

## AAM 35. EXPENDITURES

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<b>AAM 35.010      Expenditures (10-10)</b>
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[Article IX, Section 13](#), of the State Constitution says, "No money shall be withdrawn from the Treasury except in accordance with appropriations made by law." Appropriations represent legislative authorizations for agencies to incur obligations and expenditures within limitations as to the period, purpose, and amount.

[AS 37.10.010](#) provides that the Department of Administration shall disburse money only upon vouchers certified by the originating agency after they are in proper form, certified, approved, and computed on the basis of the facts certified. [AS 37.05.170](#) provides that no payment may be made unless the Department of Administration certifies that an unencumbered balance is available and an expenditure authorization has been made for the purpose.

Payments are made directly to vendors for goods and services, except for necessary out of pocket purchases made by employees on travel status and items purchased with state charge cards. This policy serves multiple objectives: separates the approval and payment functions; maintains complete accounting records of state purchases; and gathers the information necessary to issue 1099-MISC forms.

<b>AAM 35.020</b>	<b>Support for Payments (04-09)</b>
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As a general rule, an invoice must support every payment made by the state. An "invoice" includes a sales slip, statement, bill, or other written demand for payment of goods or services. Exceptions to the requirement for an invoice are:

Payments for personal services made through the payroll system.

Payments on contracts for fixed monthly amounts, i.e., leases.

Payments on construction contracts, if the amounts are supported by estimates of completion prepared by state architects and engineers.

Postage, subscriptions to magazines and books, and other cases where payment in advance may be required.

Payments made for on-line purchases in which no invoice is received. In these cases, support for payment should include the completed on-line order summary page and confirmation email received for the purchase. This confirmation should include name of individual who made the purchase, the vendor name, date of purchase, description of item(s) purchased, and amount of purchase.

<b>AAM 35.030</b>	<b>Vendor Invoice Forms (04-09)</b>
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Invoices must be billed to the State of Alaska or to an agency of the state. Invoices not issued on printed billing documents must be signed by the vendor or the person furnishing the goods or services, or include some other identifying information regarding the vendor.

Disbursement generally requires an original invoice for support. If the original invoice is not available, or if the support consists of an agency-generated printout of web site information, a prepayment review of processed transactions should be documented on the support to prevent duplicate payments.

Every invoice or supporting documentation should contain the following information:

Contract number or purchasing document reference number.

An itemized description of the goods or services provided.

Prices for each item or increment of service.

Extended prices.

The vendor's valid taxpayer identification number, if the goods or services provided are of a type that is required to be included on a United States tax information return as described in 26 U.S.C. 6041, 6041A, 6042(a), 6044, 6045, 6049(a), 6050A, or 6050N (Internal Revenue Code).

Any other documentation required by the contract or purchase order.

<b>AAM 35.040</b>	<b>Invoice Routing</b>
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Vendors should send invoices to the agency location where the goods were delivered or the services rendered. The only exception is when routing them elsewhere will expedite the payment process without significant risk of making an unauthorized disbursement. The payment transaction should be entered in the financial system at the agency location where the invoice was received.

<b>AAM 35.050</b>	<b>Receipt of Goods or Services</b>
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Upon receipt of an invoice, it is the responsibility of the agency to determine that the state has received the goods or services and to verify the reasonableness and propriety of the charge.

<b>AAM 35.060</b>	<b>Payment Approval (06-03)</b>
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When documentation is in order and payment should be made, approval for payment must be obtained by recording the signature of a person authorized to approve the payment. Electronic methods for approval, including email correspondence from authorized approvers, may substitute for the signature on paper support as long as individual accountability is maintained.

Each agency must develop approval procedures to meet their organizational requirements. Signature records and delegations for persons authorized to approve payments are required to be kept on file in the agency fiscal office. The administrative or fiscal officer of an agency may establish other guidelines that are reasonable and consistent with the

provisions of this section such as annual approvals on low risk payments for items such as utilities.

In order to process payments rapidly, they should be approved at the lowest level possible by someone with knowledge of the transaction who was not responsible for the purchase. In remote locations or other cases where segregation of these duties is not possible, increased scrutiny of the expenditure audit trails by another knowledgeable individual is required to compensate.

