 30, 2002.

8.5.2 Report Due Date: February 1.

8.5.3 Frequency: Annually.

8.6 Community Resource Information System (CRIS)

An on-line system has been developed for collecting and indexing the information needed to publish this catalog. OSBM maintains this system, known as the Community Resource Information System (CRIS). State agencies must provide information about their grant-in-aid programs for a grant-in-aid catalog that will be compiled and published annually by OSBM (N.C. Session Laws, 1993-769, Sec. 8.4).

For the purposes of the grant-in-aid catalog, grant-in-aid programs are defined as funds provided by the State of North Carolina in the form of grants, loans, or subsidies to local governments, non-state organizations, or directly to individual recipients for the conduct and administration of programs at the local level and for individuals as end-recipient users or beneficiaries. To be included in this catalog, the funds identified must be budgeted at the same level, including tax and non-tax revenues, agency receipts, and federal funds.

All agencies must submit grant-in-aid program information to CRIS no later than December 31 of each fiscal year. If the agency does not administer grant-in-aid programs required under this project, please contact OSBM with that information by December 31.

Information about CRIS and assistance with the on-line system may be obtained from the CRIS Coordinator in OSBM including registration of contacts, demonstrations, training, and passwords required for entering data into CRIS. Contacts may be registered on-line by completing the registration form available on the Internet at <http://www.cris.state.nc.us/register.html>.

8.6.1 Reporting Period:

The reporting period is the fiscal year immediately preceding the reporting period. For example, if the report is due December 31 2001 the reporting period is July 1, 2001 to June 30, 2002.

8.6.2 Report Due Date: December 31.

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8.6.3 Frequency: Annually.

8.7 Reporting of Criminal Misuse of State Property

[G.S. 114-15.1](#) instructs state employees on how to report information on criminal misuse of state property. State employees who receive information or evidence of any damage, misuse, or theft of state property shall report, as soon as possible but no later than three days from receiving the information or evidence, this information to their immediate supervisor. The immediate supervisor shall then report the information or evidence to the head of the department, agency, or institution who will then report, within a reasonable time but no later than 10 days after receipt, this information in writing to the Director of the State Bureau of Investigation.

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**9.0 MUNICIPAL POPULATION ESTIMATES
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9.1 Municipal Population Estimates Overview

[G.S. 143C-2-2](#) requires OSBM to “coordinate the efforts of governmental agencies to collect, disseminate, and analyze economic, demographic and social statistics pertinent to State budgeting.” This includes a requirement that OSBM “prepare and release the official demographic and economic estimates and projections for the State.”

OSBM’s municipal population estimates are required for determining the distribution of state-shared funds to municipalities. These include:

- [G.S. 58-84-25 Disbursement of Funds by Insurance Commissioner \(effective January 1, 2008\)](#)
- [G.S. 105-113.82\(e\) Distribution of Part of Beer and Wine Taxes](#)
- [G.S. 105-164.44F\(b\) Distribution of Part of Telecommunications Taxes to Cities](#)
- [G.S. 105-164.44I\(g\) Distribution of Part of Sales Tax on Video Programming Service and Telecommunications Service to Counties and Cities](#)
- [G.S. 105-472\(b\) Disposition and Distribution of Taxes Collected](#)
- [G.S. 136-41.1\(a\) Appropriation to Municipalities; Allocation of Funds Generally; Allocation to Butner \(State Highway Fund\)](#)

OSBM’s municipal population estimates are also required by a number of other General Statutes, including:

- [G.S. 18B-1009 In-Stand Sales](#)
- [G.S. 58-36-10 Method of Rate Making; Factors Considered](#)
- [G.S. 58-87-1\(b\) Volunteer Fire Department Fund](#)

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- [G.S. 136-202\(c\) Metropolitan Planning Organizations](#)
- [G.S. 143B-437.09\(a\) Urban Progress Zone Designations](#)

Every year OSBM prepares two types of population estimates for every municipality in North Carolina. One is the certified municipal population estimates. They are required by the General Statutes for revenue distribution. The other is the standard municipal population estimates. They are used for planning. The municipalities play a key role in building these estimates by providing OSBM with updated annexation, detachment, and other boundary change data.

