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Chapter 7 – Purchasing and Disbursements

7.1 General Information

The State uses an **encumbrance accounting system** to provide information on the actual extent of the State's obligations (encumbrances) and to guard against over-committing available funds. All General Fund and Special Funds are subject to this encumbrance accounting system.

All financial obligations of each Organization are recorded by the Secretary of Finance and the Division of Accounting (DOA) when they are incurred (**29 Del. C. §6523**). **Agencies may not enter into any agreement or contract, or incur any expenses, which will result in an obligation in excess of the agency's budgetary appropriations (29 Del. C. §6519(a)).**

7.2 Obligating Funds

Organizations may only obligate available funds, and correct amounts must be charged at the time of the issuance of a PO or a Direct Claim payment. The Organization is responsible for verifying that funds are in the proper account before obligating or expending funds. If the funds are not in the proper account, the transaction should not be processed or submitted to DOA.

An agency may not create any indebtedness or incur any obligation for personal services, work, labor, property, materials, or supplies, except by properly executed and approved requisitions or purchase orders, unless specifically exempted in the Manual and bearing the approval or approvals as prescribed by the Manual (**29 Del. C. §6512(a)**). Any obligations incurred in any other manner will not be considered an obligation of the State.

A PO is required for purchases exceeding \$5,000 (individually or in aggregate). Requisitions, POs, and Direct Claims are initiated at the Organization. After receiving all required Organization approvals, Organizations must determine if the purchase is subject to any special approvals.

All Requisitions, POs, and Direct Claims greater than \$5,000 require DOA review and approval for processing in the State's financial management and accounting system, First State Financials (FSF). For more information on standard and special approval requirements for transactions, Organizations should refer to **Chapter 6 – Approvals**.

If no special approvals are required to process the transaction, **and** the purchase is for \$5,000 or less, the Requisition, PO, or Direct Claim is processed in the FSF system with only Organization approvals required.

If special approvals are required to process the purchase transaction, **and** the purchase is greater than \$5,000, the Requisition, PO, or Direct Claim is to be forwarded for the needed additional special approvals before it is submitted to DOA for review and special processing.

7.2.1 Federal and Local School District Fund Purchases

Organizations have the option of using POs to encumber available federal funds or local school district funds. **Federal and local school district funds used for the purchase of capital assets must be encumbered.**

Organization purchases over \$5,000 made using both General Fund and federal or local school district funds must use a PO to satisfy General Fund purchase requirements. The State Application Identifier (SAI) number must be referenced on all POs used to encumber federal funds.

For additional transaction information relating to Grants, Organizations should refer to **Chapter 10 – Grants Management.**

7.2.2 Prohibitions

No funds appropriated by the Budget Appropriation Bill or otherwise available to an agency of this State shall be expended except for purposes necessary to carry out the functions of such agency. **(29 Del. C. §6505(c))**

No funds shall be expended for purposes such as gratuities, greeting cards, flowers and tickets to athletic events when unrelated to an agency's function. **(29 Del. C. §6505(c))**

No funds may be expended for parking tickets and other traffic violations **(29 Del. C. §6505(c)).**

State officials and employees may not sign or approve any blank Requisitions or POs **(29 Del. C. §6512(c)).**

Cash advances are prohibited. A cash advance occurs when funds are disbursed prior to the receipt of a good or service. Employees must not be provided funds for future use. The disbursement of funds includes, but is not limited to, ATM withdrawals, money orders, gift cards, and disbursements from petty cash or by voucher.

7.3 Direct Claims

Certain purchases may be made as Direct Claims, without the use of POs. Direct Claim purchases are subject to all of the State's purchasing and procurement policies, protocols, and

guidelines, and all transactions require proper approvals for processing. While Organizations are encouraged to encumber funds, the following transaction types do not require a formal encumbrance of funds as a prerequisite to affecting a purchase or processing payment documents:

1. All expenditures not exceeding \$5,000 (individually or in aggregate). A purchase must not be split into multiple transactions under \$5,000 to circumvent the State Procurement Code.
2. Salaries
3. Other Employment Costs –Employer's/Employee's share
4. Employee group benefit plan expenditures approved by the General Assembly, inclusive of non-payroll groups
5. Grants-in-Aid expenditures, as per annual Grants-in-Aid legislation (Annual Bill passed by General Assembly)
6. Revenue refunds
7. Welfare and Assistance grants
8. School district payments out of local funds (not including the purchase of capital assets)
9. Debt service
10. Bond sale expenses
11. Jury Duty and witness fees
12. Investigation Funds (DSHS)
13. Court-appointed attorney's legal fees
14. Court-mandated legal settlement
15. Budget Commission Contingency Fund expenditures
16. Expenses that are an obligation of the Organization, wherein the Organization cannot directly control the timing and amount of the expenditures
17. Reimbursement to parents (Parent visits child placed in out-of-state facility)
18. Student private placement expenses, including tuition and transportation
19. Private carrier school transportation
20. Client placement expenses
21. Examinations & Premium Tax Evaluations
22. Federal funds expenditures
23. Payments to institution inmates and patients
24. Funeral service payments
25. Freight
26. Books purchased for resale
27. Reimbursement of carriers and self-insurers from the Industrial Accident Board Second Injury and Contingency Fund
28. Hospital and medical costs incurred under the Migrant Worker Program
29. Late payment charges (**29 Del. C. §6516(d)**)
30. Patient trust funds
31. State Employee Pension Fund Investments (OMB)
32. Blue Collar Dollar (DOL)
33. Home Health Agency expenditures (DHSS)
34. Right-of-way expenditures
35. Library standards' payments (DOS)

36. School bus contractors' payments (Schools)
37. Monthly tourism convention payments (DOR)
38. DNREC Underground Storage Tank Amnesty Program
39. Bureau of Museums' purchases at auction
40. Legal Contingency Fund payments (OMB)
41. Foster Care Board and Adoption Assistance payments
42. DTI – telephone bill for State Organizations (ASF)
43. OMB's GSS and DTI – replenishment for postage meter (ASF)
44. DOA PCard payment (NSF)
45. Inter- and intra-Organization reimbursement for services and supplies. (Seller has the right to request a PO from the Buyer.)
46. Loan Disbursements
47. Transfers to an Organization's account, external to FSF

7.4 Transaction Processing Requirements

Each Organization is responsible for processing their transactions and documents:

- in a timely manner;
- in proper sequence; and
- in accordance with established procedures.

