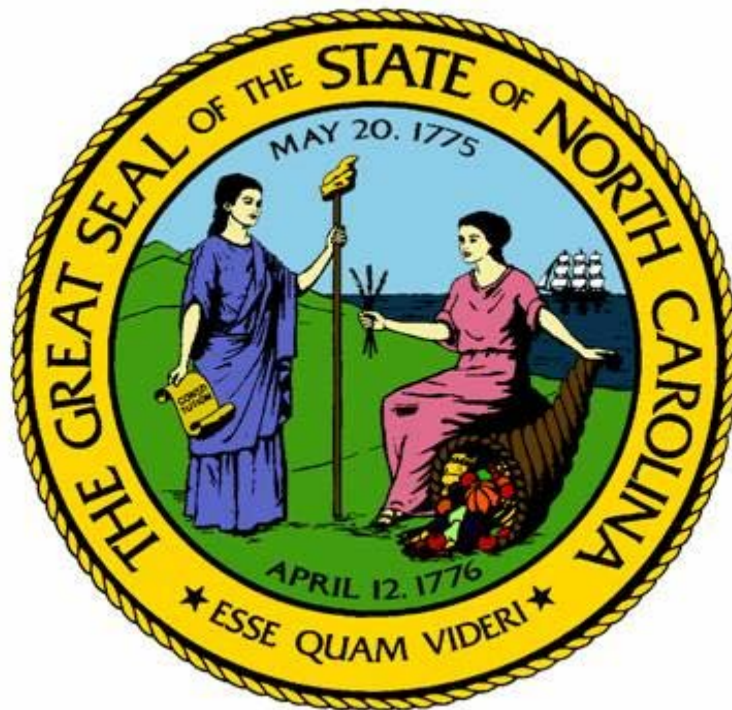


North Carolina
Budget Manual



August 2017

<http://osbm.nc.gov>

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

Effective Date July 1, 2017

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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 the following major sections (links below are directed to the online version of this document):

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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 [Master Index](#) is also provided. A third feature, also in the online version, is the inclusion of direct links to other sites for useful information and documents.

All revisions, supplements and deletions to the Manual will be issued through the State Budget Director. 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. A list of changes is included in the [Recent Changes](#) section.

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 These policies may be superseded by OSBM directives or agency policies as long as they conform to the basic principles of the State Budget Manual.

An [OSBM staff directory](#) and lists of memos and other publications are available on OSBM's [website](#).

Questions, comments, or suggestions concerning the Budget Manual may be sent to Budget-Manual-OSBM@osbm.nc.gov 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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[State Budget Act](#)

The State Budget Act is available on the North Carolina General Assembly website. For brevity in this print friendly version of the State Budget Manual, the Act is not included here.

2.0 Budget Development

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2.1 Governor's Authority for Budget Preparation

2.1.1 Constitutional Authority

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."

2.1.2 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 - 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\(d\)\(3\)](#)).

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

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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 requested about their activities or fiscal affairs in the form and at the time required 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.

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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, 116-37, 116-44.4, 116-68, 116-220, and 116-235 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, OSBM considers a number of factors that impact the budget. OSBM 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.

2.5 Process for Developing the State Budget

OSBM emphasizes a budget process that, while operating on a two-year cycle, is much broader in scope and focused on long-term outcomes. The key steps in the budget process are:

1. Distribution of budget instructions to state agencies for submitting budget requests.
2. Update of agency performance information and 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 base, change, 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](#)). Instructions are provided for submitting performance information and for meeting special requirements for all information technology requests, as set forth by the state Chief Information Officer (CIO) and the Department of Information Technology.

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:

- Timeline and deadlines for budget submissions;
- Forms and supporting schedules to be used;
- Allowable increases;
- Requirements for supporting schedules;
- Narrative justifications;
- Priority rankings;
- Statistics;
- Required performance information; and
- Requested special provisions or statutory changes.

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

- Demographic projections;
- Economic trends;

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- Inflationary trends; and
- Implications of relevant administrative rulings, court decisions, and federal and state 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.

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.nc.gov>.

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.

2.5.3 Development of Agency Budget Requests

As an initial step in the budget process, departments should adopt broad goals and strategies that provide the context for long-term policy formation and budgetary decision-making. These goals should describe what departments hope to achieve over the next three to five years and should establish how plans will be implemented by outlining specific strategies. Development of goals and strategies should be in compliance with G.S. 143B-10(h), Executive Order No. 3, and the performance management information discussed in Section 2.6.3 below.

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 significant input into the budget process and the justification of each request. 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. This prioritization should be governed by the goals and strategies discussed above.

OSBM 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. Assistance is available from OSBM management analysts for agencies experiencing unusual growth that will affect their budgets, or in areas related to meeting mandates within budgetary limits.

2.5.4 Preparation of the Governor's Recommended Budget

During this stage of budget development OSBM reviews the agency budget requests. At the same time, revenue projections and tax policy are being finalized to determine the level of funding available to support the State's biennial budget. The Governor makes decisions about spending priorities and the total size of the Recommended Budget.

2.5.5 Executive Review

Executive review of the budget begins after a department/agency or institution submits its base, change and capital improvement budget requests to OSBM in the early fall of even-numbered years. OSBM review and consideration of budget requests includes the evaluation of agency requests for adherence to budget preparation guidelines, technical accuracy, and funding needs. The requests are studied in detail by OSBM staff, 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 the Governor's goals and priorities. The Governor or Governor's appointee may meet with senior departmental managers during this process.

The final recommended budget results from 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 (base, change, and capital improvements). Balancing the budget could require significant reductions in the base budget, limiting the expansion of programs, capital improvement projects, or other budget requests, and making 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

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program and each proposed capital improvement. It must distinguish base 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; program base budget 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, fund balances, expenditures and the existing or proposed appropriations to support them.
 4. Show line-item detail at no less than the two-digit level in the [Uniform Chart of Accounts](#).
 5. A list of budget adjustments made during the prior fiscal year pursuant to [G.S. 143C-6-4](#) that are included in the proposed base budget for the upcoming fiscal year.
- 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. 143B-1330](#).
- 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 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 to the biennial budget include those 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.

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
- Health and Human Services
- Agriculture, Natural and Economic Resources
- Justice and Public Safety
- General Government
- Capital Improvements
- Transportation

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- Information Technology.

(In addition to the Appropriations Committee, budget bills are referred to the Finance Committee and committees on Pensions and Retirement. The budget bills may be referred to these committees before or after the Appropriations Committee meetings. The Finance Committee is responsible for developing tax recommendations and revenue proposals and considers their impact on ensuring sufficient financing for the State's programs. The House and Senate each have a committee that deals with pensions and retirement and will debate any changes to state retirement rates proposed in the budget bills.)

Traditionally each legislative chamber reviews each component of the Governor's Recommended Budget including the base, change, and capital improvement budgets. The final appropriation package is based on the recommended base 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.

[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). [G.S. 143C-5-4](#) describes the procedures in the event that the General Assembly fails to enact a budget by these dates.

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 base budget, the change 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 Base Budget

The base budget is the part of the State budget necessary to continue the current level of services when adjusted for mandated rate increases such as Social Security, annualization of programs

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and operation of new facilities, annualization of salaries, and automatic rate increases for existing facility leases. The Worksheet I should also reflect the removal of nonrecurring items and include the correct level of receipt-supported activities.

The base 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 Integrated Budget Information System (IBIS). 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 Change Budget

The change 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:

- Enrollment adjustments for public schools, community colleges, and the University of North Carolina.
- Inflationary adjustments to categories of ongoing operational expense (for example, utilities and information technology contracts).
- 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.
- Major (nonrecurring) equipment (other than replacement, which is typically a continuation budget adjustment).

The change budget is prepared by the agency on a form called the Worksheet II. The Worksheet II is available in IBIS.

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 Strategic Planning

Strategic planning is a key part of the budget development process and is a required part of all agencies' budget submissions. As directed by [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 agencies. Strategic plans should clearly align with agency budget requests and provide performance information to support the agency's budget priorities.

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An agency strategic plan provides expanded performance information in an effort to improve public understanding of why an agency exists, what the agency does, the effectiveness of its services, and how an agency is seeking to improve. Ultimately, this information is designed to improve funding, planning, and management decisions in state government. Strategic plans are comprised of the following components:

- **Agency Executive Summary:** A high-level summary of the strategic plan that may also include pertinent information such as recent accomplishments, challenges being faced, and the envisioned future of the agency. The agency's executive summary presents information about who it serves, what it delivers, and what steps it is taking toward achieving its mission.
- **Mission Statement:** A description of an organization's basic purpose (its fundamental reason for being) that concisely identifies what the organization does, why, and for whom.
- **Vision Statement:** A forward looking statement of what an organization can and should be in the future that articulates what an ideal outcome would look like.
- **Agency Values:** A succinct list of terms and definitions of values and principles that govern behavior within an agency.
- **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.
- **Objectives:** A measureable, time-based statement of intent that is directly linked to a goal.
- **Strategies and Initiatives:** A statement that describes the actions an agency will take to achieve its objectives.
- **Measures of Success:** A quantifiable performance measure (also known as a performance indicator) used to track the progress of strategies and initiatives for accomplishing organizational goals.

For more information on the elements of an agency strategic plan please see the strategic planning memo, guidelines, and template documents found on the [OSBM website](#)

2.6.4 Information Technology (IT)

According to [G.S. 143B-1320\(a\)\(11\)](#), "information technology" is defined as a "set of tools, processes, and methodologies, including, but not limited to, coding and programming; data communications, data conversion, and data analysis; architecture; planning; storage and retrieval; systems analysis and design; systems control; mobile applications; and equipment and services employed to collect, process, and present information to support the operation of an organization. The term also includes office automation, multimedia, telecommunications, and any personnel and support personnel required for planning and operations."

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 change budget

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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. 143B-1330\(b\)](#)) for consistency in facilitating the goals outlined in the Recommended State Budget.

2.6.5 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 General Assembly 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 that takes into consideration the State's current technology, the opportunities for technology sharing, the requirements of Article 15 of Chapter 143B of the General Statutes, and any other factors relevant to the analysis, and in cases of an acquisition, an explanation of the method by which the acquisition is to be financed.
- A statement by the State CIO providing viable alternatives, if any, for effectively and economically meeting the agency's needs in an economical and efficient manner. A statement setting forth the requirements for State resources, together with an evaluation of those requirements, including expected improvements to programmatic or business operations by the Secretary that takes into consideration the State's current technology, the opportunities for technology sharing, the requirements of the General Statutes, and any other factors relevant to the analysis. For acquisitions, an explanation of the method by which the acquisition will be financed.

2.6.6 Capital Improvement Budget

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 regardless of funding source. Requests to establish capital projects must be submitted through the biennial capital budget process.

In the following circumstances, the Director of the Budget may authorize capital improvement projects outside of the biennial budget process:

- To address an emergency that threatens public health and safety;
- For a state agency advance planning project;

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- For a university or National Guard project funded entirely from non-General Fund sources and after reporting to the Joint Legislative Commission on Governmental Operations.

2.6.7 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](#)).

2.6.8 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.

2.6.9 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;
- 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.

2.6.10 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.

