

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA

# Module 4: Preaudits & Disbursements



# What is a Preaudit?

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## Under North Carolina law:

“No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance **unless** the budget ordinance includes an appropriation authorizing the obligation **and** an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.”<sup>[1]</sup>

When a local government **preaudits** an obligation, it is simply ensuring that these requirements have been met.

<sup>[1]</sup>[G.S. 159-28\(a\)](#)



# What is a Preaudit?

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In essence, a **preaudit** is the act of ensuring that for every financial obligation a unit makes:

1. Funds have been budgeted
2. Funds are actually available

A preaudit must be carried out **before** any obligation is incurred.

- The **finance officer** is responsible for establishing procedures to ensure that the preaudit requirement is consistently met.<sup>[2]</sup>
- Specific language must be included on written agreements, such as contracts and purchase orders, certifying that the document has been preaudited as required by statute.<sup>[3]</sup>
  - This certificate must be signed by the finance officer or a deputy finance officer approved by the governing board.
  - An exemption to the certificate requirement is provided for certain electronic payments. See slide 8.

<sup>[2]</sup>[G.S. 159-28\(a2\)](#) <sup>[3]</sup>[G.S. 159-28\(a1\)](#)



# Why Preaudit?

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## **Preaudits are a core component of effective fiscal management:**

- The preaudit requirement ensures that no obligation is incurred without sufficient funds in the budget.
- By not spending money it does not have, a unit stands a better chance of staying within its budget throughout the fiscal year.





# Fund Availability

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To fulfill the second component of the preaudit requirement, a unit must ensure that enough **unencumbered funds** are on hand to cover all costs associated with an obligation for the current fiscal year.

**Unencumbered funds** are distinct from total funds in the budget, which may include money which has already been encumbered (set aside) for other purposes.

## For Example:

The city of Dogwood wants to spend \$10,000 on new office furniture for the finance department during the current fiscal year.

Dogwood has \$20,000 in the budget for furniture, but \$15,000 has already been encumbered to purchase items for the city's board room.

That means just \$5,000 are only unencumbered funds, so Dogwood cannot incur the \$10,000 obligation for the finance office furniture.



# Failure to Preaudit

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- If a unit fails to perform a preaudit for an obligation (contract, purchase order, etc.), that obligation is invalid and may not be enforced.<sup>[4]</sup>
- The finance officer can be held personally liable for payments made against an invalid obligation.<sup>[5]</sup>



<sup>[4]</sup>[G.S. 159-28\(a2\)](#) <sup>[5]</sup>[G.S. 159-28\(e\)](#)



# Disbursements

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“When a bill, invoice, or other claim against a local government or public authority is presented, the finance officer shall either approve or disapprove the necessary disbursement.”<sup>[6]</sup>

- Disbursements of local government funds are governed by separate but similar statutory requirements to those for preauditing obligations.
- The **finance officer** determines whether there are sufficient funds in the budget and the bank.
- With limited exceptions<sup>[7]</sup>, checks and claims must include a signed certificate attesting that the payment has been approved.<sup>[8]</sup>

<sup>[6]</sup>[G.S. 159-28\(b\)](#) <sup>[7]</sup>[G.S. 159-28\(f\)](#) <sup>[8]</sup>[G.S. 159-28\(d1\)](#)





# Automated Systems & Electronic Payments

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- Units are allowed to use an **automated computer system** to fulfill the preaudit requirement, as long as the system meets certain technical requirements.<sup>[9]</sup>
  - If using such a system, the finance officer must file an annual certification with the LGC within 30 days of the start of the fiscal year.
  - The certification can be filed digitally on the [LGC File Transfer Portal](#).
- Under North Carolina Administrative Code, certain **electronic payments** can be made exempt from certificate requirements for preaudits and disbursements.<sup>[10][11]</sup>
  - [SLGFD Memo #2018-05](#) contains instructions related to this exemption.
  - Electronic payments **must still be preaudited**, even if a certificate is not required.

<sup>[9]</sup>[G.S. 159-28\(a3\)](#) <sup>[10]</sup>[20 NCAC 03 .0409](#) <sup>[11]</sup>[20 NCAC 03 .0410](#)





# Setting Expectations

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- When crafting policies/procedures and communicating with staff, governing boards should:
  - Set clear expectations that all preaudit and disbursement requirements will be followed.
  - Emphasize that these processes are required by law and carry penalties for noncompliance.
  - Support the finance officer when they must tell department heads that goods or services that are not budgeted cannot be purchased.





# Resources

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- [N.C. Local Government Finance Policy Manual, Chapter 12: Preaudits and Disbursements \(UNC School of Government\)](#)
- [Sample Preaudit and Disbursement Policies \(UNC School of Government\)](#)
- [Automated Systems and the Preaudit Requirement](#)
  - [Preaudit System Certification](#)
  - [Public list of verified certifications](#)
- [SLGFD memo on certificate exemptions for electronic payments with sample resolution for local governments](#)



# Resources

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- UNC School of Government
    - NC Finance Connect
    - Finance Calendar of Duties
    - NC Local Government Finance 101
  - NC League of Municipalities
  - North Carolina Association of County Commissioners
  - Government Finance Officers Association - Best Practices & Resources
- **Contact LGC Staff:** (919) 814-4300
  - **Visit the LGC Website**
  - **Sign up for the LGC Staff Blog**
  - **Stay up to date with SLGFD Memos**



## Quiz: Module 4

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1. When must the preaudit function be performed?
2. What happens to a contract or purchase order if a unit fails to perform the preaudit?
3. What can the preaudit process help a local government avoid?