In addition to annexation data submitted by the municipalities, the municipal population estimates prepared by OSBM are based, in part, on that year's state and county population estimates. The foundations for the county estimates are the decennial census and any official corrections made to the decennial census. The municipal population estimates are likewise developed from the previous decennial census and any official corrections made to it. Previous year municipal population estimates are not updated and should not be compared to current year estimates. To obtain the best estimates of population change over time, current year municipal population estimates should be compared only to earlier decennial census counts (1990, 2000, etc).

9.2 Definitions

- "Annexation" refers to a land area that has been fully incorporated into an existing municipality. Attempted annexations that are under appeal or are pending are not included.
- "Boundary and Annexation Survey" refers to the annual form mailed to all municipalities detailing OSBM annexation records for that municipality and requesting updates/corrections to annexation names and dates, land areas, and actual occupied housing unit and population counts.
- "Boundary Change" means any change in a municipality's boundaries not including annexations and detachments.
- "Deadline" includes any date given in this section by which an action is required. When the given date does not fall on a business day the deadline extends through the next business day.
- "Decennial Census" refers to the census of population and housing, taken by the U.S. Census Bureau in years ending in 0. Article I of the U. S. Constitution requires that a census be taken every 10 years for the purpose of reapportioning the U.S. House of Representatives.
- "Detachment" means a land area that was previously part of an incorporated municipality but that has since been removed.

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- “Municipal Population Estimates” refer to the annual population estimates produced by OSBM for each municipality. Two estimates are prepared:
 - Standard Municipal Population Estimates: These estimates are for July 1st of the previous year with municipal boundaries as of the same date. These estimates are used for general planning purposes and are the most common type of municipal population estimates that are produced.
 - Certified Municipal Population Estimates: These estimates are for July 1st of the previous year with municipal boundaries as of July 1st of the current year as required by [G.S. 136-41.1\(a\)](#). These estimates are used by the State to determine the equitable distribution of state-shared revenues.
- “Municipality” is a municipal corporation under North Carolina law ([G.S. 160A-11](#), [G.S. 160A-12](#)). These entities are created by the General Assembly and have a Charter of Incorporation.
- “Provisional Estimates” are prepared by OSBM before the final estimates are certified. These estimates are mailed to each municipality to provide them an opportunity to identify and notify OSBM of any errors based on the annexation survey data they provided.
- “Special Census” means a complete count of every household and its occupants, and of every institution where people live and its occupants, in a municipality, other than the regular decennial census taken by the U.S Census Bureau.

9.3 Key Obligations of Municipalities

Municipalities are required to meet three key obligations:

1. to notify OSBM of address changes in time to mail out forms and letters,
2. to review and update the data on the Boundary and Annexation Survey form each year before the stated deadlines, and
3. to review the Provisional Estimates before the stated deadlines.

These obligations are further explained in x.4 Procedures and Deadlines for Meeting Obligations.

9.4 Procedures and Deadlines for Meeting Obligations

1. On or before **June 28th**, OSBM mails all municipalities a new annexation survey form. The deadline for the return of the survey is **July 21st**. For forms mailed back to this office, forms within envelopes or packages postmarked by **July 21st** will be considered to

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have met the deadline. Survey forms may also be returned electronically by the deadline. OSBM does not guarantee the inclusion of data from any form returned after the deadline.

2. If a municipality chooses to conduct a special local census (see x.6 Special Local Censuses below) in addition to completing the annexation survey, the municipality must send OSBM all final census data by **August 1st**.
3. If a municipality chooses to have a special federal census (see x.5 Special Federal Censuses and other Census Corrections below) conducted in addition to completing the annexation survey, OSBM must receive the final census results from the Census Bureau by **September 1st**.
4. A letter informing municipalities of their provisional estimates will be mailed to each municipality on or before **August 27th**. Municipalities will have until the close of business on the **4th** business day **before September 15th** to contact OSBM about any errors.
5. Final estimates will be prepared by and certified on **September 15th** to enable the Department of Transportation to meet the requirements of [G.S. 136-41.1\(a\)](#). Any municipality whose final estimate is different from their provisional estimate will be mailed a follow up letter on or before **September 30th**.