2.6.11 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](#)). Required information for Repairs and Renovation requests and New Capital Projects requests includes the following:

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;
- Estimated maintenance and operating costs, including personnel, for the first five years of operation (if there is no increase in expenditures because the recommended project would replace an existing building, then the level of expenditures for the previous five years of operation shall be included).

New Capital Projects

- Statement of need;

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- 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;
- 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 Transition from Ratified to Certified Budget

[G.S. 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 Integrated Budget Information System (IBIS) 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 Integrated Budget Information System (IBIS) is transferred automatically to the North Carolina Accounting System (NCAS).

2.8 Systems Supporting the Budget

2.8.1 North Carolina Integrated Budget Information System

The North Carolina Integrated Budget Information System (NC IBIS) is a centralized, web-based system for North Carolina state government budgeting and performance management. IBIS provides a common workspace environment for state agencies and OSBM to perform budget planning, development and execution activities.

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IBIS assists the budget development process by providing state agencies and departments with the electronic forms required to develop their budget requests, as well as providing requested performance information. IBIS also includes applications for the Governor to prepare budget recommendations to the General Assembly.

Once the budget has been ratified, the Certified Budget is prepared in IBIS. Budget execution activities (discussed in Section 3 of the Budget Manual) are also carried out in IBIS.

IBIS can be accessed through the [OSBM website](#).

[User guides and online tutorials](#) are available through the OSBM website or by contacting OSBM.

2.8.2 North Carolina Accounting System (NCAS)

[G.S. 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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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 2009-11 budget.

Biennial Budget Development Process		2008												2009												2010											
Task		A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J												
2009-11 Illustration																																					
Biennial Instructions for Budget Preparation Issued by OSBM		■																																			
Agency Budget Requests Developed and Submitted to OSBM			■	■																																	
Initial OSBM Economic and Revenue Forecast Developed				■	■																																
OSBM Review s Agency Budget Requests				■	■	■																															
Governor Finalizes Biennial Budget and Six-Year CIP						■	■																														
Governor Presents Budget Message to General Assembly							■																														
OSBM Presents Governor's Budget to General Assembly							■	■																													
Appropriation Subcommittees Review All Budget Requests								■	■	■	■	■																									
General Assembly Finalizes Budget and OSBM Certifies													■	■																							
Guidance for 2010-11 Budget Adjustments Issued (OSBM)																			■	■																	
Agency Budget Adjustments Submitted to OSBM																				■	■																
OSBM Review s Recommended Budget Adjustments																				■	■	■															
Governor Finalizes 2010-11 Budget Adjustments																							■														
Governor Presents Adjustments to the General Assembly																								■													
General Assembly Finalizes Adjustments and OSBM Certifies																								■	■												

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- [Biennial Budget terms and definitions](#)
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- [Capital Improvement Budget](#)
- [Certified Budget](#)
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[Instructions to State Agencies for Submitting Budget Request](#)

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3.0 Budget Execution

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3.1 Governor's Authority for Budget Execution

3.1.1 Constitutional Authority

The [North Carolina Constitution](#), in Article III, Sec. 5(3), provides that the "budget as enacted by the General Assembly shall be administered by the Governor."

3.1.2 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 this role as the Director of the Budget to the Office of State Budget and Management (OSBM).

3.1.3 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. OSBM 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. OSBM provides technical assistance and guidance to state agencies in carrying out their delegated responsibilities related to budget execution. This can include assistance from OSBM management analysts who can provide outside expertise to ensure agencies' organization and operations are streamlined, cost-effective, and able to meet requirements.

[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 and Capital Improvements Appropriations Act, UNC Self-Liquidating Projects, 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. Refer to [section 3.6.4](#) for additional information on budget revisions.

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 (type 12 budget revisions). This is the working budget and is reflected on the monthly budget report (BD 701). Refer to [section 3.6.5](#) for additional information.

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 State 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 State 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.

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Note: Although classified as departmental receipts, federal funds are outlined in [section 3.3.4](#) because they represent a significant portion of the budget and are a major source of revenue for the State.

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 (GASB) 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.

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Proprietary Funds

1. 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.
2. 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

1. 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.
2. Investment Trust Funds. – Accounts for the external portion of investment pools reported by the sponsoring government.
3. 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.
4. 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](#) are

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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. 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 Number)

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. Also known as an account number, the object or line item describes the purpose of expenditure, the type of revenues received, and the balance sheet accounts required for Generally Accepted Accounting Principles (GAAP).

Actual expenditures are to be recorded and reported according to the account numbers designated in the North Carolina Accounting System (NCAS) at the appropriate expenditure account number level. Actual receipts are to be recorded and reported according to the account numbers designated in NCAS at the appropriate receipt account number level.

More information about the State accounting system is available at the [Office of State Controller](#) web page. A brief description of each group of expenditure and revenue accounts is outlined below.

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3.4.4 Expenditure Accounts

The following major account groups for expenditure/object of expenditure/line item (53 XXXX) are recognized, as defined by OSC:

- 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 services 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, and 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 and 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.

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- 8XXX - Intragovernmental Transaction -- This account group consists of operating transfers, reimbursements, residual equity transfers and transfers of appropriations.

3.4.5 Revenue Accounts

- 1XXX Tax Revenues -- Revenues generated from taxes levied in accordance with general statutes.
- 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 OSBM issues a certified budget at the beginning of each fiscal year, OSBM and departments begin adjusting the budget for changes authorized by the General Assembly and for changes that have occurred since the finalization of the base budget during budget development. With the exception of internal budget revisions left to departments, OSBM approves revisions to

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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.

3.5.2 Authorizations for Budget Adjustments

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.

[G.S. 143C-6-4](#) outlines the appropriate circumstances when a department or agency may, upon approval of the Director of the Budget, exceed the certified amount for a line item by adjusting the authorized budget. Additionally, this statute specifies the limits placed on making transfers among line items and funds (purpose or programs).

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. Agencies should not overspend the authorized budget, and monthly expenditure reports should show no overexpended accounts. 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 shall 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

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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 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").

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. 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. If the budget revision is designated "Recurring" in the code section, it will automatically be included in the base budget (Worksheet I).

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 budget revisions will have notation marking them as repeat budget revisions and will be automatically loaded into the Integrated Budget Information System for use in the new biennium. Repeat revisions completed after the base budget (Worksheet I) is finalized should be repeated until it is included in the base budget for the next biennium.

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 base budget as needed. See Budget Instructions

for additional information and refer to the [Budget Revision user guide](#) for technical assistance using the Integrated Budget Information System.

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 actual receipts are declining, state agencies must consult with OSBM to revise the total requirements of the budget before making commitments that could exceed the availability of funds. After making any necessary adjustments, the “adjusted” budget becomes the base budget from which 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 (OSC). 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](#).

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 Section 3.4.1 of the State Budget Manual 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.
- Process internal budget revisions (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 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 are submitted to OSBM through the Integrated Budget Information System (IBIS) developed and maintained by OSBM. Agencies must use this system to process any revisions to their certified or authorized budgets. The process and procedures necessary to use IBIS have been incorporated into user guides that are available on the [IBIS website](#). Any agency that has questions regarding the use of IBIS 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 for positions (unless it is for the full fiscal year), budget revision reference number, specific subject of the revision request, budget code number, date

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submitted, fiscal adjustment requested, and a concise, yet complete, explanation and justification.

- All amounts budgeted must be related to the specific subject of the revision request. Do not combine multiple requests on the same budget revision.
- Completion of the Recurrence field, which designates the revision as recurring, non-recurring or time-limited. If time-limited is selected, an end date for the action must also be entered.
- Completion of the "Codes" field, which designates the type of action associated with the budget revision. These categories are required for type 12 and 14 revisions and are described below. If a revision meets several of these categories, the revision should be designated under the category first appearing on this list.
 - Statutory – This budget revision is to identify those that are authorized by NC General Statute. The specific statutory reference is required when this category is selected.
 - Special Provision – This budget revision is to identify those that are authorized by a special provision enacted in the Appropriations Act. The specific special provision reference is required when this category is selected.
 - Lapsed Salary - This budget revision is transferring lapsed salary and should not be included in the calculation of salary reserve.
 - One-time Salary Change - This budget revision is a one-time salary change, such as a one-time bonus, and should not be posted with Salary Control transactions.
 - Carry Forward – This budget revision is to budget all carry forward of funds from the prior fiscal year, including federal grant funds budgeted in a previous fiscal year that are carried forward or re-budgeted in the current fiscal year.
 - New Grant – This budget revision is to identify those that are budgeting a new grant not currently included in the certified budget.
 - Change to Existing Grant – This budget revision is to identify those that are increasing or decreasing a grant that is currently included in the certified budget.
 - Overrealized Departmental Receipts – This budget revision is to identify those that are budgeting receipts that are realized in excess of currently certified levels.
 - Realignment – This budget revision is to identify those that are transferring budget or positions between funds/purpose codes.
 - Program Restructure - This budget revision is to identify those that are solely for the purpose of aligning the budget for program budgeting (refer to [OSBM memo dated 6-15-10](#)).
 - Other – This category is to be used for any type 12 or 14 revision that is not identified above.

Revisions must also adhere to the following guidelines, as applicable:

- Requirements, receipts, and appropriations for both years of the biennium shall be adjusted as appropriate.

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- Lapsed salary transfers shall be prepared separately from other budget revisions, and separate revisions are required for general fund, receipt, and cost allocated positions.
- 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 Touchdown System. The Judicial Branch, General Assembly, individual community colleges, and UNC system are exempt from the IT regulations of [Senate Bill 991](#).

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 only for the following three purposes as defined by G.S. 143C-1-1(d)(7):

- Distribution of statewide reserves appropriated by the General Assembly
- Distribution of reserves appropriated to a specific agency
- Organizational or budget changes directed by the General Assembly but left to the Director to carry out

Requests for revisions to the certified budget for any of these reasons must be submitted to OSBM through IBIS. All revisions to the certified budget are identified by the six-digit budget reference number beginning with "11" that is automatically generated by the Integrated Budget Information System for each budget code beginning July 1 of the first year of each biennium. 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 that transfer funds from operating accounts to the 1XXX object class are not allowed, 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 budget revisions are identified with a six-digit number beginning with "12." Other changes may be made by a budget revision processed internally by the department; these are numbered beginning with

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"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\(b\)](#), a revision to the authorized budget is permitted for the following:

1. 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-19.40\(a\)](#) 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:
 - 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;
 - a receipt-supported or time limited position is created, as permitted by [G.S. 143C-6-4](#);
 - the overexpenditure is authorized on a nonrecurring basis; and,
 - total requirements for a State department shall not exceed their certified budget's requirements for the fiscal year by more than three percent (3%) without prior consultation with the Joint Legislative Commission on Governmental Operations.

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\(c\)](#)). Agencies shall ensure the appropriate code(s) are included on all type 12 budget revisions (refer to Section 3.6.3) as they will be used for this report.

Some situations in which the authorized budget would be revised with a type "12" budget revision would be:

- Budgeting additional receipts, including new or increased grant funds
- Realigning requirements and/or receipts between funds
- Consolidating funds and/or budget codes
- Realigning within or between funds that impact the grant-in-aid (6XXX) or intra-agency transfer (8XXX) object classes
- Establishing a new position.