<b>AAM 35.070</b>	<b>Credit Memos</b>
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At times, a credit memo may be received from a vendor. A credit memo has the effect of reducing the amount of the invoice that was previously sent to the state by the same vendor.

When a credit memo is received the agency should verify the dollar amount shown, determine the correct account code, and approve the credit memo. Any statement of fact, such as original invoice number, the warrant transaction number on which the original invoice was paid, and other facts pertinent to an understanding of the transaction, should be documented on the credit memo.

If the original invoice has already been paid, and the vendor regularly bills the agency, the credit memo is filed by vendor name in a pending file. When the vendor submits another billing, the credit memo is credited against the billing and the balance paid. If a credit memo cannot be processed within 30 days, a cash settlement should be requested from the vendor.

<b>AAM 35.080</b>	<b>Dollar Amount</b>
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Agencies are responsible for determining the reasonableness of the dollar amount of the demand for payment. This determination is made by reference to contract awards, agreements, approved fee schedules and published tariffs, etc.

The arithmetical accuracy of all invoices should be verified in detail, including extensions and footings. If the dollar amount on a vendor's invoice is incorrect, make the necessary corrections and include the appropriate explanation on the invoice. Have the warrant returned to the agency, and mail copies of the invoice with the warrant to the vendor.

Tax charges on an invoice are normally deleted, as the state is generally not subject to taxes. See the section on tax liabilities on vendor transactions.

Cash discounts offered by a vendor or specified in a contract are calculated and taken if payment is being made within the discount period.

<b>AAM 35.090</b>	<b>Duplicate Payment Control (07-09)</b>
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In any disbursement system there is always a danger of paying the same obligation twice. Frequently, if an item is not paid promptly, a vendor will send a duplicate invoice. If not paying from original invoice, safeguards reviewing the financial system to ensure invoice has not been previously paid should be performed.

<b>AAM 35.100</b>	<b>Prepayments of Charges, Contracts, and Lease Payments (10-09)</b>
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At times it is in the state's best interest to prepay contracts, leases, or charges. It is the disbursing agency's responsibility to clearly document why the prepayment is in the state's best interest (i.e., the discount provided by the landlord exceeded the interest the prepayment would have earned had the funds remained with treasury and the lease payments had been made over time). Prepayments in excess of \$1,000,000 should be brought to the attention of treasury for fiscal review of the revenue earning opportunity lost.

In many cases, prepayments will be for services covering more than one fiscal year. These prepayments will generally be recognized as an expense/expenditure in the year in which the funds are disbursed. However, prepayments may not be used to circumvent the budgeting process.

Scheduled payments due in July are charged to a suspense account in June. Journal entries are processed in July to clear this suspense account, and charge the appropriate years appropriation.

<b>AAM 35.110</b>	<b>Foreign Exchange Rate (10/12)</b>
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All state agencies doing business with foreign firms, if invoiced in other than U.S. currency, will obtain the current rate of exchange from a recognized financial source/media from the internet. Contact the Cash Management Office (465-2360) with any questions. Payment will be made directly to the vendor.

<b>AAM 35.120</b>	<b>Timely Payments, and Penalty and Interest on Late Payments (06-18)</b>
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In order to rapidly process invoices for payment, they should be approved and certified at the lowest level possible consistent with maintaining strong internal control.

[AS 37.05.285](#) requires that payment for purchases of goods or services, with some exceptions, must be made by the date specified under contract or by 30 days after receipt of a proper billing. [AS 37.05.285](#) also provides that if payment is not made on or before the required payment date, the state shall pay interest on the unpaid balance from the required payment date (with some exceptions). Payment of the interest shall be in accordance with [2 AAC 15.115](#), which requires a seller of goods to submit to the state agency a written request for payment of interest within 30 days after receipt of the payment.

Interest costs (including interest and penalties not covered by [AS 37.05.285](#)) shall be charged to the budget of the state agency that purchased the goods and services.

The provisions of [AS 37.05.285](#) do not apply:

- If the cost of the goods or services purchased exceeds \$500,000.
- To payment for specific goods or services in dispute after a seller of goods or services receives notice from the state official responsible for authorizing payment for goods and services that the amount of the invoice or quality of specific goods or services is in dispute and stating the reasons for the dispute.
- To a contract covered by [AS 36.90.200](#).