9.5 Special Federal Censuses and Other Census Corrections

Any municipality may elect to contract with the Office of Special Censuses of the United States Bureau of the Census to do a special federal census of the municipality. Any data from a special federal census will be used for municipal estimates by OSBM in addition to the requested survey data. The final, official, public data from such a census must be received by OSBM from the Census Bureau by **September 1st** in order to be incorporated in that year's estimates. All such data received from the Census Bureau will be used by OSBM, regardless of any request to the contrary by the municipality.

OSBM will also use any final, official, public data changes and corrections to the decennial census received from the Census Bureau. This data must be received from the Census Bureau by **September 1st** in order to be incorporated in that year's estimates. Data changes from the Census will only be incorporated into current and future municipal population estimates and will not be applied retroactively to previous year municipal population estimates.

9.6 Special Local Censuses

Any municipality with a population under 500 (or for a portion of a larger municipality with less than 500 people in one county) may provide OSBM with a Special Local Census to be incorporated in the OSBM population estimate. This census would be carried out by the municipality, but must follow OSBM requirements. If the requirements are followed, OSBM will use the census data in addition to the requested survey data. Special Local Censuses must be received by

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August 1st of any calendar year for inclusion in that year's estimates. Any special local census received after that date will be used in the following calendar year. The following requirements apply to Special Local Censuses acceptable by OSBM:

1. The total population must be under 500 people.
2. The municipality must provide a certified list of the permanent residents of their municipality **as of a given date**. This includes a complete list of all first and last names and addresses. The list should include telephone numbers, if available.
3. P.O. Boxes are not acceptable addresses. A physical street address or EMS address must be provided for all residents.
4. A map of the town must be provided showing all addresses. If a housing unit does not have a physical address, its location may be indicated on the map and labeled for identification.
5. OSBM will only accept a count of residents whose full name and location are clearly identified. Telephone numbers are used for random verification by OSBM.

9.7 Newly Incorporated Municipalities

When the State Legislature incorporates a new municipality, OSBM is required to prepare a population estimates for these new municipalities. According to [G.S. 160A-486 *Estimates of Population \(for newly incorporated municipalities\)*](#) of the General Statutes:

When a newly incorporated municipality is not included in the most recent federal census of population but otherwise qualifies for distribution of State-collected funds allocated wholly or partially on the basis of current population estimates, the municipality shall be entitled to participate in the distribution of these funds by reporting all information designated by the Office of State Budget and Management. An estimate of this city's population will be made by the Office of State Budget and Management in accordance with procedures designated by that office.

It is the responsibility of new municipalities to contact OSBM to request that a population estimate be made. The municipality is responsible for supplying certain data to this office, and may enlist the help of the government of the county in which it lies and/or the help of the regional planning organization to which that county belongs to produce this data. Either or both of these organizations may act as the agent of the municipality to supply data to OSBM. The municipality or its agent must supply OSBM with accurate maps showing the municipality's boundaries. The municipality or its agent should submit an electronic file of the new municipality's boundaries for use in a geographical information system (GIS), or a list of all the census blocks and split blocks within its jurisdiction. If the municipality or its agent chooses to provide a list of census

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blocks and split blocks, the data for split blocks must include some measure of the split, for example, the percentage of the land area of the block that is within the municipality.

9.8 Appeals Process

OSBM considers appeals for errors caused by erroneous annexation data after the certified numbers are released. OSBM will consider appeals under the following conditions:

1. A completed, signed survey form was submitted to OSBM by the municipality by the **July 21st** deadline;
2. The municipality notified OSBM prior to the **July 21st** deadline to expect a substantive annexation.
3. The municipality failed to submit this annexation with the survey form or OSBM failed to include it in the certified estimate;
4. For municipalities with an estimated population of 100,000 or less (not including the population of the annexation in question), the population error in the annexation data would have to affect at least 100 people and at least 5 percent of the estimated population (not including the population of the annexation in question) of the municipality. For larger municipalities, the population error would have to affect at least 5,000 people.
5. A written appeal explaining the error is received by OSBM by **October 15th** of the calendar year in which the estimate is made. This appeal should also include all the necessary information that was erroneously excluded from the annexation survey. No new data collected after July 21st will be considered in any appeal.
6. If appeals are received from more than one municipality, OSBM will not issue a recertification of the population estimates until the appeals of all municipalities have been duly considered. If appeals of any of the municipalities are granted, OSBM will make only one recertification of that year's estimates, which will include the results of all granted appeals.