POs may not be presented simultaneously with payment vouchers. "After-the-Fact" POs will not be accepted, unless accompanied by an After-the-Fact Waiver Request Form. The form can be accessed by clicking the link below.

<http://www.budget.delaware.gov/forms/index.shtml>

7.4.1 Waivers

Ordinarily, the Secretary of Finance will not approve transactions where either the documentation or the transactions reflected therein are not in accordance with the law, the accounting Manual, or DOA memoranda. Under extraordinary circumstances, the Secretary of Finance may waive compliance and approve the transactions.

To secure a waiver of procedures, an Organization Head (cabinet secretary or equivalent) must receive prior approval from the Office of Management and Budget (OMB) Director, and the Secretary of Finance. The waiver request should include:

- the reason(s) the accounting procedures should be waived; **or**
- the cause for the failure to adhere to normal accounting procedures; **and**
- a showing that the best interests of the State will be served by a waiver of the procedures.

In the event the waiver request is **approved**, a copy of the request and the approval must be forwarded by the Secretary of Finance to the Auditor of Accounts and the Attorney General.

In the event the waiver request is **not approved**, the Secretary of Finance, through DOA, must report in writing to the General Assembly, the Attorney General, the OMB Director, (**29 Del. C. §8304(4)**), and the Auditor of Accounts.

7.4.2 Emergency Purchases

From time to time, Organizations may face emergency situations, in which goods or services must be acquired immediately. In these cases of emergency, Organizations may need to bypass normal purchasing processes and approval requirements. In instances where emergency purchases have been made, invoices received from the vendor will be processed in the same manner as for regular encumbrances.

For emergency purchases, Organizations will need to complete an Emergency Purchase Justification Form ([KK004](#)) and retain it in its files. This form will include a brief explanation of the emergency, a short description of the goods and services to be purchased, and space for the Cabinet Secretary/Organization Head to sign in approval. The actual financial transaction must be entered by the Organization into FSF as a direct claim voucher or as a purchase order. In either case, the description is to include the word “EMERGENCY.” For purchases that must be made immediately, a direct claim payment voucher must be prepared. In cases where the purchase must be made over an extended period of time, a purchase order must be prepared. The processing of direct claim vouchers and purchase orders go through the normal steps required.

All emergency purchases and POs will be periodically reviewed by DOA to determine the kinds of emergencies encountered. All Organizations are expected to limit the use of this procedure to bona fide emergency situations, and to comply with the State's procurement provisions as set forth in **29 Del. C., Chapter 69**.

7.5 Requisitions, Purchase Orders, and Change Orders

A PO is required for purchases exceeding \$5,000 (individually or in aggregate). Requisitions and POs require review and approval in the FSF system to create an encumbrance. All proposed purchases over \$5,000 require DOA review and approval in addition to any Organization level approvals. For a complete list of approval requirements, Organizations should refer to **Chapter 6 – Approvals**.

The Secretary of Finance, through DOA, reviews transactions to determine that:

- the request is authorized by law;
- the request is properly coded;
- the procedures set forth in the Budget and Accounting Policy Manual and the Delaware Code have been followed;
- funds are available to the department; and
- all authorized approvals have been granted.

If all these conditions are met, the transaction will be approved and the necessary funds will be encumbered. If the proposed purchase is not approved, it will be returned to the originator with an explanation.

Only approved POs and Change Orders may be dispatched to vendors. **Organizations are responsible for dispatching approved POs and Change Orders to vendors.**

7.5.1 Requisitions

A requisition creates a pre-encumbrance in FSF; not a formal obligation of funds. After a requisition is approved, FSF will create an approved PO (a formal encumbrance), usually through overnight batch processing. Organizations also have the option to manually source an approved requisition to a PO, if the Organization does not wish to wait for the nightly process.

Organizations may encumber for purchases using either the requisition or the PO functionalities of FSF.

7.5.2 Regular Purchase Orders

All General and Special Funds POs must be issued to specific vendors, unless exceptions are granted by OMB. See **Section 7.5.3 – Open Order POs**, below, for more information.

All POs must include a vendor identification number (VIN). A list of identification numbers for approved vendors is maintained by DOA. For instructions on how to make changes to vendor information, see the State of Delaware Substitute Form W-9 at <http://w9.accounting.delaware.gov/W9form.aspx>. To add a new vendor to the State's list of approved vendors, see the GSS website at <http://gss.omb.delaware.gov/contracting/index.shtml>.

NOTE: If a PO is supported by a contract, the contract number must be listed on the PO or Direct Claim voucher.

7.5.3 Open Order Purchase Orders

Occasionally, Organizations may wish to encumber funds for a purchase without designating a specific vendor. These non-specific vendor POs are called Open Order POs.

All requests to establish Open Order POs require concurrent approvals from the OMB Director, and the Secretary of Finance. After the Open Order PO has been approved, purchases are governed by normal purchasing procedures.

NOTE: Special approvals are only required when Organizations **establish** an Open Order PO. Regular processing is used to spend against the encumbrance, after it is approved, and to process all payment vouchers.

School districts are permitted to establish Open Order purchase orders for school bus contractors **without** prior approval(s) from OMB. These POs still require DOA approval if the amount is greater than \$5000.

7.5.4 Next Fiscal Year Purchase Orders – School Districts

As previously noted, agencies may not enter into any contracts or agreements, or incur any expenses, which will result in an obligation in excess of an agency's appropriation (**29 Del. C. §6519(a)**). Since each year's appropriation is not effective until July 1, this requirement prohibits the issuance of POs for the next fiscal year, until July 1 of each year.

An exception to this policy is made for school districts to allow the schools to obligate school supplies or capital outlay items for the following school year with the provision that the obligation(s) shall not be due and payable until after July 1 of the next fiscal year (**29 Del. C. §6519(b)**). School districts may obligate funds on Next Fiscal Year POs beginning on March 1.