3.6.6 Internal Budget Revisions

Agencies are delegated authority by OSBM to make nonrecurring changes within the authorized budget of each fund/purpose between and among expenditure account object classes 1XXX to 5XXX. All internal adjustments must be made in IBIS through an internal type "14" budget revision. These revisions are automatically assigned a reference number by IBIS beginning with "14" and continuing sequentially through the biennium for a budget code (Type 11, 12 and 14 share the same sequential numbering scheme for each budget code). Agency budgets should not contain over-expended accounts; therefore, revisions must be processed prior to over-expenditure. (Note: An internal revision is created in IBIS as a Type 14 revision and cannot be changed to a Type 12 revision.)

For guidance and restrictions on internal budget revisions that realign lapsed salary, see [section 3.6.7](#). For all other internal revisions, the following adjustments are prohibited:

1. changes to budgeted receipts;
2. recurring realignments;
3. realignments that impose obligations on the State beyond the end of the fiscal biennium;
4. realignments between funds/purposes;
5. realignments between different funding sources (e.g., general/highway fund appropriated accounts cannot be realigned with accounts supported through receipts); or
6. realignments from operating accounts (2XXX to 5XXX) to the personal services (1XXX) object class.

OSBM will monitor each agency's internal budget revisions and may rescind the authority to budget internally if there is not strict adherence to the above restrictions.

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 Lapsed Salary Revisions ([G.S. 143C-6-9](#))

Lapsed salary is the budgeted dollar amount not expended for salary and associated benefits during the period in which a position is vacant. Each agency is responsible for calculating lapsed salary funds generated and must be prepared to submit this information to OSBM when requested.

When a Type 12 budget revision may be used: Lapsed salary may only be used for the 531XXX through 535XXX object classes, subject to the restrictions below. Prior approval from OSBM is required for most transfers within these classes (unless described in the next paragraph), and for any transfers of lapsed salary between funds/purposes.

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When a Type 14 budget revision may be used: For transfers within a fund/purpose and within the 531XXX through 5321XX object classes only, agencies are authorized to move lapsed salary within a fund/purpose using a type "14" budget revision. **OSBM will monitor these budget revisions and may rescind the authority to budget these funds internally if there is not strict adherence to the restrictions below.**

Restrictions on the use of lapsed salary funds include the following:

1. lapsed salary funds may only be expended after the lapsed salary has been generated;
2. agencies may move lapsed salary funds on a nonrecurring basis only, and the use of lapsed salary funds shall not impose obligations on the State after the end of the fiscal year;
3. lapsed salary can only be moved to accounts with a like funding source (e.g., lapsed salary generated through appropriated salary accounts cannot be moved to accounts supported through receipts);
4. when lapsed salary is used for contractual services, the contract shall not extend beyond the fiscal year;
5. lapsed salary shall not be used to establish new positions (including time-limited positions), or to provide salary increases;
6. the scope of a purpose/program shall not be increased through the use of lapsed salary;
7. all lapsed salary revisions must have the Lapsed Salary code selected (refer to [section 3.6.3](#) for further information); and
8. lapsed salary transfers shall be prepared separately from other budget revisions, and separate revisions are required for general fund, receipt, and cost allocated positions.

Pursuant to Article 1 of Chapter 116 of the General Statutes, the UNC system may use its flexibility with generated lapsed salary funds. 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 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. 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

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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 recurring salary requirements, such as increasing the salary of other positions due to promotion, reclassification, or filling a position at a salary 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 OSBM. Salary reserve may be transferred from one fund/purpose to another only with prior approval of OSBM (Type 12 budget revision). The agency must submit the budget revision before initiating the salary adjustment in the Beacon system.

Transfer of salary reserve is allowed only to permanent salary lines of like funding source (i.e., general fund to general fund, highway fund to highway fund, receipts to receipts). 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.

3.6.9 Salary Control

Salary Control is a feature of the Integrated Budget Information System (IBIS) that is available to all state agencies. Salary Control is a monitoring tool to prevent overspending of salary line items on an annual basis and to show the detail transactions to resolve salary related issues. Salary Control shows annualized budget for salaries and the current salary obligation for positions for each budget code, fund code, and salary account code. In addition to budget and salaries, Salary Control also maintains the authorized position (IBIS FTE) count and the HR position (Beacon FTE) count. The Salary Control user guide is available on the IBIS 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.

3.6.10 Establishing a Position

When a budget revision includes a 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 fields set up for this purpose in IBIS on the Position Detail tab. This information includes the fund number, expenditure account number, classification, 8-digit position number, annual

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salary, and full time equivalent (FTE). 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 Salary Control. For university positions budgeted on a budget revision, the university must provide only the FTE increase/decrease information in order to accurately budget the initial FTE. The analyst may require additional position information.

For any new position that is to be funded in whole or in part through receipts, the "[Establish New Receipt-Supported Positions](#)" form must be completed and submitted to OSBM (refer to the Forms section on OSBM's web site). Once the form has been approved by OSBM, a budget revision should be submitted to establish the new position.

3.6.11 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, monitor the Salary Control feature in IBIS, approve the establishment of new positions, reconcile certifications, assist agencies in reconciling position counts and budgeted salaries, and ensure 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 established in State entities 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](#).

3.6.12 Over-Realized Receipts Budget Revisions

Agencies may submit to OSBM a budget revision 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. Refer to [section 3.6.4](#) and [3.6.5](#) to determine when it is appropriate to budget additional receipts on a type "11" vs. a type "12" budget revision.

[G.S. 116-30.3A](#) limits all receipts that each budget code in the UNC 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 [Section 5 of Session Law 2011-391](#), the following receipts received by

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the UNC system should be adjusted on a type "11" budget revision so that both the certified and authorized budgets are modified:

- tuition and fees established by the UNC Board of Governors pursuant to [G.S 116-40.22\(c\)](#)

[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.

3.6.13 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.

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."

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The Cash Transfer

On or before 11:00 a.m. on the tenth calendar day of each month, agencies must 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, an agency certifies collection of \$1,000. The agency claims \$10 to cover the collection cost based on the collection cost percentage approved by OSBM. On or prior to 11:00 a.m. on September 10th, the agency initiates a transfer to OSBM in the amount of \$990. The transfer is recorded in CMCS as September activity.)

NOTE: Agencies should fax the "Fines, Penalties, and Forfeitures Deposit Documentation" form to OSBM (919-733-0640) documenting the transfer. Or, alternatively, the form can be emailed to OSBM's Business Officer.

The Accounting Entry

For all transfers of fines, forfeitures, and penalties to OSBM, agencies must 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 Allotment Process

Each quarter, agencies must submit to OSBM a request for an allotment of the estimated amount required 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 an allotment should be made for the general fund and highway fund as directed by OSBM and submitted to OSBM not less than ten (10) days before the beginning of the quarter covered by the request. The allotment should be submitted through the Integrated Budget Information System (IBIS). For more information on using the allotment form in IBIS, please refer to the [user guide on the IBIS 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 Allotment Request Format

Allotment requests are to be submitted reflecting the Department, Fiscal Period, Budget Code, Total Planned Requirements, Estimated Receipts, and Appropriation, unless otherwise directed by OSBM. Allotment requests should include planned requirements at the account group level (531XXX to 538XXX). Refer to [section 3.4.4](#) for more information about expenditure accounts. Allotment requests should include estimated receipts, including federal, local, highway, and other. Refer to [section 3.4.5](#) for more information about revenue accounts.

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

- TOTAL PLANNED REQUIREMENTS
 - Payroll (531XXX)
 - Financial Aid (536XXX)
 - Other
- 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 the Office of the State Controller (refer to OSC's [Cash Management website](#)).

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-](#)

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[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.

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. A request for a new budget code should be submitted by the State agency through the Integrated Budget Information System (IBIS). For more information on using this form, please refer to the budget code [user guide on the IBIS website](#). The request must include the proposed budget code number and all supporting documentation or requirements for the code, as well as indicate whether the proposed budget code is to be interest bearing. [G.S. 143C-1-4\(a\)](#) requires that 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 (Purpose/Fund Code) Number and Title

A request for a new center (purpose/fund code) should be submitted by the State agency through the Integrated Budget Information System (IBIS). For more information on using this form, please refer to the fund code [user guide on the IBIS website](#).

OSBM has traditionally considered a "Fund" to refer to a group of related programs or activities. The University of North Carolina uses the term "Purpose Code." The North Carolina Accounting System refers to it as a "Center," and the Office of State Controller uses "fund" and "center" interchangeably. Completion of a form within IBIS 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 OSBM and OSC.

3.8.3 Notification of Approval

The Office of State Controller will email OSBM and the individual indicated in the agency contact area of the approved form. This will be the only notification sent by OSC. After this approval is obtained, IBIS will be updated with the new information.

3.9 Information Technology Budget Policies and Procedures

Information technology or IT is defined as a set of tools, processes, and methodologies, including, but not limited to, coding and programming; data communications, data conversion, and data analysis; architecture; planning; storage and retrieval; systems analysis and design; systems control; mobile applications; and equipment and services employed to collect, process, and present information to support the operation of an organization. The term also includes office automation, multimedia, telecommunications, and any personnel and support personnel required for planning and operations. [G.S. 143B-1320\(a\)\(11\)](#)

3.9.2 Budget Procedures for IT Projects

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 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 in a IT reserve, and then transferred to the established 2XXXX budget code after certification. Alternatively, funds can be certified in a transfer account with a corresponding receipt certification entry in the 2XXXX budget.
- Funds authorized from existing sources in the Appropriations Act for IT projects shall be transferred 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 to the 2XXXX budget code after certification.
- Transfers to the 2XXXX IT budget codes will be approved only for projects submitted in the Touchdown System
- Recurring funding for operations and maintenance of an implemented IT project shall not be transferred to a 2XXXX IT budget code.

All IT projects that exceed \$500,000 in total requirements, excluding internal personnel costs, and for which state funds have not been appropriated must be submitted as an expansion request. This includes Federal or grant funded projects. Agencies may seek an exception if it can be documented that the project must be started prior to the legislative session in order to comply

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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\(b\)](#), 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:

- DIT certifies to OSBM and agency that the project is implemented or abandoned.
- Agency submits a 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.

3.9.3 Information Technology Rates and Fees

Under [G.S. 143B-1321\(a\)\(20\)](#), DIT is required to submit all rates and fees to OSBM for approval. So long as the rate or fee is not new or increased for any DIT customer, DIT is delegated the authority by OSBM to proceed with the change. Such changes require only a report notifying OSBM of the change.

In accordance with [G.S. 143B-1333](#), for any new or increased rates or fees, DIT shall submit electronically a schedule of all proposed changes to OSBM's Information Systems Financial Analyst and to OSBM's Budget Analyst for DIT. These fees and rates shall be prepared by October 1 and shall be approved by the Office of State Budget and Management. The Office of State Budget and Management shall ensure that State agencies have the opportunity to adjust their budgets based on any rate or fee changes prior to submission of those budget recommendations to the General Assembly. The approved Information Technology Internal Service Fund budget and associated rates shall be included in the Governor's budget recommendations to the General Assembly.