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10.0 GLOSSARY

Authorized Budget

The authorized budget is composed of the certified budget plus allowable internal budget revisions (type 14 budget revisions) and adjustments that must be approved by OSBM (on type 12 budget revisions) through its statutory authority or acting on behalf of the Governor under the Governor's Constitutional role and authority as Director of the Budget. This is the working budget and is reflected on the Monthly Budget Report (BD 701).

Budget Stabilization Reserve

This account is a restricted reserve from which funds are authorized by the General Assembly for emergencies or budget stabilization efforts. Funding is based on 25% of the credit balance, as determined on a cash basis, until the account contains funds equal to 5% of the amount appropriated the preceding year for the General Fund operating budget.

Budget Revision (BD 606)

The process by which funds may be transferred, receipts budgeted, and positions established, as required by agency or OSBM approval. The State Budget Act has certain restrictions on these budget transactions; however, the Director of the budget may declare a deviation from the restrictions and report the transaction to the Legislative Commission on Government Operations.

Capital Improvement Budget

The capital improvement budget is for real property acquisitions, new construction, rehabilitation of existing facilities, and repairs and renovations. These types of expenditures are accounted for in the capital budget code of an agency or institution. ([GS 143C-1-1\(d\)\(5\)](#))

Certified Budget

The certified budget is enacted by the General Assembly and includes adjustments made for (i) distributions to State agencies from statewide reserves appropriated by the General Assembly, (ii) distributions of reserves appropriated to a specific agency by the General Assembly, and (iii) organizational or budget changes directed by the General Assembly but left to the Director to carry out. ([GS143C-1-1\(d\)\(7\)](#))

Community Colleges Faculty and Administrators

Positions funded in the state budget on a per unit allocation for employment of faculty and administrators in the state's Community College System.

Continuation Budget

The continuation budget is the part of the state budget necessary to continue the current level of services when adjusted for inflation, mandated rate increases such as social security, annualization of programs, and operation of new facilities.

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Debt Service

Debt services consists of payments for interest on and redemption of outstanding bonds for which the full faith and credit of the state are pledged.

Excess Receipts

These are receipts received for services performed, fines received for violation of state regulations, or federal grants and funds received for specific purposes which exceed the amounts anticipated and budgeted by the General Assembly. When such excess receipts occur in the General Fund or Highway Fund budgets and the receipts are not authorized by OSBM to be used by the agency, they revert to the appropriate fund at the end of the fiscal year.

Expansion Budget

The expansion budget is the part of the budget that provides for new programs, expansion of existing programs, and salary and benefit increases.

Federal Funds

These funds are received from federal government agencies for support of programs on the state level. Federal funds are received through block grants, entitlement programs, and specific grants.

General Fund

The general fund is made up of tax revenues (non-transportation) such as sales tax, individual income tax, corporate tax, insurance premium tax, and franchise tax. In addition, the general fund includes non-tax revenues such as income from the Treasurer's investments, fees received from the court system, miscellaneous fees charged for state services, and transfers from the highway fund and the highway trust fund, and Medicaid disproportionate share receipts.

General Fund Budget Codes

These codes are for the budgets of each agency and institution that are supported from state General Fund revenue and from receipts considered to be general rather than specific in nature.

Highway Fund

The tax and nontax revenue collected by the State of North Carolina and deposited with the State Treasurer for appropriation by the General Assembly to support the operations and capital construction needs of the Department of Transportation, including the Division of Motor Vehicles, and the Highway Patrol Division of the Department of Crime Control and Public Safety. Highway Fund tax revenue includes licenses and fees relating to the operation of motor vehicles and the motor fuel tax. Highway Fund nontax revenue includes income from the State Treasurer's investments of Highway Fund dollars.

Highway Fund Budget Codes

These codes are for the budgets of each agency that are supported from state Highway Fund revenue and from receipts considered to be general rather than specific in nature.