7.5.5 Fiscal Year Considerations for Purchase Orders

Organizations should encumber funds for year-end by specific vendor using the best estimates available. At year end, certain encumbrances may be carried over to the next fiscal year, while other encumbrances will revert back to the General Fund.

7.5.5.1 General Fund Purchase Orders & Reversions

Outstanding General Fund encumbrances that carry-over into the next fiscal year are referred to as Type 04 POs (excess amounts encumbered for a vendor). Type 04 POs are automatically reverted on June 30, the last day of the fiscal year, into

which the Type 04 PO was carried-over. Appropriations designated by the General Assembly as continuing are exceptions to this policy.

To pay an outstanding balance with a vendor after the encumbered funds have been reverted, Organizations must either request from OMB a transfer of funds from the Prior Year Obligations Fund, or a new PO must be issued for the vendor. This new PO will be encumbered against the new fiscal year appropriation.

7.5.5.2 Special Fund Purchase Orders & Reversions

Special Fund POs (Type 20, 40, and 50) will routinely be carried in FSF for up to two years. At the end of the second fiscal year, the system will verify any activity during the preceding 12 months:

- If there has been activity associated with the PO, such as a Change Order or payment, the PO will continue as is.
- If there has not been any activity associated with the PO, the open amount of the PO will be decreased to \$0, and the funds will become unencumbered available funds.

Type 30 Special Fund POs will always be decreased to \$0 after two years, whether or not there is any activity. For more information about Special Fund reversions, contact DOA.

7.5.5.3 Contingency Fund

Organizations may request a transfer from the Prior Year Obligations Fund, in the event a year-end liability exists for a vendor that was not anticipated, and therefore, a specific PO was not prepared. Requests should be directed to the OMB Director.

7.5.6 Change Orders

All adjustments to encumbrances, where the aggregate total is \$5,000 or greater, (approved POs) must be initiated by Organizations using a Change Order transaction, and submitted to DOA. Change Orders are to be used for all adjustments (increases or decreases) to both regular and Open Order POs.

The same approvals required to approve the original encumbrance are necessary to adjust the PO. However, when a modified PO amount exceeds a higher dollar threshold (e.g., \$5,000), additional approvals are required.

NOTE: Only dispatched POs may be altered with a Change Order. If an approved PO has **not** been dispatched, the Organization should modify and process the PO through FSF workflow for a PO approval.

If a specific PO is cancelled, the Organization will notify the vendor in writing.

7.5.7 Purchases of Capital Assets

Requisitions are recommended to be initiated in FSF for purchases of capital assets. Organizations should enter asset category information into the system prior to the purchase of the asset. After the capital asset has been purchased, FSF will forward the transaction information to DOA for further processing.

Organization personnel are responsible for entering product information into FSF upon receipt of goods (e.g., model number, identifying information, etc.).

Organizations should contact DOA's Asset Management staff for assistance, if required. Additional information about the State's Asset Management requirements can be found in **Chapter 13 – Asset Management**.

7.5.8 Credit Cards

Agencies and school districts may not use credit cards registered in the name of the employee, agency, school district, or State which could create an obligation of the State, except as specifically and duly authorized by the Secretary of Finance. Only oil company, telephone, or contract credit cards may be authorized for such purposes, and the use of such credit cards is subject to all policies and procedures established by the Secretary of Finance (**29 Del. C. §6505(c)**).

An approval for a credit card is only good for one fiscal year. Organizations must renew all credit card approvals at the start of each fiscal year in order to continue to use the card(s). For more information about State-authorized credit card use, Organizations should refer to **Chapter 12 – PCard**.

7.6 Disbursements

The Secretary of Finance is responsible for safeguarding and systemizing the expenditure of State funds. State monies may only be expended to carry out the functions of State Organizations. The OMB Director is responsible for directing agencies in the manner and method in which forms of indebtedness are presented, including salaries of officers and employees (**29 Del. C. §6514(a)**).

Monies drawn from the State Treasury to pay employee salaries and expenses, to defray the expense of any agency, on account of any contract for building or repairs, to purchase property, for work and labor performed, or for materials or supplies furnished to any agency must be presented to, reviewed, and approved by an approving official of the agency being charged (**29 Del. C. §6515(a)**) and by the Secretary of Finance, as required by this Manual. The Secretary of Finance may not make any requirements that will unnecessarily interfere with the prompt payment of amounts due and may not cause the payment of salaries to state officers to be delayed beyond the due date (**29 Del. C. §6517**).

For the payment of expenditures in which bills or statements are rendered, a Payment Voucher (PV) is used in the FSF system. For the payment of salaries, pensions, or any other expenditures in which bills or statements are not renderable, the Secretary of Finance shall present a signed statement authorizing the payment of the amounts due (**29 Del. C. §6515(d)**).

The Secretary of Finance may refuse to approve payment for an invoice or bill only, if the invoice or bill:

- More than exhausts the appropriation from which it must be paid;
- Has not been presented in accordance with this Manual and Title 29, Chapter 65 of the Delaware Code;
- Is not in accordance with the contract under which the indebtedness was created;
- Does not have required supporting documentation or information; or
- Involves any transaction or item not in accordance with law.

This action does not apply to the payment of the principal or interest on any obligation of the State.

(29 Del. C. §6518)

Specific information regarding the required approvals for processing regular and Direct Claim Vouchers is located in **Chapter 6 – Approvals**.

7.6.1 General Information

All vouchers, issued by any Organization, are paid by the State Treasurer upon certification by the officers of the Organization. The approval of the Secretary of Finance is required for vouchers totaling more than \$5,000. Methods of payment may include checks, drafts, (**29 Del. C. §2707**) and electronic payments.

Organizations must provide the vendor's invoice number and invoice date on all vouchers processed in the FSF system, to ensure payments from the State are properly credited to

the account. The vendor's invoice number is used as a reference on the pay advice (check stub). Vendor's invoice numbers should be meaningful and unique. FSF will only process vouchers that have a unique vendor, vendor invoice number, and invoice date combination.