Any exceptions to these submittal/effective dates will require advance approval from OSBM, but under no circumstance shall there be a retroactive effective date for any new or increased rate/fee.

Supporting justification that must accompany the schedule of all proposed new or increased rates/fees includes the following:

- a description of the service;

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- the methodology and supporting documentation for computing the proposed rate or fee change;
- the cost to provide the service compared to the anticipated revenue from the rate or fee change;
- an estimate of the fiscal impact for each DIT customer; and
- a market rate comparison of the fee or rate change from a minimum of three sources.

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;
- improvements to roads, walks, drives, and utilities infrastructure;
- drainage and landscape improvements;
- demolition.

Funds from the Repairs and Renovations Reserve Account cannot 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.

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Departments requesting funds from the Repairs and Renovations Reserve must submit an application to OSBM, in a form and manner requested by OSBM. 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.

An example of the Repair and Renovations Request Worksheet can be found in the [Library Section](#) of the OSBM website.

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, regardless of funding source. Requests to establish capital projects must be submitted through the biennial capital budget process.

In the following circumstances, the Director of the Budget may authorize capital improvement projects outside of the biennial budget process:

- to address an emergency that threatens public health and safety;
- for a state agency advance planning project;
- for a university project funded entirely from non-General Fund sources and after consultation with the Joint Legislative Commission on Governmental Operations.

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

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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 cannot 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 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;
- 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.

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 ([G.S. 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.

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 ([G.S. 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. The Director of the Budget may increase the scope of a university project funded entirely from non-General Fund sources after consultation with the Joint Legislative Commission on Governmental Operations ([G.S. 143C-8-12](#)).

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 ([G.S. 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

A State Agency or institution 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 a state agency or institution 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 ([G.S. 143C-8-11](#)).

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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 from the University Board of Governors, in accordance with biennial budget instructions, as part of the Governor's budget recommendation to the General Assembly.

3.10.9 Advanced 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. However, university requests cannot be authorized by the Director of the Budget until reported to the Joint Legislative Commission on Governmental Operations.

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

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;
- a letter (Governor's Authorization).

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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.

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

- name of the project;
- fiscal scope of the project;
- capital improvement code where the project is to be established.

To establish a project, OSBM will certify the new capital project using the Integrated Budget Information System. In order to complete the Capital certification process, the agency will use IBIS to submit a new center (project) request to establish a new project fund. The fund or item number will be assigned by the agency or by UNC-General Administration for the member institutions. OSBM will certify the budget in that new center in the Contingency Reserve account and the Capital Improvement Certification (BD 306) will show the certified amount. Agencies will enter the project into NCAS. OSBM will send the Capital Improvement Certification report (BD306) to the Office of the State Controller for entry in the Cash Management Control System (CMCS). After the budget is certified, a budget revision is required to realign funds from the Contingency Reserve account into the proper expenditure accounts after design and construction contracts have been awarded.

3.10.12 Capital Improvement Allotments

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 submit the first allotment request 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 Director for approval of the availability of funds. At this point, the agency will initiate the second allotment request for the project. This allotment will distribute into object lines the funds for all construction contracts,

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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.

3.10.13 General Fund Supported Debt Procedures/Guidelines

- All funds from the sale of the General Fund-supported debt 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 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.
- Funds cannot 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 General Fund-supported debt are tax-exempt. In order to maintain the tax-exempt status, private uses of facilities funded from General Fund-supported debt 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 General Fund-supported debt 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 General Fund-supported debt 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 only the amount of the requisition will be allotted.
- 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:

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- 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 a Funds Request Worksheet to OSC .
 - **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.

3.10.14 Closing-Out Capital Improvement Projects

After final payments have been made for construction and 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 budget revision decreasing the agency budget and transferring the appropriation to 4XX02. The XX included in the budget revision should be the corresponding digits to identify the budget year that the budget revision 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 budget revision 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.

3.11 Contingency and Emergency Fund

3.11.1 Procedures Relating to Requests for Contingency and Emergency Funds

Pursuant to [G.S. 143C-4-4](#) the Contingency and Emergency (C&E) Fund 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-19.40\(a\)](#) 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.

Method of Allocation from the Contingency and Emergency Fund

Upon receiving the Council of State's approval of a request for funds, OSBM will notify the State agency. The agency shall then submit a "Type 11" budget revision 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 will be prepared by OSBM 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.

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. Unless otherwise authorized in the current Appropriations Act, 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 nonrecurring basis, unless otherwise authorized in the current Appropriations Act. 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 (including another state agency) an application for funds must also provide to 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

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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](#).

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 Grants 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 deposited 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.

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 and 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 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 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 requested by OSBM.

3.12.5 Indirect Cost Proposals

Each State agency or university shall 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 OSBM. 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 agency's best interest in negotiating for and receiving a federal grant.

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:

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- 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.

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 receipt of unanticipated funds during the biennium shall be processed through the budget revision 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.

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.

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," which must be filled out completely and notarized by the recipient organization. The request 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:

- 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, 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.

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.

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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.

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.

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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. 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 Accounts Receivable.

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4. Fiscal Policies and Regulations

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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 policy information refer to the [Office of the State Controller](#).)

4.1.1 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.

4.2 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 may carry forward funds in an amount not to exceed 2.5% of the institution's fiscal year ending authorized General Fund appropriation. In addition, the UNC system may carry forward funds realized from implementing energy cost savings, provided there is a credit balance remaining in their utilities expenditure accounts (see [G.S. 116-30.3B](#)). Unearned revenue collected for goods or services, such as summer school, provided in the subsequent fiscal year and approved by OSBM may be carried forward, in addition to funds within 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 that 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 obligation 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.

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

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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 to 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 manner appropriate for safekeeping 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.

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

4.5 Sales Tax Assessments and Collections

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.

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

[G.S. 105-164.22](#) provides that: "a retailer's records must include records of the retailer's gross income, gross sales, net taxable sales, and all items purchased for resale. Failure of a retailer to keep records that establish that a sale is exempt under this Article subjects the retailer to liability for tax on the sale."

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 Overcollections of Sales Tax

[G.S. 105-164.11](#) provides that: "when the tax collected for any period is in excess of the total amount which should have been collected or is collected on an exempt or nontaxable sale, the total amount collected must be remitted to the Secretary."

4.5.6 Payment of Sales Tax Collections to the Department of Revenue

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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 \$20,000 or more must make a monthly prepayment of the next month's liability when filing the monthly return due on or before the 20th day of each month. This prepayment must equal at least 65% of the amount of tax due for the current month; or of the amount of tax due for the same month in the preceding year; or the average monthly amount of tax due in the preceding calendar year. 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, food and prepared food sold within the school building during the regular school day or sold not for profit by a public school cafeteria to a child care center that participates in the Child and Adult Care Food Program of the Department of Health and Human Services 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

[G.S. 105-164.13](#) provides 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 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 on obtaining this refund.

4.5.10 Proceeds from the Sale of Equipment and other Surplus Property

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The following are guidelines and procedures for budgeting and handling receipts from the 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 and in [G.S. 20-187.2](#) for the disposal of badges and service side arms.

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 colleges, 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. Receipts that are in excess of amounts budgeted in a certified general fund budget code must be deposited as non-tax revenue as directed by the Office of the State Controller.

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 Natural and Cultural 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 Human Resources 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 determines 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."

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 as defined by this Part 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

Agencies should follow these procedures for the collection of outstanding debts from public officials and employees subject to Article 60 of G.S. 143:

- A list of names and Social Security numbers of individuals with past due accounts owed to the State should be submitted to OSBM. Individuals with past due accounts should not be included when satisfactory provisions have been made for repayment. (Responsibility of agency collecting the outstanding debt)

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- OSBM will compare the list with lists of individuals who are members of the Teachers and State Employees Retirement System or who are on a central payroll. (OSBM responsibility)
- OSBM will provide notice, to the agency collecting the outstanding debt, of any individuals on the lists who are employed by a state department, agency or institution, Community College system, or by a city or county Board of Education. (OSBM responsibility)
- Upon receiving this notice, the agency collecting the outstanding debt should notify the employing agency or department of 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; (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. (Responsibility of agency collecting outstanding debt and employing agency.)

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, defined as the gross proceeds collected less the collection assistance fees provided in [G.S. 105A-13](#). 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

[G.S. 143B-10\(d\)](#) authorizes the head of each principal department to 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.

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](#) and [G.S. 138-6](#). 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.

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. The department head 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. 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 [Academic Assistance Program](#) policy in the State Human Resources 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 Human Resources (OSHR) 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 OSHR:

- 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, fees directly associated with initially 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

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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 Human Resources 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.

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

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, unless otherwise authorized by statute. All expenditures of profits must be authorized by OSBM by a budget revision.

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 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:

- 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" cannot be made from state funds. Individuals must bear these costs. They cannot 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 costs 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. (See http://www.ncga.state.nc.us/enactedlegislation/statutes/html/bysection/chapter_115d/gs_115d-43.html>G.S. 115D-43 for explicit prohibition related to community colleges.)

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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5.0 Travel Policies and Regulations

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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 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 preference or convenience. Employee misuse of state-issued credit cards is grounds for termination. Pursuant to [G.S. 138-6\(c\)](#), requests for

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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, 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.

For the 2017-19 biennium, the maximum allowable statutory rate for meals and lodging (subsistence) is \$109.50 for in-state travel and \$125.10 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 (effective July 1, 2017) shall be used for reporting allowable subsistence expenses incurred while traveling on official state business:

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	In-State	Out of State
Breakfast	\$ 8.40	\$ 8.40
Lunch	\$ 11.00	\$ 11.00
Dinner	\$ 18.90	\$ 21.60
Lodging (actual, up to)	<u>\$ 71.20</u>	<u>\$ 84.10</u>
Total	\$ 109.50	\$ 125.10

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](#)). Specific dates of lodging must be listed on the reimbursement request, which shall be substantiated by a receipt from a commercial lodging establishment, not to exceed \$71.20 per night for in-state lodging or \$84.10 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 of the travel for which third-party lodging is requested. Requests for third party lodging must provide evidence of savings to the State. An exception may be granted by OSBM for requests that do not show a savings with sufficient justification to support the necessity for third party lodging. Third party lodging agreements are not allowed among family members.

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 and documentation of agency budget office and OSBM approval must be presented to receive reimbursement.

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Universities or NCSSM designated as special responsibility constituent institutions (SRCI) pursuant to [G.S. 138.6](#)G.S. 116-30.1 may authorize third-party lodging without OSBM approval if the institution develops an internal Third-Party Lodging Policy. This policy must be submitted and approved by OSBM prior to delegation of authority from OSBM. Upon receipt of OSBM approval of the Third-Party Lodging Policy, the institution must make the policy available to all impacted campus employees. At a minimum, the policy must include the following:

1. Documentation required to show evidence of savings to the State, based on approved in-state and out-of-state lodging rates.
2. Guidelines for determining appropriate comparison hotels when requests exceed State lodging rates, but may still demonstrate evidence of savings to the State.
3. Criteria the campus will follow to grant an exception if the request does not provide evidence of savings to the State.
4. Requirement to gain advance approval and provide a signed rental agreement in order to receive reimbursement.
5. Prohibition of lease agreements with family members. And attesting to no financial conflict of interest with the owner of the property.
6. Statement identifying the Chancellor or the Chancellor's designee as the approval authority for all requests.