<b>AAM 35.130</b>	<b>Uniform Procurement (01-06)</b>
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Agencies are required to comply with [AS 36.30](#) and their delegation of authority under this statute prior to making any payment for procurement of goods or services.

<b>AAM 35.140</b>	<b>Unauthorized Expenditures (04-06)</b>
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Tangible items, services, and training that are required to conduct state business are generally authorized. Expenditures that are not essential to state operations are generally unauthorized. Unauthorized expenditures include those that have no clear public purpose or benefit individual employees more than the state.

The following list includes examples of items that are generally not authorized. An agency head may specifically authorize listed items when the mission of the agency or the business requirements for individual job duties justify such an expenditure.

**Printing:** Printing of a personal nature, such as personal letterhead stationery, holiday cards, or personal photographs. (Photo galleries maintained as state property are generally authorized.)

**Fixtures and Equipment:** Nonessential office fixtures and equipment such as personalized items, occasional furniture, wall pictures or framing of same, pen and pencil desk sets, etc. (Microwave ovens, refrigerators, and other reasonable kitchen equipment for offices and break rooms may be purchased with approval by the appropriate agency head.)

**Determinations on furnishings** such as carpeting, draperies, and planters must be made by the Division of General Services or Department of Transportation and Public Facilities, depending on who manages the building. State expenditures for purchase of these items without prior approval are prohibited.

**Foodstuffs and Utensils:** Coffee, doughnuts, or other food, unless reviewed by the appropriate agency head and deemed necessary for such state functions as training, conferences, board meetings, or other gatherings, and not to exceed a reasonable amount.

**Dues:** Dues for personal memberships in professional and technical associations and organizations when state agency membership is available.

**Other:** Any items similar in nature or content to the above listed items that cannot be justified as essential in the administration or conduct of a state office or program.

Expenditures on employee recognition and service awards are authorized in accordance with guidelines developed by the Division of Personnel. See [AAM 100.090](#).

Proper and adequate control in the handling of public funds is the responsibility of all state administrators. To a great extent, the success and adequacy of stewardship in state government is measured by the integrity and the propriety of acts of state administrators. All department heads and administrators are required to join in the intent and purpose of this section, and guidance should be sought from the Division of Finance when questionable situations arise.

<b>AAM 35.150</b>	<b>Payment of Taxes on Construction Contracts (01-06)</b>
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Each disbursement for final payment on a construction contract must be accompanied by a statement directed to the state by the contractor and sub-contractors or other persons involved, stating that all federal, state, and local taxes incurred in the performance of the contract, including but not limited to withholding and employment security taxes, have been paid. The documents must also refer to the particular contract number.

Before the final payment is requested, each agency will provide copies of these statements to the Department of Revenue and the Department of Labor in order that they may ascertain whether any taxes are due and owing. Each such disbursement must be accompanied by a memorandum from the Department of Revenue and the Department of Labor advising the agency that all taxes have been paid.

<b>AAM 35.160</b>	<b>Liens and Attachments (01-06)</b>
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The Department of Administration is responsible for the general accounts and for the disbursement of funds for all purposes. It is considered the sole recipient agent for service of process against the state. The Division of Finance administers the handling of all liens and attachments. Upon receipt of each service, the Division of Finance advises the appropriate agency of procedures to be followed in the attachment of property or monies of the person or firm involved. If the lien or other service pertains to an obligation of just one agency, the agency is usually advised to pay the money directly to the vendor's creditor and to advise the vendor as payments are made. However, if several agencies are involved or if the service is an execution of a judgment, an agency may be advised to return warrants to the Division of Finance for distribution.

<b>AAM 35.170</b>	<b>Advance Payments (07-09)</b>
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Payments cannot be made in advance of receipt of goods or services except in the following cases:

Rental payments may be made after the first day in which service commences if the lease requires advance payments.

Subscriptions to periodicals, the purchase of documents and publications, and payments for postage may be made in advance. All such vouchers must be supported by written requests for the service from agencies or bills from vendors.



Warrants may be written for the purchase of securities, investments and real property before the assets are received.

Grants may be made in advance to individuals and to political subdivisions when the law so provides.

Purchase of prepaid calling cards when it is the most efficient and cost-effective method of acquiring long-distance telephone service, and the use of the cards is controlled.