Upon processing of an approved voucher, the encumbrance will be liquidated, in whole or in part, as the situation requires, and the expenditure will be recorded. If a voucher is not approved, it will be returned to the department with an explanation.

Organizations should not hold back payments until the PO can be paid in total. Organizations should encourage partial billing by vendors.

7.6.2 Regular Vouchers

Regular Vouchers are also referred to as PO Vouchers and Payment Vouchers (PVs). Vouchers may be used for Direct Claim payments, or a voucher can reference a PO.

Organizations should note the receipt of goods and services covered by a PO, either through FSF Receiving functionality, or by noting "OK to Pay" on the paper invoice. The Organization then prepares a voucher. If the vendor's invoice and the PO are not in agreement, the difference must be charged or credited to the proper account on the State's PO, as a Change Order or as a Direct Claim, as appropriate.

7.6.3 Reversal Voucher

A Reversal Voucher is used to correct a voucher that has been posted and paid. The Reversal Voucher references the original voucher number and can be used to reestablish an encumbrance.

A Reversal Voucher can be used to correct a paid voucher for the following reasons:

- To detach a PO and direct claim the invoice line(s);
- To correct a direct claim voucher to reference a PO;
- To correct the PO or PO line referenced; or
- To change the amounts on the Distribution Lines, but not the Total Invoice Amount (the Total Invoice Amount of the correcting voucher must match the original voucher).

Reversal Vouchers may not be used when either the PO on the original voucher or the PO to be referenced on the correcting voucher has been closed.

Organizations submit a request for a Reversal Voucher to the FSF Service Desk, via email or phone. A Voucher Reversal Request Form ([AP008](#)) is completed and submitted to the FSF Service Desk to streamline the process.

FSF Service Desk staff will review and, as needed, confirm the original and new coding requested by the Organization, prior to including as part of a service ticket and forwarding to the FSF AP Team for processing.

The FSF AP Team will process the Reversal Voucher to "undo" the initial voucher. After canceling the initial voucher, the FSF AP Team can then process a new voucher with the correct information.

The FSF AP Team will contact the Organization to request that they review and approve the Reversal and Correcting Vouchers. These vouchers must be approved the same day so they will net to zero.

7.6.4 Journal Voucher

A journal voucher is used to process corrections when Organizations need to recode a prior transaction.

A journal voucher can be used to change the coding of:

- Posted Vouchers
- Cash receipts pertaining to grant or project expenditure reductions
- Cancellations of prior fiscal year payments

When processing a journal voucher to correct prior funding, reference the original voucher, using the comments section when combining vouchers.

Since the purpose of journal vouchers is to correct accounting entries, the voucher must be a zero-dollar voucher. The first Distribution Line of the journal voucher will reverse the accounting entries from the original transaction. The second Distribution Line will charge the voucher to the correct accounting string.

7.6.5 Intergovernmental Vouchers (IV)

An Intergovernmental Voucher (IV) is used for purchases where the Buying and Selling parties on a transaction are both State Organizations. An IV permits transactions between Organizations without the issuance of a check (via a voucher) and the subsequent execution of a cash receipt (CR) and bank deposit.

NOTE: Organizations may only effect payment to another State Organization using the Voucher-Check-CR-Bank deposit sequence with the **prior** approval of the Director of DOA.

7.6.5.1 Reimbursement for Services and Supplies

All state agencies which supply goods or services to any other state agency, governmental agency, person, corporation, partnership, or business are reimbursed for the full cost of the rendered goods or services. Reimbursements must be made within 30 days of billing. Full cost includes all purchase, out-of-pocket, other employment, and overhead costs, computed in accordance with this Manual and accepted governmental accounting principles.

An exception to this policy is made if, after a written request by an agency, the Governor (or his designate) decides that full cost reimbursement is not in the best interests of the State. If such a determination is made, reimbursement for the full cost of the goods or services provided will not be required until June 30 of the next odd year. This exception does not apply to specialized transportation authorities created pursuant to Chapter 17 of Title 2. **(29 Del. C. §6531)**

7.6.5.2 Special Fund Direct Bill Recoveries

Central service allocations, identified by State Special Fund activities, will be recovered from State Organizations, without exception, and turned over to the appropriate central service Organization. These Special Fund activities include:

1. Audit activities of the State Auditor
2. Personnel activities by OMB
3. Information technology services provided by DTI
4. The Printing and Publishing services provided by OMB's GSS
5. Telephone Services provided by DTI
6. Fleet services provided by OMB's GSS
7. Mail services provided by OMB's GSS
8. Surplus Food Distribution services provided by OMB's GSS

7.6.5.3 Inter-Organization and Intra-Organization Reimbursement

An IV is usually initiated by the Selling Organization. Intergovernmental Vouchers consist of two types: manual and automated.

Manual Intergovernmental Vouchers (MIVs) are originated online. The Seller Organization initiates the IV transaction and notifies the Buyer Organization. After both Organizations mark the IV complete in FSF, a nightly process builds

the IV Voucher.

Automated Intergovernmental Vouchers (AIVs) are automatically produced by different Organizations. DTI produces a monthly automated IV billing for telephone services. Other monthly automated IV billings include Fleet, Postage, Printing, and Food Distribution, which are produced by OMB.

In these instances, both DTI and OMB are considered the Seller Organizations. The Seller Organization loads data files into FSF, which generates the IVs. These IVs are automatically approved for the Seller Organization. Only the Buyer Organization must review and mark the IV as complete in FSF.

Intra- and Inter-Organization billings should be made on a monthly basis utilizing one form for each Organization from which goods or services are being received. An exception will be made in the month of June when billing may be on a weekly basis, to facilitate a timely year-end close-out.

7.6.5.4 Inter-Organization and Intra-Organization Transfers

Additional information regarding Inter-Organization and Intra-Organization Transfers is located in **Chapter 4 – Budgeting, Section 4.6 Budget Transfers** and **Section 4.7 Cash Transfers**.

Additional information regarding required approvals for IV transactions is located in **Chapter 6 – Approvals**.