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.

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.

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 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 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:

- 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.
- 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 if they are shown and offered as a part of one's flight schedule on a commercial airline. Employees must provide receipts for reimbursement for those items purchased while in flight.

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](#))

5.1.19 Passports

Reimbursement for costs 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 Super Saver Rates

When traveling by common carrier to conduct official state business, employees traveling to their destination earlier than necessary and/or delaying their return to avail the state of reduced transportation rates may be reimbursed subsistence for additional travel days if, in the opinion of the department head or his or her designee, the amount saved due to the early and/or delayed travel is greater than the amount expended in additional subsistence. When the reduced airfare rates require staying overnight one Saturday night, to be eligible for reimbursement, the state employee must stay overnight on the Saturday closest to the first or last day of official state business to which the employee is attending.

With sufficient justification, the department head or his or her designee can make an exception to this requirement prior to travel commencing.

5.1.22 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.

5.1.24 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.

5.1.25 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.

5.1.26 Transportation by Personal Vehicle

It is the intent of the State that state employee travel shall be conducted in the most efficient manner and at the lowest and most reasonable cost to the state. With regard to passenger vehicle travel, whether in- or out-of-state, agency travel policies shall:

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- Maximize utilization of state-owned vehicles (agency-owned or agency-assigned vehicles owned by the Department of Administration),
- Make use of State term contracts for short-term rentals (State Term Contract 975B Vehicle Rental Services), and
- Reimburse for use of personal vehicles on a limited basis.

Agencies are encouraged to establish policies that promote efficient travel, such as ride-sharing. When State-owned resources are not available, the agency may procure vehicles through the State's term contracts or reimburse use of personal vehicles. If a state employee chooses to use a personal vehicle, actual mileage is reimbursable. Mileage is measured from the closer of duty station or point of departure to destination (and return). A state employee shall be reimbursed the business standard mileage rate set by the Internal Revenue Service (**53.5 cents per mile effective January 1, 2017**) when using their personal vehicle for state business when the trip does not exceed 100 miles per day of travel. However, if a state employee chooses to use a personal vehicle when the trip exceeds 100 miles per day of travel, all departments and agencies will reimburse the employee at the business standard mileage rate set by the Internal Revenue Service for 100 miles per day with any additional miles over 100 miles per day of travel reimbursed at the medical or moving purposes rate set by the Internal Revenue Service (17 cents per mile effective January 1, 2017). OSBM will not consider exceptions to this policy. Parking fees, tolls, and storage fees are reimbursable when the required receipts are obtained. Fines for traffic and parking violations are the responsibility of the state employee.

5.1.27 Transportation by a Rental Vehicle

For both in-state and out-of-state travel, rental vehicles shall be obtained through the State's term contracts when available. Unless prior approval has been obtained from the department head or his or her designee, the state employee shall bear the difference in cost when renting a vehicle from a class that exceeds the cost of a standard vehicle on the State's term contract for short-term vehicle rentals. 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. Rental vehicles paid for by funds deposited with the State Treasurer are not authorized for personal use.

5.1.28 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 or her official workstation and his or her home shall reimburse the State for these trips at a rate computed by the Department of Administration.

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Note: Agencies are allowed one vehicle wash per month for permanently assigned Motor Fleet Management vehicles not to exceed \$15.00. A reimbursable tip not to exceed \$2.00 per wash is allowed with appropriate receipt.

5.1.29 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.

5.1.30 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 \$0.68 per mile per passenger.

5.1.31 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.

5.1.32 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

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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.

5.1.33 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 Human Resources Manual](#).

5.1.34 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 where the motor fleet bill is paid.

5.1.35 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 the 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 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 the hotel/meeting or from the hotel/meeting to the airport or the actual cost of the travel with the submission of receipts.

5.1.37 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. An example of excessive or inappropriate parking would be the use of an airport's hourly parking lot for an overnight trip.

5.1.38 Travel Involving Trips Other than to and from the Airport

The actual costs 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.

5.1.39 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.

5.1.40 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 that is to 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 through 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 advancement, the advance must be reduced to the newly established amount.

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

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, provided that meals are not furnished. Meals and lodging are to be reimbursed as follows:

- **In-State Travel:**
 - \$38.30 for meals (less subsistence rate for any meal furnished – see [section 5.1.2 for schedule](#)). No overnight stay is required.
 - Actual expenses up to \$71.20 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.
- **Out-of-State Travel:**
 - \$41.00 for meals (less subsistence rate for any meal furnished – see [section 5.1.2 for schedule](#)). No overnight stay is required.

- Actual expenses up to \$84.10 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 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 those for state employees, except that a mileage reimbursement rate set by any other law through reference to [G.S. 138-6\(a\)\(1\)](#) is established at 25 cents per 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 the 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 subsistence reimbursement as follows:

- **In-State Travel**
 - \$38.30 for meals.
 - Actual expenses up to \$71.20 lodging documented by a receipt of actual lodging expenses for a commercial lodging establishment.
- **Out-of-State**
 - \$41.00 for meals.
 - Actual expenses up to \$84.10 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 the 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 the 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 those for state employees.

5.5.3 Convention Registration

Convention registration policies and regulations are the same as those for state employees.

5.5.4 Transportation

Transportation policies and regulations are the same as those for state employees, except that a mileage reimbursement rate set by [G.S. 138-6\(a\)\(1\)](#) is established at 25 cents per 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 the 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 \$111.00) 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) ([G.S. 120-3.1\(a\)\(3\)b](#)).

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 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. Non-employee students who travel to fulfill a course requirement for academic credit and whose expenses are paid or reimbursed by the General Fund are subject to these regulations, including statutory allowances, to the same extent as are state employees. 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 to fulfill course requirements for academic credit must have written prior approval of the Vice Chancellor for Finance or his/her designee.

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 (hotel 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 meals 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 Account 532930 - "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.

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, 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 cents (\$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

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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.

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 cents (\$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, reception, employee appreciation activity, 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 cents (\$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. 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 North Carolina 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 North Carolina Community College System, or their designees, 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.

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 Employee emergency calls

Employees may use the State network system or 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.

5.10.4 Mobile Telephones

Because mobile telephone charges are based on measured use, no personal calls should be made on state-owned 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 when more economical means of telephoning are not reasonably available. 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.

5.10.5 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.

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 the 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. MCD allowances are provided only for individuals required to maintain personal cell phones for substantial noncompensatory business reasons. Examples of required substantial noncompensatory business reasons include: (1) the agency/institution's need to contact the employee at all times for work-related emergencies; or (2) the agency/institution's requirement that an employee be routinely available to speak with legislators or other elected officials, community leaders, or customers at times outside the normal work schedule or at times when the employee is away from the duty station.
2. State agencies and institutions must develop an initial business case for the use of MCD allowance. The business case must demonstrate the following:
 - a. The use of a MCD allowance in lieu of a state-issued device produces a savings to the State.
 - b. Specifically, the calculated savings must show not only an overall savings to the organization as a result of transferring impacted employees from state-issued devices to a monthly allowance; but the savings must be demonstrated for a substantial majority of the impacted individual employees. (i.e., while significant savings for one or two individuals may be sufficient to generate overall savings for an agency, the agency must still show that most employees generate some level of savings).
 - c. The basis for comparison to an MCD allowance is the current statewide term contract price of the most conservative plan that meets the employee's job requirements. (Statewide entities not required to use the State IT contract may substitute locally negotiated contract prices for comparison.)
3. 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.
4. State agencies and institutions must develop a flat or tiered allowance, based upon the volume of use, for the business use of personal MCDs.
5. Necessity of a MCD allowance must be justified, documented and approved by the proper internal authority.
6. Each individual MCD allowance must be reviewed and justified every fiscal year.
7. Each employee who receives a MCD allowance must provide documentation, such as an annual contract or a monthly billing statement, which shows that the allowance does not exceed expenses the employee actually incurs in maintaining the device. This documentation should be provided at least annually to the proper internal authority. If the documentation shows that the employee's MCD allowance exceeds the employee's typical monthly cost, the employee's allowance must be reduced to a lower tier, so that the allowance does not exceed expenses incurred by the employee.

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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

6.1.1 Salary Reserve and the Salary Control System

Maintaining position control over salaries and salary reserve and maintaining an accurate number of positions is the responsibility of each individual agency. OSBM's responsibilities include oversight of these agency activities. Additional information can be found in [Section 3, Budget Execution](#).

6.1.2 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. Fiscal management of all state agencies should be knowledgeable of its requirements and provisions. The [State Human Resources Manual](#) provides information relating to claims and services for employees.

Under the provisions of [G.S. 96-9.6](#), 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 each employing unit (department) is required to make a contribution in each calendar year to the Unemployment Insurance Fund in an amount equal to the applicable percentage of the taxable wages the employer pays its employees during the year for services performed in this State ([G.S. 96-9.2](#)).

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

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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.

6.1.3 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.

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. 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 to OSBM to transfer funds to account number 53 163X.

6.1.4 Workers' Compensation Expenditure Accounts

The following accounts are used to record expenditures that are paid under the workers' compensation program. Budget revisions should reflect the detail level listed below.

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- **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.

6.1.5 Safety Shoe Allowance for State Employees

In compliance with the Occupational Safety and Health Administration (OSHA) and Office of State Human Resources policy 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 \$100 per year. The Office of State Budget and Management and the Office of State Human Resources 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.

6.1.6 Use of State Funds for Recognition of Individuals

The use of State funds for purchases related to the recognition of individuals is permissible if they adhere to the policies established by the Office of State Human Resources (OSHR) for meritorious service awards, as authorized in [G.S. 126-4\(8\)](#) (refer to the "[Service Awards](#)" section of OSHR's web site for further information). In addition, State funds may be expended, not to exceed \$50, for the purchase of a plaque or for the printing and framing of a certificate. The expenditure of State funds for these purposes is subject to the availability of funds within the agency.

6.1.7 Payment of Awards to Employees for Employee Suggestion Program

[G.S. 143-340\(1\)](#) establishes the State Employee Suggestion Program. The program was rebranded as NCThinks. The Office of State Human Resources oversees the program, and is currently (as 2016) developing a replacement for NCThinks. The agency implementing an NCThinks suggestion was 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.

6.1.8 Employee Wellness Activities

State agencies may spend a portion of lapsed salaries to cover nominal expenses related to health promotion and wellness activities as outlined in the Office of State Human Resources's wellness policy. Nominal expenses cannot exceed \$25 per person on an annual basis, and expenditures must adhere to the following guidelines:

1. All expenditures must be nonrecurring and cannot create an on-going obligation of state funds beyond the current fiscal year,
2. Funds cannot be spent to provide cash awards or cash incentives to employees or contractors,
3. Funds cannot be spent to purchase gift certificates or gifts for employees or contractors,
4. Funds cannot be spent to purchase large pieces of exercise equipment, and
5. Funds cannot be used to purchase individual or group memberships to health clubs or support groups.

Funds may be pooled to provide an activity to a group of employees.