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Highway Trust Fund

This fund is for the tax revenue on motor fuels, special fuels, and road taxes deposited with the State Treasurer that is earmarked for appropriation for the construction of state-funded roads and bridges.

Judicial Employees

These are positions funded in the state budget for the Judicial Branch, ranging from the Chief Justice to the clerks of court. These positions are not subject to the State Personnel Act.

Lapsed Salaries

Lapsed salary is the dollar amount of salary and associated benefits not expended during the period in which a position is vacant. Lapsed salary funds shall not be used for grant-in-aid (6XXX), agency reserves (7XXX), and intra-agency transfers (8XXX).

Legislative Bonds

This consists of appropriations authorized by the General Assembly from bonds which pledge the full faith and credit of the state for capital improvements. The authorization is limited to an amount not to exceed two-thirds of the amount by which the state's indebtedness has been reduced during the previous biennium.

Legislative Salary Increase

This is a salary increase given to teachers and state employees by the General Assembly. The increase may be a percentage increase of the base pay, a flat dollar amount per employee, or a combination of both. These types of increases are reflected in new salary schedules for state employees and for public school personnel.

Local Government Tax Reimbursements

These are reimbursements for "holding harmless" local governments due to the Tax Reduction Act of 1985. These measures include (1) property tax on business inventories; (2) property tax homestead exemption; (3) sales tax on food stamp purchases; and (3) intangibles on tax on money on deposit and certain accounts receivable. The funding was returned to earmarked revenue in 1995-96 as was the case prior to 1990-91.

Local Government Tax Shared Revenue

These are revenues collected by the state and shared with local governments - intangibles, beverages, and franchise taxes. The 1992 Session of the General Assembly authorized a change from appropriated funds to an earmarked revenue as was the case prior to 1990-91.

Longevity Pay

Longevity pay is the salary compensation paid to state employees who have been employed by the state for a certain number of years. The payment is made on the anniversary date when the employee began his or her employment with the state. The amount of payment for nonteaching public school personnel, community college personnel, and state employees subject to the State

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Personnel Act begins with year ten at 1.5% of the annual salary, then increases to 2.25% beginning with year fifteen, to 3.25% with year twenty, and to 4.5% beginning with year twenty-five. The longevity schedule for employees of the Judicial System is the same as that provided for state employees except for judges, district attorneys, public defenders, and elected clerks of courts. Longevity pay for these positions begins with year five at 4.8% of the annual salary and increases to 9.6% with year ten, to 14.4% with year fifteen and to 19.2% with year twenty. For assistant district attorneys and public defenders, the longevity schedule caps at 14.4% with fifteen years of service. Longevity pay for teachers begins with year ten at 1% of base pay, then increases to 1.5% with year fifteen, to 2% with year twenty and to 2.5% beginning with year twenty-five.

Medicaid

This is the assistance program that provides medical care for public assistance recipients, the elderly, and the disabled.

Nontax Revenue

This is revenue that is not a tax proceed and that is required by statute to be credited to the General Fund. ([GS 143C-1-1\(d\)\(19\)](#))

Object or Line Item (Account Numbers)

This is an expenditure or receipt in a recommended or enacted budget that is designated in the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller. ([GS 143C-1-1\(d\)\(20\)](#))

Other Receipts

These are the funds received by state agencies and institutions for services performed, such as patient receipts in hospitals, tuition fees in the universities and community colleges, or as fines for violations of state regulations.

Performance Pay Plan

This is a compensation policy that encourages excellence of performance and provides salary increases to state employees based on annual performance appraisal.

Public School Employees

These are positions funded in the state budget for support of local public school units, including public school teachers. Driver education teachers are funded from the Highway Fund.

Purpose or Program (Fund Number)

This is a group of objects or line items for support of a specific activity outlined in a recommended or enacted budget that is designated by a nine-digit fund code in accordance with the Budget Code Structure of the North Carolina Accounting System Uniform Chart of Accounts prescribed by the Office of the State Controller. ([G.S. 143C-1-1 \(d\)\(23\)](#))

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Repair and Renovations Reserve

The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. ([GS 143C-4-3\(a\)](#))

Results Based Budgeting

Commitment to emphasizing measurable results as an integral part of budgeting is a key strategy being introduced by the Office of State Budget and Management to encourage the efficient and effective management of state resources. The General Assembly has endorsed this concept in budgeting in [G.S. 143C-3-5\(b\)](#), which states that goals and performance information are required components of the Governor's recommended state budget.