7.6.6 Travel-Related Payments and Personal Reimbursements

7.6.6.1 Travel

Travel advances are prohibited. Payment for all travel-related, approved expenses should be made using the Delaware Travel Card. However, in cases where this option is not possible, travel-related expenses will be reimbursed using a voucher. See **Chapter 11 – Travel Policy, Section 11.5 Travel Expense Reimbursement** for the policy regarding travel reimbursement.

7.6.6.2 Food

Employees are not provided or reimbursed for food consumed in-State, during normal working hours. Exceptions are made for the following instances:

- Employees of state agencies who regularly receive wages-in-kind in addition to their salaries;

- Employees of the Delaware Economic Development Office;
- The expenditures of funds for food supplies as part of employee recognition activities established pursuant to § 5950 of this title;
- The expenditures of funds for food supplied as part of an agency training function, such as a retreat or workshop, held away from the agency's home location.
- State Police recruits during the period of their training; or
- Circumstances where approval has been granted by the Director of the Office of Management and Budget and the Controller General.

(29 Del. C. §5112)

For implications on employee taxes when a meal or meal reimbursement is provided, Organizations should refer to **Chapter 14 – Payroll Compliance, Section 14.6.3.**

Non-state employees, except clients of State-administered programs, are not provided or reimbursed for food unless approval has been granted by the Director of the Office of Management and Budget and the Controller General. For this purpose, client is defined as a person who is receiving the benefits, services, etc., of a State-administered program. The program must allow the use of funds to cover food expenses. The purchase of food must support the achievement of program objectives and must be limited to necessary, reasonable, and actual costs.

7.6.7 Gift Cards

State-administered programs may allow clients to receive cash or cash equivalent items (e.g., gift cards.) Organizations must adhere to the rules of the program, and where gift cards may be purchased, an inventory process must be in place in order to manage the purchase, custody, and disbursement of the cards. The inventory process must be established prior to purchasing any gift cards.

7.7 Additional Payments Information

Voucher processing in FSF offers a number of options to increase the efficiency, cost-effectiveness, and timeliness of payments. For additional information about the following processing methods and requirements, Organizations should contact DOA.

7.7.1 Payment Consolidations

Multiple payments to the same vendor are automatically consolidated by FSF, whenever possible. Organizations may manually override system default settings for a transaction to stop a single payment from being consolidated.

Payments will consolidate Statewide, whenever possible. For a limited number of vendors, school payments will consolidate by district. Each payment advice will list all the vendor invoices associated with the payment.

7.7.2 Payment Handling Codes

Payment Handling Codes are set to a default value in FSF, as part of the Vendor set-up process, but Organizations can adjust the Payment Handling Code during the processing of individual voucher transactions, as needed. Each vendor can only be set up with one of the following Payment Handling Codes:

- RE (Regular);
- CA (Call agency/school for pick up);
- PR (Payroll vendor checks); or
- RA (Return to agency/school by mail).

Payment Consolidation assists the Office of the State Treasurer (OST) in the distribution of checks. Organizations may not change the Payment Handling Code associated with a transaction after the pay cycle process has begun (usually an overnight process).

School districts have unique Payment Handling Codes for each district, to consolidate payments by district. School districts must change the Payment Handling Code on each Voucher for proper processing.

7.7.3 Single Payment Vendors

Single Payment Vendors are vendors the State pays only once for a non-taxable event. Organizations are not permitted to use Single Payment Vendors for any taxable events. Non-taxable, single payment events include, but are not limited to, revenue refunds, pension refunds, school bus training, and grants for violent crimes. Any Organization with questions regarding which vendors are eligible to be Single Payment Vendors, or requiring additional information on the complete list of non-taxable events, should contact DOA.

7.8 Debt Service

The State Treasurer is the administrator of the State's debt service. The State Treasurer executes the State PV for payment of the State's indebtedness as a result of its borrowing program (**29 Del. C. §7417(b)**). Vouchers in payment of school district indebtedness are forwarded to the appropriate school district for approval, prior to approval from DOA. Bonds, notes, revenue notes, and the interest associated with each are payable at places inside and outside of the State, as the issuing officers may determine (**29 Del. C. §7408**).

7.9 Loan Disbursements

Organizations authorized to disburse funds to another Organization or outside entity as a loan are not required to encumber funds. The Organization must maintain all documents that support the loan (e.g., loan agreement, amortization schedule, etc.)

7.10 Grant-Related Payments

7.10.1 Grants-in-Aid Payments

Funds appropriated in the Grants-in-Aid bill will be paid in installments of 25 percent, each quarter of the fiscal year. If a Grants-in-Aid total is \$6,000 or less, it will be paid on an annual basis. The General Assembly may make exceptions to this installment policy by adding epilogue language to the Grants-in-Aid bill (**29 Del. C. 6505(d)**).

7.10.2 Interest Earned on Grants-in-Aid

Interest earned on deposits of Grants-in-Aid monies are credited to the fund associated with the grant.

7.10.3 Pass-Through Grants

Federal funds passed through from one State Organization to another State Organization must be done using a Budget Transfer or a Budget Journal transaction, not with a PV or an IV. Only OMB may execute this transaction.

7.11 State-Issued Refunds

This section details the requirements for State-issued refunds. Organizations should refer to **Chapter 9 – Receipt of Funds, Section 9.3.5**, for policies pertaining to refunds received by the State.

7.11.1 Refund of Improperly Collected Fees

In the event any agency improperly collects fees or receipts that become revenue to the General Fund, the State Treasurer has the authority (except as otherwise provided specifically by law) to make a refund from the General Fund, after certifying with the collecting agency that the fee or receipt was improperly collected and deposited. **(29 Del. C. §2713)** The State Treasurer will execute a Direct Claim Voucher charging the expenditure to the Refunds and Grants appropriation.

7.11.2 Tax Refunds

If the refund is for the Current Year corporate and personal tax, the refund payment is processed through the Division of Revenue's (DOR) automated system. A Journal Entry (JE) transaction is executed to enter this data into FSF. The JE reflecting the summary of refunds by appropriation and account code is prepared by DOR and approved by the State Treasurer. The summary refund information is coded to the State Treasurer's Refunds and Grants appropriation and sent to DOA for processing.