Agencies are strongly encouraged to take advantage of the free materials produced by the [State Health Plan's NC Health Smart](#), the Division of Public Health's <http://www.eatsmartmovemorenc.com/Worksites.html>>Eat Smart Move More, and the Office of State Human Resources' [Worksite Wellness Policy](#). Agencies may also disseminate information about wellness discounts available to state employees through the WeSave program (<http://www.wesave.com>).

Agencies that receive grants and/or donations for wellness activities may spend those funds in accordance with the grant agreement or donor's direction only after reporting those funds to OSBM to ensure proper budgeting of the funds prior to expenditure and to comply with reporting requirements where applicable.

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 Human Resources Manual](#). The [OSC HR/Payroll Dual Employment Agreement](#) 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 Human Resources Act and to all State departments.

It does not apply to employees in the public school system or to employees of the community colleges. 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.

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.
- **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 Human Resources 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 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 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:

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- 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 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;

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- 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 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:

Rate of Pay	Gross Pay
\$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

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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. [OSC HR/Payroll Dual Employment Agreement](#) will be required for these additional payments where the affected payroll is prepared by the state's BEACON payroll system.
- 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 medical insurance will be borne by the parent department and not prorated to the borrowing department.

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 Human Resources Manual](#) for additional information on the State's Academic Assistance Program.

6.4.3 Executive Development Fees

Executive development fees are expenses incurred when an employee participates in an executive development opportunity (such as the UNC Executive Development programs) 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. [\(G.S.143C-2-2\)](#).

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 tasks 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. 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.

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- **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 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.

- **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**

A state agency may employ a private employment search firm to conduct employment searches for difficult to fill professional and managerial vacancies. A search firm would normally be retained only after exhaustion of other methods of locating a person for a specialized, highly responsible position. Non-state funds shall be used to pay these costs to the maximum extent possible. State funds may only be used when non-state funds are not available.

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 extra-ordinary circumstances if advance written approval is obtained from OSBM. Requests must be supported by complete details and justification.
- 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

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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, motor vehicles, 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.

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, 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 or her 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. 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](#) 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 or she begins work until he or she moves into his new residence, not to exceed a total of 40 consecutive working days, excluding any leave time.

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 or 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 scheduled 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 support 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

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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.

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. 143B-920](#), 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.

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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, and [Executive Order No. 70](#) from October 21, 2010 (hereinafter referred to as E.O. 70), as amended by [Executive Order No. 48](#) from April 9, 2014, establish procedural requirements for the adoption, amendment, and repeal of administrative rules. These procedural requirements include standards for OSBM review and certification of proposed rule changes and for review and approval of associated fiscal and regulatory impact analyses, also referred to as fiscal notes. Compliance with the procedures outlined below will satisfy the minimum analysis required for OSBM review, approval, and certification under [Chapter 150B](#), [E.O. 70](#), and the policies of the Director of the Budget.

A fiscal and regulatory impact analysis is used to anticipate and evaluate the likely consequences of rules. It provides a formal and systematic way of organizing evidence on the impacts of rules on affected parties. Agencies should aim to produce analyses that inform the public and other stakeholders of the effects of the proposed rule changes. Analyses should also demonstrate whether a proposed rule change is reasonable and justified.

7.2 Definitions

- **Affected Parties** means those persons who will experience costs and/or benefits, whether quantified or unquantified, from the proposed rule change.

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- **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.)
- **Approval** means the requirement that the agency must receive OSBM approval before it may adopt a proposed rule change. (See [G.S. 150B-21.4](#).)
- **Baseline** means the best assessment of what the world would be like absent the proposed rule change. This assessment must account for independently enforceable [N.C. General Statutes](#) currently in effect and rules contained in the [N.C. Administrative Code](#). Informal agency policies not adopted as rules in compliance with [Chapter 150B](#) must be excluded from the assessment of the baseline.
- **Certification against regulatory principles** means certification that the agency has adhered to the regulatory principles set in [G.S. 150B-19.1\(2\)](#), (5), and (6) and Section 2 of [E.O. 70](#) during the rulemaking process.
- **Certification of federal requirement** means (specifically, as required under [G.S. 150B-19.1\(g\)](#)) the certification identifying:
 - The federal law that the rule is purported to implement;
 - The federal law that requires the rule or for which the rule is necessary for compliance;
 - The federal law that places conditions on the receipt of federal funds.

If all or part of the proposed rule is not required by federal law or exceeds the requirements of federal law, then the certification shall state the reasons.

- **Certification of state funds availability** means the requirement in [G.S. 150B-21.4\(a\)](#) that an agency must receive OSBM certification prior to adoption of the proposed rule change that sufficient state funds are available to cover state government expenditure or distribution required by the proposed rule change.
- **Fiscal and regulatory impact analysis** or "Fiscal note" means a document including all of the following:
 - A plain-language summary of the proposed rule change, a description of the problem the proposed change attempts to address, and an explanation of how the proposed change attempts to address the problem identified;
 - A realistic estimate of the impact, including costs and benefits, of a proposed rule change on affected parties;
 - Any additional information required by the provisions of [G.S. 150B-21.4](#) and [E.O. 70](#), as applicable to the proposed rule.
- **Local funds** means receipts from non-federal and non-state governmental units and public interest organizations, including county and city funds, third-party matching funds, and in-kind contributions.
- **Opportunity cost** means the value of benefits that could have been received from an alternative that is forgone as a result of the regulatory action. The use of any resource, including a person's time, has an opportunity cost. That opportunity cost is equal to the net benefit the resource would have provided in the absence of the regulatory action. For

example, if a regulatory action adds paperwork and reporting requirements, the opportunity cost is the value of the staff time now used to comply with the added requirements.

- **Person** means any natural person, partnership, corporation, body politic, unincorporated association, organization, or society that may sue or be sued under a common name.
- **Permanent rule** means a rule adopted in accordance with the requirements of [G.S. 150B-21.2](#).
- **Responsible agency fiscal officer** means the person designated by the department to certify that the agency has prepared an accurate impact analysis or fiscal note.
- **Review before publication** means the requirement that agencies proposing a permanent rule affecting local funds submit the rule to OSBM for review at least 60 days prior to publishing the rule in the *North Carolina Register*. (See [G.S. 150B-21.26](#) for further clarification.)
- **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. (See [G. S. 150B-2\(8a\)](#) for further clarification.)
- **Rule Change** means the package of individual rules that are new or proposed for amendment that the agency is requesting to publish and adopt together. Collectively this package of rules is the new policy the agency is proposing to implement.
- **State funds** means 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. 143C-1-3](#).
- **Substantial economic impact** means an aggregate financial impact on all persons affected of at least one million dollars (\$1,000,000) in a 12-month period (see [G.S. 150B-21.4\(b1\)](#) for further clarification). Both costs and benefits must be included when estimating this financial impact. For example, a rule change with \$600,000 of estimated benefits and \$400,000 of estimated costs would have a substantial economic impact.
- **Temporary rule** means a rule adopted in accordance to [G.S. 150B-21.1](#).

7.3 What Are the Requirements Prior to Publishing Proposed Permanent Rule Changes

7.3.1 When Does a Rule Change Require OSBM Review and Approval?

For any permanent rule change that has one or more of the impacts outlined below, agencies must submit a fiscal and regulatory impact analysis (see [Section 7.5](#) below and [G.S. 150B-21.4](#) for fiscal and regulatory impact analysis requirements) to OSBM for review and obtain approval prior to publishing in the *North Carolina Register*:

- **State funds impact** – The rule change requires the expenditure or distribution of state funds.

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- "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. The agency must include in the analysis the opportunity cost of these activities to the extent they affect the ability of state employees or other agents of the state from performing already assigned tasks. Furthermore, any new agency costs must be included, even if additional receipts may offset the cost.
- "Distribution of state 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 changes the allocation of funds requires OSBM approval.

- Local funds impact – The rule change impacts local government expenditures or revenues. Agencies must submit to OSBM the proposed rule text and fiscal and regulatory impact analysis of rule changes with impacts on local funds at least 60 days prior to the intended date of publication in the *North Carolina Register*, as per [G.S. 150B-21.26](#).
- Substantial economic impact – The rule change has a substantial economic impact, i.e., an aggregate financial impact on all persons affected of at least one million dollars (\$1,000,000) in a 12-month period.

7.3.2 When Does OSBM Certify Availability of Funds?

For rule changes with state funds impact, the agency must obtain, in conjunction with the fiscal and regulatory impact analysis approval, an OSBM certification of the state funds availability to cover the state impact from the proposed rule change prior to publishing the rule in the *North Carolina Register*. (See [G.S. 150B-21.4\(a\)](#)).

7.3.3 When Does OSBM Certify Against Regulatory Principles?

- **Rule Changes with Substantial Economic Impact**

[G.S. 150B-21.4\(b1\)](#) requires OSBM to certify that agencies proposing a rule change with a substantial economic impact adhered to the principles set forth in [G.S. 150B-19.1\(a\)\(2\)](#), (5), and (6) before the agency publishes the proposed text of any permanent rule change in the *North Carolina Register*. OSBM will determine whether the proposed rule change adheres to the above regulatory principles on the basis of the information provided in analysis submitted by the agency.

- **Rule Changes Proposed by Cabinet Agencies**

[E.O. 70](#) requires OSBM to ensure during the fiscal and regulatory impact analysis review and approval process that cabinet agencies adhered to the principles outlined in Section 2 of the Order in adopting a proposed permanent rule change.

7.3.4 Are Fiscal and Regulatory Impact Analysis Required for Rule Repeals

Agencies are not required to submit a fiscal and regulatory impact analysis to OSBM for proposed rule repeals (see [G.S. 150B-21.4\(d\)](#)). If the agency proposes to repeal a rule but also to adopt or amend one or more rules to replace the repealed rule, and if the rule(s) proposed for adoption or amendment require OSBM review or approval of an analysis, the agency may include the rule proposed for repeal in the package of rules subject to fiscal and regulatory impact analysis.

7.4 When Must an Agency Obtain OSBM Approval After Publishing Proposed Permanent Rule Changes?

An agency must submit a newly drafted or amended fiscal and regulatory impact analysis for OSBM review and approval after it has adopted the text of a proposed rule if:

- An agency adopted a rule that differs substantially from the text of a previous version of the proposed rule published in the [North Carolina Register](#) and must republish the text, as outlined by [G.S. 150B-21.2 \(g\)](#), and if the previous version of the proposed rule change required submitting a fiscal and regulatory impact analysis to OSBM;
- An agency adopted a rule that differs substantially from the text of a previous version of the proposed rule published in the [North Carolina Register and must republish the text, as outlined by G.S. 150B-21.2 \(g\)](#), and if the new version of the proposed rule change would cause the rule to require submitting a fiscal and regulatory impact analysis to OSBM; and
- The Rules Review Commission objects to the proposed rule change, and the commission requests additional or revised data that changes the impact analysis or requires a new impact analysis.

An amended or newly drafted analysis should incorporate the new circumstances created by the revised proposed rule, and the agency shall submit the new or revised analysis according to the procedures outlined in this chapter.