Salary Adjustment

Subject to approval of the Office of State Personnel, agencies are allowed to give increases to employees who are promoted or to others in response to private or government competition.

Salary Reserve

Salary funds remaining on an annual basis when positions are filled at lower levels than budgeted. These funds may be used for salary range revisions and reclassification of positions, subject to approval of the Office of State Personnel and OSBM.

Special Fund Budget Codes

These codes are for those budgets for each agency that are supported entirely from receipts collected for the specific purposes or services performed by the agency.

State Budget

The total requirements for North Carolina state government agencies and institutions consists of General Fund dollars, Highway Fund dollars, federal funds, and various other receipts and funds. The state budget includes state aid funding for local public school units and local community colleges and institutions. A summary of the state budget can be found on [OSBM's website](#).

State Budget Act

This is the act that governs the budgetary process in North Carolina. It provides the statutory language for development, presentation, authorization, and control of the budget. ([G.S. 143C-1-1 through G.S. 143C-10-3](#))

State Employees Exempt from the Personnel Act (EPA)

These are positions in the state budget funded from various state revenue and receipts that are exempt from the terms and conditions of the State Personnel Act.

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State Employees Subject to the Personnel Act (SPA)

These are positions in the state budget funded from various state revenue and receipts that are subject to the terms and conditions of the State Personnel Act.

Tax Revenue

These are the contributions from persons, groups, or businesses within the state for the support of government.

Temporary Assistance for Needy Families (TANF)

TANF is a federally supported Block Grant that supports programs providing assistance to needy families.

Treasurer's Investment Income

The State Treasurer administers the Cash Management and Trust Funds Investments Programs. The yield from the investment programs is credited to nontax revenue accounts for the General Fund and Highway Funds, which are called "Investment Income" accounts.

University Faculty and Administrators

These are positions funded in the state budget for employment of teaching faculty and administrators in the state's universities. These positions are not subject to the State Personnel Act.

Vote of the People Bonds

This consists of appropriations authorized by the General Assembly from bonds that require an affirmative vote of the people to authorize the issuance of bonds pledging the full faith and credit of the state for specific purposes, chiefly capital improvements and highway construction.

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Budget Manual Revisions

Date of Revision	Topic	Section	Reference
04/15/09	Changes to New Center Budget Code or Title form	Budget Execution 3.8.3	
01/02/09	IRS Mileage Rate Change	Travel Policies 5.1.25	
10/17/08	Requirements and Limitations for Internal Conferences	Travel Policies 5.8.5	
10/17/08	Over Realized Receipts Budget Revisions	Budget Execution 3.6.13	
10/17/08	IT project reversion of unexpended funds	Budget Execution 3.9	
07/01/08	Changes to mileage reimbursements for travel	Travel Policies and Regulations 5.1.25	
05/27/08	Municipal Population Estimates information	Municipal Population Estimates 9.0	
05/27/08	New Center and/or Budget Code procedure and form update	Budget Execution 3.8	
05/27/08	Information technology budget policies and procedures update	Budget Execution 3.9	
1/28/08	Information technology budget policies and procedures update	Budget Execution 3.9	
1/11/08	New "T" code added to identify budget revisions that have a termination date beyond one fiscal year	Budget Execution 3.6.3	
1/11/08	Change in IRS mileage rate from 48.5 cents per mile to 50.5 cents	Travel 5.1.25	G.S. 138-6(a)(1)

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	per mile		
1/11/08	Student travel policy update	Travel 5.7.3	
10/16/07	Mobile Communication Device	Travel 5.11	
10/16/07	Biennial Fee Report	State Budget Act 143C-9-4	HB 1473 Sec 6.3 Session Law 2007
		Reporting 8.4	
10/16/07	Revising the Authorized Budget	Budget Execution 3.6.5	HB 1473 Sec 6.19 Session Law 2007
10/16/07	Application for Funds	Budget Execution 3.12.1	