If the refund is not for the Current Year corporate and personal tax or if the refund is for some other tax, the refund payment is not part of DOR's automated system. The refund payment is generated by DOR using a voucher, approved by the State Treasurer.

7.12 Outside Bank Accounts

Organizations may request a bank account to be held outside of FSF for purposes of supporting its own programs and policies under the State's EIN. Such accounts are considered "outside bank accounts," and they are classified as either "petty cash" or "non-petty cash."

Petty cash accounts are used for small purchases when the use of the State's purchasing card is not feasible or possible. Petty cash outside bank accounts may only be used for State business.

Other outside bank accounts using the State's EIN are non-petty cash accounts, and may only be used for the following purposes and/or activities:

- Escrow
- Student and school

- School food service/cafeteria
- State park
- Hospital resident
- Protective services
- Child support
- General assistance
- Bail and court fines
- Inmate holding accounts
- Bookstore and museum
- Public safety
- Unemployment insurance fund
- Workers compensation
- Delaware Economic Development Authority (DEDA)
- Delaware Department of Transportation (DelDOT) real estate fund

Use of the State's EIN is not permitted for opening or maintaining an outside bank account except as provided above. See Section 7.12.4 for policies regarding Non-State Outside Bank Accounts.

7.12.1 Opening/Closing Outside Bank Accounts

Organizations must follow the guidelines listed below to establish or close a bank account outside of FSF using the State's EIN:

1. Organizations must complete a Request to Open Bank Account Form (TR1-a), obtained from OST. All required information such as justification for the account, the dollar range of the account, and the estimated dollar value of activity to occur during the year must be included. If part of this activity will require cash on hand, it is limited to \$50 at any time and will need to be included in the request.

The State has developed contracted relationships with certain banks and will only approve a new bank account with such financial institutions. A list of approved banks and branch locations can be found on the OST website.

2. Once approved, OST will notify the Organization and DOA by email so that the bank account information may be added to the Organization's vendor record in FSF.
3. Annually, OST will confirm the need for the bank account still exists to ensure the purpose matches the reason for opening the account.
4. To close an outside bank account, Organizations must submit a Request to Close Account Form (TR1-b) to OST. For a copy of this form, Organizations should contact OST with the subject line, "Request to Close an Outside Bank Account Form," point of contact, and name of Organization. Upon receipt, OST will email

the form to the Organization and DOA to be recorded to the Organization's vendor record in FSF.

7.12.2 Petty Cash Account Management and Replenishment

A petty cash account is an external bank account established for acquiring and paying for small value purchases when the State PCard cannot be used. The purpose of the account is limited to State business only.

Generally, the maximum authorization is \$2,000. However, amounts not exceeding \$5,000 for the Organization as a whole may be requested where exceptional circumstances exist. **(29 Del. C. §6520(a))**

7.12.2.1 Account Management of Petty Cash Accounts

With respect to making petty cash payments and managing petty cash accounts, the Organization will:

1. Maintain an internal control policy for petty cash.
2. Maintain the approval for opening the petty cash account, along with names and signatures of those persons authorized to sign petty cash checks.
3. Designate an account custodian who will be responsible for the preparation of petty cash payments.
4. Draw petty cash checks in consecutive numerical order.
5. Ensure petty cash checks are signed by two Organization employees.
6. Ensure proper segregation of duties by not allowing the account custodian to sign the checks.
7. Draw petty cash checks for no more than \$250.
8. Process payments over \$250, but not exceeding \$5,000, as direct claim vouchers in FSF.
9. Prohibit the use of petty cash to pay a vendor or an employee that is established in FSF. Any such payment should be processed as a voucher in FSF.

10. Prohibit the use of petty cash to purchase materials, supplies, or services when payment by voucher or State PCard is accepted.
11. Prohibit the use of petty cash to issue a cash advance, as cash advances are prohibited.
12. Prohibit the use of petty cash in any situation where a special approval is required.
13. Prohibit the use of petty cash to purchase personal items for employees.
14. Maintain a ledger of all transactions for reconciliation to the bank account, and reconcile the ledger to the bank statement each month.
15. Maintain the statement and reconciliations based on the Organization's archiving policies.
16. Review General Fund and Appropriated Special Fund petty cash accounts at the end of each fiscal year to determine if they are still needed.

7.12.2.2 Replenishments to Petty Cash Accounts

Petty cash funds may be replenished as often as necessary. To replenish a petty cash account, an Organization should process a direct claim voucher to DOA, payable to the Organization, supported by the following required documentation:

1. Expenditure totals by appropriation and account code;
2. A copy of the petty cash account bank statement; and,
3. The supporting reconciliation documentation attached to the voucher.

The Organization must retain all receipts and supporting documentation for audit purposes. Follow the retention policies referenced in **Chapter 2 – Internal Controls**.

7.12.3 Non-Petty Cash Account Management

A non-petty cash account is an account used to make payments on behalf of an Organization to meet the goals or mandates of their Organization's mission.

With respect to making non-petty cash payments, deposits, and managing non-petty cash accounts, the Organization will:

1. Maintain an internal control policy for outside accounts.
2. Maintain the approval for opening the account, along with names and signatures of those persons authorized to sign outside account checks.
3. Identify an account custodian, who is responsible for the preparation of non-petty cash payments
4. Draw checks in consecutive numerical order.
5. Ensure that checks are signed by two Organization employees.
6. Ensure proper segregation of duties by not allowing the account custodian to sign the checks.
7. Maintain a ledger of all transactions for reconciliation to the bank account, and reconcile the ledger to the bank statement each month.
8. Maintain the statements and reconciliations based on the Organization's archiving policies.

7.12.4 Non-State-Business Accounts

Organizations are required to establish and use their own EIN for outside bank accounts that support non-State activities such as employee sunshine accounts, booster clubs, volunteer entities, and foundations. Any Organization using such an account must ensure that controls and procedures are in place to properly manage funds.

7.13 Transfers to Accounts External to FSF

Transfers to an Organization's account, external to FSF, are not required to encumber funds. However, when disbursing payments from the external account, Organizations must adhere to the same policies as payments disbursed from FSF. Approvals will be retained by the Organization and proof of such approvals must be produced if requested by DOA for audit or other purposes.