7.5 What Are the Fiscal and Regulatory Impact Analysis Requirements?

7.5.1 How is the Proportionality Principle Applied?

A good fiscal and regulatory impact analysis does not follow a strict formula or template. Different rule changes require different emphases and levels of analysis, and the depth of the analysis must be proportional to the nature and complexity of the rule change. Agencies must ensure they invest the appropriate level of resources in gathering and analyzing the rule change. The two key factors determining the depth and comprehensiveness of analysis are:

1. the size, duration, and distribution of expected impact, and
2. the degree of discretion the agency has in developing the policy.

Other contributing factors in determining the appropriate level of analysis include: the degree to which the policy is novel, contentious, or irreversible, the level of uncertainty around likely impacts, the data available and resources required to gather further data, and the time available for policy development.

Agencies are encouraged to contact OSBM during the drafting stage of the fiscal and regulatory impact analysis for guidance in identifying the appropriate level of analysis.

The principle of proportionality relates only to the scale of effort invested in the analysis required and should not be used as a determinant of whether an analysis should or should not be performed.

7.5.2 What Are the Different Types of Rule Changes?

Depending on the scale of regulatory impacts, permanent rule changes generally correspond to one of two different tiers of analysis:

- Tier I - Non-substantial economic impact rules – Rule changes that have (1) an aggregate economic impact of less than one million dollars (\$1,000,000) in a 12-month period, and (2) impact state or local funds, as described in [section 7.3.1](#) above.
- Tier 2 - Substantial economic impact rules – Rule changes with an aggregate economic impact on all persons affected of *at least* one million dollars (\$1,000,000) in a 12-month period.

7.5.3 What Information Must Agencies Submit to OSBM?

Below is the information agencies must include in a fiscal and regulatory impact analysis corresponding to each tier of analysis:

Tier I - Non-Substantial Economic Impact Rules

- a. General Information

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- The title of the rule change and North Carolina Administrative Code citation;
 - The name of the agency proposing the rule and agency contact information;
 - A citation to the statute(s) authorizing the rule change or the federal law(s) or regulation(s) requiring the rule;
 - A brief statement identifying whether or not the rule change has a state, local, and/or federal government impact, a private sector impact, and/or a substantial economic impact;
 - Information on the source of funds that would be used to cover new costs if the rule change requires disbursement of state funds so that OSBM can certify the existence of funds (see [G.S. 150B-21.4\(a\)](#));
 - A copy of the proposed rule text; and
 - The certification of federal requirement, if applicable.
- b. Summary of the Proposed Regulation
- Necessity and purpose of the rule change – Describe the need for the proposed action, including a clear description of the problem or issue a rule change is intended to address.
 - Description of the change – Given the broad intended audience for impact analyses, the rule change description should clearly explain how the proposed changes would address the identified problem or issue. The description must be clear, concise, and avoid technical jargon. Discuss any expected improvements in public health, safety, or welfare, or how the rule change serves the public interest.
- c. Economic Analysis – This section is the heart of the analysis and must describe the estimated impact on affected parties from the proposed rule change, as well as explain how the agency estimated the impact and how the proposed rule change interacts with existing regulatory requirements affecting the parties affected by the proposed rule change. Below are some general considerations that must 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 must cover a period long enough to encompass the important costs and benefits likely to result from the rule change. For many rule changes, a *per year* or one-time estimate may be sufficient. For others, such as a rule change with a phased implementation over a number of years, the appropriate time frame may be much longer.
 - Baseline – The impacts identified must be measured against a baseline. This baseline must be the best assessment of what the world would be like if the agency were not to adopt the rule change. This assessment must account for independently enforceable [N.C. General Statutes](#) currently in effect and rules contained in the [N.C. Administrative Code](#). Informal agency policies not adopted as rules in compliance with [G.S. 150B](#) must be excluded from the assessment of the baseline.
 - 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 proposed regulation. Cost estimates must include all direct

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costs, including opportunity costs. How is the rule change expected to change the current state? What costs, including financial costs and opportunity costs, are associated with these changes?

- Agencies must include tables and schedules of the cost estimates. Cost estimates must be monetized to the greatest extent practicable, while ensuring that the depth of analysis is proportional to the complexity and impact of the rule change.
- Where costs are not quantified in dollars, they must be listed and described and include quantification of factors related to costs in non-monetary terms where feasible (e.g., the number of persons, facilities, or localities affected). In cases where precise cost estimates are infeasible, estimating a range of costs under various plausible assumptions may be appropriate.
- Benefit Estimates – Explain how the actions required by the rule change are linked to the expected benefits. Benefit estimates must be quantified in dollars to the greatest extent practicable, with the need for quantification increasing for rule changes of larger or more complex effects.
 - Where benefits are not monetized, they must be listed and described in detail and include quantification of factors related to benefits in non-monetary terms where feasible (e.g., the number of persons, facilities, or localities affected). In cases where precise benefits estimates are infeasible, estimating a range of benefits under various plausible assumptions may be appropriate.
- Transparency and Reproducibility – A good analysis must clearly set out the basic assumptions and methods employed, as well as cite the scientific, technical, economic, and other data and information used in the analysis. This enables readers to understand how the authors of the analysis reached their conclusions.
- Stakeholder Input – Relevant stakeholder information deemed to have merit that the agency gathered during the drafting phase of the rule change.
- Table of Impacts – Agencies must include a summary table of annual or one-time costs and benefits. In constructing this summary table, it may be helpful to organize annual costs and benefits by rule provision and/or affected party.
- d. Persons Affected – The analysis must identify the persons affected by the rule change within the categories listed below. Within each category, describe the number of different entities impacted by the rule change and briefly summarize how these units will be affected. In some cases, depending on the complexity of the rule change, it may be useful to organize the discussion by type of entity affected:
 - State government entities,
 - Local government entities,
 - Federal government entities, and
 - Private-sector entities.

Tier II - Substantial Economic Impact Rules

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A rule change is considered to have a substantial economic impact if aggregate costs and benefits for all persons affected equal at least \$1,000,000 in a 12-month period. For example, a rule change with \$600,000 in estimated benefits and \$400,000 in estimated costs in a 12-month period would have a substantial economic impact.

For rule changes with a substantial economic impact, the agency's fiscal and regulatory impact analysis must include the following:

- The information required for non-substantial economic impact rules (see [Section 7.5.3.1](#) above).
- Alternatives – Agencies must demonstrate that the proposed rule change achieves the regulatory objective in a cost-effective manner by describing at least two alternatives considered, evaluating their impacts to the extent practicable, and stating reasons why the agency rejected those alternatives. The alternatives may have been identified by the agency, stakeholders, or members of the public. When there is a "continuum" of alternatives to address a particular problem, an agency must examine a preferred option, a more expensive or stringent option, and a less expensive or stringent option. Agencies must also consider, when feasible, alternatives that would not require rulemaking, such as using economic incentives, implementing information disclosure requirements, or performance standards. When the status-quo is a possible alternative, it may be used as one of the two required alternatives. (See [G.S. 150B-21.4\(b2\)](#))
- Time Value of Money – Benefits and costs do not always take place in the same time period. When they do not, an agency may not simply add up all of the expected benefits or costs without accounting for when the impacts occur. Benefits or costs that occur sooner have a higher *present value* than equivalent benefits or costs occurring later. Given this preference, a discount rate of 7.0% must be used to adjust future benefits and costs when appropriate. At the discretion of OSBM, other discount rates may be used in addition to 7.0% for comparative purposes. (See a [href="http://www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter ..."](http://www.ncleg.net/EnactedLegislation/Statutes/HTML/BySection/Chapter...)> [G.S. 150B-21.4\(b1\)](#) and the [U.S. Office of Management and Budget's Circular A-4 on Regulatory Analysis](#).)
- Risk and Sensitivity Analyses – A risk is a factor or possible event that may jeopardize anticipated benefits or affect the cost of a rule change. The agency must evaluate possible risks for their likelihood of occurrence and the effects of such an occurrence on anticipated costs and benefits. The effects of a risk-event occurrence must be described in terms of the costs and/or benefits it would affect. The risk analysis must relate to the assumptions and parameters used in the primary analysis of benefits and costs. Each significant risk must 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 alternative underlying assumptions.

7.6 What Are the Requirements for Rules Agencies are Readopting?

[G.S. 150B-21.3A](#) sets up the process by which all agencies subject to rulemaking are required to perform a periodic review of their existing rules. For rules that the final determination report (see [G.S. 150B-21.3A\(c\)\(3\)](#)) identifies as needing to be readopted, an agency must submit a fiscal and regulatory impact analysis of the rule change to OSBM if all of the following conditions are met:

1. The agency is proposing substantive changes to the rule, i.e. they have to publish the text of the rule in the NC Register as per [G.S. 150B-21.2\(c\)\(1\)](#)
2. The proposed changes result in a substantial economic impact or have an impact on state government or any unit of local government; and
3. At least one rule in the package of rules the agency is proposing to adopt together creates a net cost on any part of the regulated community.

The agency must meet the same fiscal and regulatory impact analysis requirements as stated in [Section 7.5](#). However, the baseline for rule changes agencies are proposing for re adoption are the current, unexpired rules contained in the [North Carolina Administrative Code](#), as well as any stand-alone statute.

7.7 What Are the Requirements for OSBM to Review Certain DHHS Temporary Rules

In accordance with [G.S. 108A-54.1B\(c\)](#), prior to submitting the proposed text of a temporary rule change to the Rules Review Commission and the Office of Administrative Hearings (as per [G.S. 150B-21.1](#)), the agency must submit to OSBM an impact statement that includes the following:

- a. General information
 - o The title of the rule change and North Carolina Administrative Code citation;
 - o The name of the division proposing the rule change and contact information;
 - o A citation to the statute(s) authorizing the rule change or the federal law(s) or regulation(s) requiring the rule;
 - o An indication of whether or not the rule change will generate state or local government impacts; and
 - o The text of proposed temporary rule change.
- b. Description – The division must provide a description of the rule and changes from existing regulation, as well as an explanation of the need for the rule and the issue(s) or problem(s) it is intended to address;

- c. Analysis – The analysis is the main part of the impact statement and must explain the fiscal impacts on state and local governments that would result from the temporary rule change. The division must also explain any current or future impacts on agency budgets and information on affected budget codes if there is a state-government impact. Below are some general considerations that must be taken into account when performing the analysis:
- o Baseline – Agencies must measure costs and benefits compared to a baseline scenario. This baseline must be the best assessment of what the world would be like if the agency were not to adopt the rule. This assessment of the baseline scenario must account for independently enforceable N.C. General Statutes currently in effect and rules contained in the N.C. Administrative Code. Informal agency policies not adopted as rules in compliance with G.S. 150B must be excluded from the assessment of the baseline.
 - o Impact Estimates – The agency must determine the budgetary impact of the proposed rule change. The impact of the rule change is the incremental difference between the baseline and the future condition expected after rule implementation. The agency must monetize estimates to the greatest extent practicable, while ensuring that the depth of analysis is proportional to the complexity and impact of the rule change. Where the agency cannot quantify impacts in dollars, it must list and describe these impacts and include quantification of factors related to budgetary impacts in non-monetary terms where feasible (e.g., the number of persons, facilities, or localities affected). In cases where precise budgetary impacts estimates are infeasible, estimating a range of impacts under various plausible assumptions may be appropriate.
 - o Scope of Analysis – The appropriate time frame for analysis is dependent on the nature of a specific rule change and must cover a period long enough to encompass the important budgetary impacts resulting from the proposed rule change, especially impacts affecting the current and next biennia. Agencies must include tables of cost estimates over the appropriate time frame for analysis.
 - o Transparency and Reproducibility – A good analysis must clearly set out the basic assumptions, methods, and data used, enabling the reader to understand how the authors of the analysis reached their conclusions and, in the absence of confidential or proprietary information, reproduce the results themselves.