7.14 Payment of Officials and State Employees

Payment of earnings to State officials and employees, both salaried and hourly, is accomplished through PHRST (Payroll Human Resources System Technology).

7.14.1 Pay Dates

The salaries of State officials and employees are paid on a bi-weekly basis (**29 Del. C. 2712 (a)(1)**). The bi-weekly payment represents earnings for the period ending 14 days prior to the check date for all State officials and employees (**29 Del. C. 2712 (a)(2)**).

If any of the above dates of payment falls on a holiday, payment shall be made on the last working day prior to the specified date of payment (**29 Del. C. §2712 (a)(3)**). Methods of payment may include checks, drafts, direct deposits, and electronic funds transfers (**29 Del. C. 2712 (b)**).

7.15 Payroll Funding Adjustment (PFA)

The Payroll Funding Adjustment (PFA) Bolt-On application provides a mechanism for the State of Delaware's Organizations to correct payroll expense distribution. PFA allows Organizations to redistribute Payroll charges that arise from coding errors, retroactive funding, funding shortfalls and other business practices. The PFA application must adhere to the traceability and audit ability requirements.

Every payroll funding adjustment transaction must be traceable to a tangible business event. The State requires the ability to look at an individual employee's pay and trace it from the source in PHRST to the appropriations used to fund this individual. That is, DOA must be able to look at the work the individual is assigned and make the determination that the funding is appropriate for the work. Payroll funding adjustments must be made at the paycheck level and are associated with a single individual.

The Expired Appropriations Process (EAP) manages expired appropriations in FSF. When an appropriation referenced in a payroll chartfield string is expired, FSF does not allow the payroll-related transaction to post to that appropriation. The payroll transaction is modified by the EAP and charged to the Unfunded Payroll Appropriation.

The Unfunded Payroll Appropriation is a new, zero-balance appropriation, established in FSF to house "kickers." Organizations must clear balances on a regular basis. The PFA is used to redistribute charges from the Unfunded Payroll Appropriation to an active appropriation, thereby clearing the Unfunded Payroll Appropriation. Payroll transactions will continue to kick on future payroll charges until the source is corrected. To permanently correct an expired line of funding, PHRST End Users must locate and recode the source of the expired appropriation in the PHRST system.

7.16 Vendor Information

If a vendor has not previously done business with the State or changes to the vendor's data are needed, the vendor is responsible for properly registering or updating the vendor record through the State's automated Vendor W-9 process, which is accessible through the DOA website, www.accounting.delaware.gov.

IRS standards dictate that all vendors receiving payment from the State must have a valid vendor name and Taxpayer Identification Number (TIN) combination. All vendors must be successfully TIN matched against IRS records prior to the disbursement of payment. Vendors that have been successfully TIN matched may be selected to process requisitions, purchase orders, and vouchers. **Purchases may only be made using vendors who have completed vendor registration and have been TIN matched by DOA.** Organizations should contact DOA for assistance or questions relating to vendor requirements.

Vendors must be set up and activated in the vendor table in order for the system to issue payments. State employees must also be set up in the vendor table. State employees must complete vendor set up by submitting the State's automated DE Employee Vendor Form, which is accessible through the State Employees section of the DOA website <http://www.accounting.delaware.gov/communications.shtml>

Foreign Vendors, those established outside of the United States, are responsible for completing and submitting a W-8 form for review and approval. Purchase Orders and Vouchers cannot be established until the vendor's W-8 form is approved by DOA. IRS standards require different types of W-8 forms depending on the entity type. The instructions for completion of the W-8 and its corresponding forms can be found on the IRS website. Per IRS Publication 515, certain Foreign Vendors are subject to a 30% withholding.

All Foreign Vendor payments must be paid from FSF. Foreign Vendors must not be paid through outside accounts due to IRS reporting requirements. Organizations should contact DOA for assistance or questions relating to Foreign Vendor requirements.

Once a Foreign Vendor is established in the system and made active:

- Contracts must be attached to all Purchase Orders when using a Foreign Vendor.
- Invoices must be attached to all vouchers in the system when paying a Foreign Vendor.
- Purchase Orders can be created and payment can be made to the vendor.
-
- When applicable, Foreign Vendors must include the following representation on their Invoices "*No services were performed within the United States*".

7.17 Payment Dates

The payment date of an invoice or bill will be the date appearing on the vendor check issued by the State. The State shall make every effort to issue payments to vendors within 30 days of the:

- Presentation of a valid invoice on which a State Organization is liable to make payment; or
- Receipt of goods or services, if received after the invoice or bill.

The Organization must determine what constitutes "Received". Organizations should date and time stamp all incoming invoices or bills. Organizations also have the option of using the Receiving functionality of FSF.

Payment Vouchers requiring DOA approval should be forwarded to DOA (via FSF) with at least five working days remaining in the 30-day period to ensure timely payment:

- Transactions will be processed in the order received.
- There is no guarantee of same day processing.
- A fax or copy of a document will not be accepted for processing unless an emergency situation exists and with the approval of DOA.

7.17.1 Contested Invoices or Bills

Organizations do not have to make payments or accrue interest charges on portions of an invoice or bill which is contested on reasonable grounds by the Organization, provided the Organization notifies the vendor, in writing and within a 30-day period, detailing the reasons for contesting the invoice or bill.

7.17.2 Vendor Interest Charges

A vendor may require that interest commence from the end of the 30-day period and continue until payment. The interest rate shall not exceed annualized rate of 12 percent. Instead of interest, vendors may charge a "penalty," which is not permitted. All interest charges shall be paid by the Organization receiving the goods or services from the vendor.

Payment of General Fund and Special Fund interest charges accrued by an Organization are processed as a Direct Claim, using funds appropriated for contractual services. OMB will record payments for this purpose separately from "other contractual services". Organizations of public or higher education may make payments from local or State General Funds not restricted to another purpose.

If the Organization believes the interest charge was incurred through no fault of its own, an appeal may be made to OMB and Controller General. If, in their opinion, the receiving Organization demonstrates that some other Organization(s) bear greater responsibility for

causing the delay which occasioned the payment of interest, the responsible Organization(s) shall reimburse the receiving Organization for the interest charge.