7.8 How Must Agencies Submit Information to OSBM and How Will OSBM Notify Agencies?

All required submissions of rule information to OSBM must be sent electronically to osbmruleanalysis@osbm.nc.gov. Faxes and paper submittals of information will not be accepted and will not constitute the submittal of a proposed rule change and supporting fiscal and

regulatory impact analysis. Analysis must be reviewed by the responsible agency fiscal officer prior to being submitted to OSBM for review or approval.

Once OSBM has certified, reviewed, or approved the proposed rule change and the associated fiscal and regulatory impact analysis (see [sections 7.3](#) and [7.4](#) above), OSBM will notify the agency electronically. OSBM will post on its website a PDF version of any analysis reviewed or approved by the Office, along with the title of the rule change and the OSBM approval date. In the electronic notification, OSBM will provide a link to the posted document, which OSBM encourages agencies to use in informing the public and complying, where applicable, with [G.S. 150B-19.1\(c\)](#).

The agency is responsible for submitting the OSBM-approved rule change to the Office of Administrative Hearings for publication in the [North Carolina Register](#) or to the Rules Review Commission for review.

OSBM encourages agencies to review thoroughly public comments and modify fiscal and regulatory impact analyses based on pertinent information received from the public. [G.S. 150B-19.1\(c\)](#) requires agencies to publish the updated fiscal and regulatory impact analysis on their website. OSBM asks that agencies send electronically to osbmruleanalysis@osbm.nc.gov any updated version of an OSBM approved fiscal and regulatory impact analysis so that the Office can update the analysis posted on its website.

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8.1 OSBM Reporting Chart

Report Title	Submitted by	Due Date/Frequency	Reference
Monthly Budget Report	Chief Fiscal Officer/ Budget Officer	End of Each Fiscal Year	
Year End Budget Report (Close-out BD 701)			
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 prescribed by OSBM	G.S. 143C-9-4
Annual Report Listing Committees or Councils	Committee/Council and Department Heads	By March 31	
Community Resource Information 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 29 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.

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

[G.S. 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 express provision of statute or judicial order.

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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, 2015 would consist of the fiscal period July 1, 2014 through June 30, 2015.

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.

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

[G.S. 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.

8.5 Committees and Councils Report

[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 2017 the reporting period is July 1, 2015 to June 30, 2016.

8.5.2 Report Due Date

February 1.

8.5.3 Frequency

Annually.

8.6 State Grant Funds Reporting

8.6.1 Community Resource Information System (CRIS)

An on-line system has been developed for collecting and indexing information on grant programs administered by State agencies. 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 (N.C. Session Laws, 1993-769, Sec. 8.4). The CRIS system has a [public Web interface](#) that serves as a grant-in-aid catalog.

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 CRIS, 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 when grant programs are established. If the agency does not administer grant-in-aid programs required under this project, please contact OSBM with that information by December 31 each year. Grant disbursements recorded in the [Grants Information Center \(GIC\)](#) online system must be linked to grant programs described in CRIS, when applicable (see [Section 8.6.2](#) below). The GIC system provides a mechanism for making this linkage.

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>.

8.6.1.1 Reporting Period

The reporting period is the fiscal year immediately preceding the reporting period.

8.6.1.2 Report Due Date

No later than December 31. However, agencies are expected to report grant programs in CRIS when grant programs are established.

8.6.1.3 Frequency

Annually, or whenever new grant programs are established.

8.6.2 Grants Information Center

Pursuant to [G.S. 143C-6-23](#), every nongovernmental entity that receives State or Federal pass-through grant funds directly from a State agency to file annual reports on how those grant funds were used. There are 3 reporting levels with differing forms to be completed at each level:

- Less than \$25,000
- At least \$25,000 but less than \$500,000
- \$500,000 or more

All annual reporting must be entered online in the GIC system available at <https://www.ncgrants.gov/>. Detailed instructions on using the GIC system are available on OSBM's website.

Pursuant to [09 NCAC 03M .0401](#), funding State agencies must determine that the applicable reporting requirements have been met by their grantees and that all reports have been completed and submitted. As such, each funding agency is responsible for reviewing grantee reports submitted into the online Grants Information Center for completeness and accuracy. If the funding agency determines the reports have been completed inaccurately, it must contact OSBM to report the inaccuracies and begin the resolution process.

Pursuant to [G. S. 143C-6-23](#), OSBM must maintain a Suspension of Funding list available to any interested party that identifies any grantee found in noncompliance. Agencies must discontinue payments and may not enter into any further grant agreements with any non-state entity appearing on the list, unless written approval is provided by OSBM.

8.6.2.1 Reporting Period

The reporting period is the grantee's fiscal year in which the State funds were received.

8.6.2.2 Report Due Date

Within 6 months after the end of the grantee's fiscal year for grantees receiving \$500,000 or less; within 9 months after the end of the grantee's fiscal year for grantees receiving greater than \$500,000.

8.6.2.3 Frequency

Annually.

8.7 Reporting of Criminal Misuse of State Property

[G.S. 143B-920](#) 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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[Certification letters](#)

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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. 105-511.4 Distribution and Use of Taxes*](#)
- [*G.S. 105-570 County Vehicle Registration Tax; shared with municipalities*](#)
- [*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. 7A-300.1 Local Supplementation of Salaries for Certain Officers and Employees*](#)
- [*G.S. 18B-1009 In-Stand Sales*](#)
- [*G.S. 58-36-10 Method of Rate Making; Factors Considered*](#)
- [*G.S. 58-40-25 Rating Methods*](#)

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- [G.S. 136-202\(c\) Metropolitan Planning Organizations](#)
- [G.S. 143B-437.09\(a\) Urban Progress Zone Designations](#)
- [G.S. 160A-360 Territorial jurisdiction.](#)
- [G.S. 136-211 Department Authorized to Establish Rural Transportation Planning Organizations](#)
- [G.S. 136-189.11 Transportation Investment Strategy Formula](#)

Every year OSBM prepares two types of population estimates for every municipality in North Carolina:

- Certified municipal population estimates, which are required by the General Statutes for revenue distribution.
- Standard municipal population estimates, which are used for planning.

The municipalities play a key role in building these estimates by providing OSBM with updated information and data on:

- annexation, detachment, and other boundary changes,
- group quarters, and
- residential construction and mobile homes.

In addition to 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. Unless labeled as revised estimates, previous year municipal population estimates should not be compared to current year estimates.

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.
- **Annual Survey** refers to the annual request for information OSBM sends to all municipalities. The annual survey includes three components: Boundary and Annexation, Group Quarter Population, and New Residential Construction and Mobile Homes. The survey detail OSBM annexation records and group quarter data for that municipality and requesting updates on/corrections to annexation names and dates, land areas, actual occupied housing unit and population counts; group quarters and their opening and closing dates; and changes in the number of housing units.

- **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.
- **Group Quarter** means a longer term living arrangement other than a household. It includes institutions, where individuals are under care or custody, and noninstitutional living arrangements, such as college dorms and fraternities where 20 or more unrelated individuals are living together.
- **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 sent 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 What are the Key Obligations of Municipalities?

Municipalities are required to meet three key obligations:

1. to notify OSBM of address and email changes in time to send out forms and letters,

2. to review and update the data in the electronic Annual 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 [Section 9.4](#), Procedures and Deadlines for Meeting Obligations.

9.4 What are the Procedures and Deadlines for Meeting Obligations?

1. On or before **June 28th**, OSBM sends all municipalities a new annual survey. The deadline for OSBM to receive the completed survey is **July 21st**. **Any form completed and submitted electronically by 11:59 p.m. on July 21st or forms mailed back to this office within envelopes or packages postmarked by July 21st will be considered to have met the deadline. OSBM does not guarantee the inclusion of data from any survey returned after the deadline.**
2. If a municipality chooses to conduct a special local census (see [Section 9.6](#), Special Local Censuses, below) in addition to completing the annual 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 [Section 9.5](#), Special Federal Censuses and other Census Corrections, below) conducted in addition to completing the annual 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 sent to each municipality on or before **August 27th**. Municipalities will have until the close of business on **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 sent a follow up letter on or before **September 30th**.

9.5 When Are Special Federal Censuses and Other Census Corrections Used?

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 When Are Special Local Censuses Used?

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 annual survey data. Special Local Censuses must be received by **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 a 911/EMS address point 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 What Are the Requirements for Newly Incorporated Municipalities?

When the State Legislature incorporates a new municipality, OSBM is required by General Statute to prepare a population estimate for the new municipality:

- ["§ 160A-486 Estimates of Population](#)

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. The estimate will be certified to State departments and agencies charged with the responsibility of distributing funds to local governments along with the current population estimates for all other municipalities."

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 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 What is the 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, annual survey was submitted to OSBM by the municipality by the **July 21st** deadline, either electronically (by 11:59 p.m. of July 21st) or by mail (postmarked on or before July 21st);
2. The municipality notified OSBM prior to the deadline to expect a substantive annexation;
3. The municipality failed to submit this annexation with the survey 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.

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5. A written appeal explaining the error is received by OSBM by **November 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 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).

Base Budget

The base 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.

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)

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organizational or budget changes directed by the General Assembly but left to the Director to carry out. ([GS143C-1-1\(d\)\(7\)](#))

Change Budget

The change budget is the part of the budget that provides for new programs, expansion of existing programs, and salary and benefit increases.

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.

Debt Service

Debt service 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.

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.

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General Obligation 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.

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 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.

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 budgeted dollar amount not expended for salary and associated benefits during the period in which a position is vacant. Each agency is responsible for calculating lapsed salary funds generated and must be prepared to submit this information to OSBM when requested.

Legislative Bonds (Two-thirds 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

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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. Questions about [longevity](#) should be directed to the Office of State Human Resources.

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. ([G.S. 143C-1-1\(d\)\(19\)](#))

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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. ([G.S. 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 (budget code, plus first four digits) 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\(d\)\(23\)](#))

Repair and Renovations Reserve

The Repair 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. ([G.S. 143C-4-3\(a\)](#))

Salary Adjustment

Subject to approval of the Office of State Human Resources, agencies are allowed to give increases to employees who are promoted or to others in response to private or government competition.

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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 Human Resources 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 State Human Resources Act (EHRA)

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.

State Employees Subject to the State Human Resources Act (SHRA)

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.

Strategic Planning

An agency strategic plan provides expanded performance information in an effort to improve public understanding of why an agency exists, what the agency does, the effectiveness of its services, and how an agency is seeking to improve. Ultimately, this information is designed to improve funding, planning, and management decisions in state government.

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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.

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Recent Budget Manual Revisions

Date of Revision	Topic	Section Reference
June 2017	Revisions to all sections of the Manual	
July 7, 2017	Revisions to Travel Subsistence Rate, effective July 1, 2017	5.1.2 Memo