The Secretary of Finance will report to the Controller General on January 15 and July 15 of each year:

- The name of any Organization which has, within the first six months, paid interest to a vendor;
- The number of interest payments made by each Organization; and
- The total amount of interest paid by each Organization.

7.17.3 Vendor Discounts

Every effort must be made to take all discounts allowed by vendors. This policy requires vendors' invoices to be processed as expeditiously as possible. All Organizations should seek to obtain discount terms when negotiating purchases with a vendor.

7.17.4 Advance Payments to Vendor

Payments to vendors are to be made only after goods or services are received. The only exceptions to this policy are where:

- Advance payments are standard business practices (e.g., maintenance contracts, subscriptions, registration fees, airline reservations).
- An advanced payment is in the State's best interests. Requests for such advance payments must be in writing to the OMB Director, and receive the concurrent approval of the OMB Director and the Secretary of Finance.

7.18 Checks & Drafts

The standard method of generating a check is through FSF. When all approvals have been entered for a voucher, FSF will process the necessary check, as scheduled (generally, the next overnight batch job). Checks are then sent to OST for verification and signature (**29 Del. C. §6516(a)**).

7.18.1 Check Processing Requirements

The signing of a check or draft by the State Treasurer may either be by hand, using pen and ink, or by a check signing machine imprinting the facsimile signature of the State Treasurer (**29 Del. C. §2706(a)**).

All checks are drawn in consecutive numerical order (**29 Del. C. §6516(b)**). The Secretary of Finance will periodically verify that the State Treasurer has drawn no checks other than those accounted for as described in **29 Del. C. §6516**.

Checks or drafts issued by the State Treasurer will not be honored after the expiration of six months from the date of issuance. (**29 Del. C. §2706(b)**) The State processes manual warrant transactions, using vouchers to be paid by wire transfers.

7.18.2 Cancelled and Spoiled Checks

Any check that is written in error, or a check an Organization has decided not to forward to a vendor, must be processed for cancellation through OST. Organizations must complete a Payment Cancellation Request Form ([AP004](#)) and forward to OST the completed form, a copy of the voucher, and, if available, the physical check. The Treasurer's Office will verify the check against the outstanding check list and will forward the verified check and forms to DOA for cancellation processing.

Cancelled checks may be processed to reduce an Organization's expenditures, or cancellations may be processed to rewrite a new check without entries to the Organization appropriation account. Checks that need to be replaced will have a new check number if the cancelled check was issued. If a check was never issued (e.g., mangled during printing) the new check may have the same check number. Once a check has been issued, it may not be reprinted with the same check number.

NOTE: Contact the Organization's PHRST representative for information regarding the processing of cancelled payroll checks.

7.19 Tax Considerations

For the purposes of tax compliance, DOA will give notice to DOR of payments made to any corporation or business association when the aggregate payments during a fiscal year exceed \$2000. (**30 Del. C. §305**)

7.19.1 Levies and Garnishments against a Vendor

As the need arises, the Internal Revenue Service (IRS) and/or the State's DOR will send DOA a notice of a levy or a State of Delaware Tax Garnishment, in order to collect money owed by a taxpayer. These notices direct the Organization to make checks payable

to the vendor “in care of the IRS or DOR” with the appropriate IRS or DOR address. **A levy or garnishment cannot be removed until DOA receives written release from the IRS or DOR.**

When entering a voucher to a vendor that has a levy or garnishment applied to their Taxpayer Identification Number (TIN), Organizations may not add another suffix or omit the IRS or DOR name and address. A levy or garnishment requires the State to turn over all money obligated to the vendor or taxpayer. If a suffix is added and the money is sent directly to the individual, the Organization will be responsible for retrieving the money to satisfy the levy or garnishment.

Vendor checks should not be returned to an Organization in order to change the IRS or DOR name and address to the vendor’s address. The bank will refuse to cash or deposit the check and will notify OST of the change.

Organizations should contact DOA regarding any questions concerning levies and garnishments.

7.19.2 Tax Exempt Certificate

The State of Delaware is exempt from paying federal excise tax. According to the IRS, the buyer (State of Delaware) is to provide to the seller (the vendor) a certificate with this information. In January, DOA distributes the Certificate of Tax Exempt Status for the State of Delaware to Organizations via the annual Tax Exempt Certificate Accounting Memo. To determine if a purchase is tax exempt or non-exempt, Organizations should review IRS Publication 510.

7.20 Form 1099

DOA produces IRS Information Returns annually for payments made through FSF. Reporting includes Forms 1099-MISC, 1099-G, and 1099-INT. DOA primarily reports non-employee compensation for payments made to vendors in the course of the vendor’s trade or business on a Form 1099-MISC. Rent, medical and health care payments, and payments to attorneys are also reported on a Form 1099-MISC. Also reported are agricultural payments on a Form 1099-G and interest income on a Form 1099-INT.

DOA consolidates all Form 1099 reportable payments to vendors into a single file for 1099 reporting. Any State Organization that files a paper 1099 is subject to a fine/penalty for each form submitted to the IRS per Section 6011(e)(2)(A) of the Internal Revenue Code. Exceptions to this rule include Organizations that produce Forms 1099 of a unique type or for a unique purpose. All exceptions must be reviewed by DOA.

Vendor 1099 reportable status is established when the vendor submits a Delaware Substitute Form W-9, which can be found on the DOA website, www.accounting.delaware.gov. The dollar threshold for Form 1099-MISC reporting is \$600. The dollar threshold for Form 1099-G is any amount and for Form 1099-INT is \$10.

FSF has a 1099 External Transactions component in place to enable capturing 1099 reportable payments made outside of FSF. However, the best practice is to process all vendor payments in FSF. Instructions for using this component are available at http://www.accounting.delaware.gov/DOA_Memos.shtml.

7.21 Documentation

Organizations are responsible for maintaining supporting documentation for Organization transactions. Organizations have the option of attaching (scanning) supporting documents to the transaction in FSF, or Organizations may retain supporting hardcopy documents in compliance with the Document Retention schedules set forth by the Delaware Public Archives.