Software license and maintenance agreements, if advance payment is required by the vendor.

Travel costs where advanced payments are required by the vendor and it is in the best interest of the state.

<b>AAM 35.180</b>	<b>Assignment of Payments (5-96)</b>
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The contracting agency responsible for establishing a contract or agreement may approve an assignment of payments in accordance with their agency's fiscal policies and procedures. The vendor requesting the assignment should submit the request in writing to the responsible contracting officer of the contracting agency. The written request should be signed by the requesting vendor and by the entity receiving the payment (assignee). After approval of the request by the responsible contracting officer, the original document or copy of the original with the contracting officer's original signature should be forwarded to the Division of Finance, Accounting Control Section. The Accounting Control Section will be responsible for setting up the vendor in the financial system in order to ensure proper payments of funds due the assignee.

This section applies only to assignment of payments. Any transfer or assignment of a contract or agreement shall be done in accordance with [2 AAC 12.480](#).

<b>AAM 35.190</b>	<b>Security Agreements</b>
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A security agreement claim is valid if it is accompanied by a properly filed Uniform Commercial Code (UCC) financing statement. Necessary documentation to demonstrate that a UCC financing statement has been properly filed includes a copy of the statement itself, form UCC-1, which has been completed and displays the stamp of the recording district in which filed.

Subsequent to receipt of the claim and prior to disbursement of any payments, agencies shall inform the vendor that a creditor's rights under a

security agreement are being exercised and that payments owed the vendor by the state agency will now be paid to the creditor.

After notification of the vendor, amounts owed a vendor shall be paid to the creditor presenting the claim. Agencies should request that the creditor indicate the total amount of the claim to be satisfied and to notify the state when the claim has been satisfied.

If the vendor, upon notification, disputes the validity of the creditor's claim, the vendor and creditor shall be given 30 calendar days to submit a mutually agreed upon payment schedule signed by both parties to the state agency who may then act accordingly. If a payment agreement is not presented within 30 calendar days, the matter shall be referred to the Department of Law for disposition.

If more than one valid security agreement is presented by creditors, the claim with the earliest filed UCC financing statement is paid first. Prior to disbursement of any payments, the vendor and all creditors shall be notified of all claims. If there is a dispute as to which creditor is to be paid first, creditors and the vendor will be given 30 days to present an agreed upon payment schedule to the state signed by all affected parties. If a payment schedule is not presented within 30 days, the matter shall be referred to the Department of Law for disposition.

<b>AAM 35.200</b>	<b>Tax Liabilities on Vendor Transactions (04-06)</b>
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The state (or any state agency) liability for taxes on vendor transactions is as follows.

1. The state is exempt from all federal taxes except the following:

Coal (IRC Section 4121) - on the purchase of coal.

"Gas Guzzler" (IRC Section 4064) - on the purchase of low m.p.g. automobiles, except that police and other emergency type vehicles are not subject to the tax.

Air Cargo (IRC Section 4271) - on the purchase of property transportation services by air carriers.

Air Passenger (IRC Section 4261) - on the purchase of passenger transportation services by air carriers.

Superfund environment tax (IRC Section 4611) - this is an environmental tax on crude oil when it is received at the refinery. This tax is actually imposed on and paid by the refinery and is not a tax on the state. However, quite often vendors separately identify this tax on

their invoices for accounting purposes.

Leaking Underground Storage Tank Tax (IRC Section 4081) – an additional tax of 0.1 cents per gallon will be collected on removals, entries, and sales of gasoline, diesel fuel, and kerosene. The Leaking Underground Storage Tank Trust Fund provides money under cooperative agreements between the Environmental Protection Agency (EPA) and states to pay cleanup and related costs involving leaking petroleum tanks if no financially solvent owners can be found, or if the owner or operator refuses or is unable to comply with an urgent corrective order. Primary financing for the trust fund comes from this 0.1 cent per gallon tax on motor fuels.

2. The state is exempt from all taxes emanating from within Alaska, except that the state excise tax on fuel must be paid where a state form 04-538A (available from the Department of Revenue, Treasury Division) has not been filed with the vendor. "Taxes emanating from within Alaska" includes city and/or borough levied taxes, as well as state taxes, and includes sales, use, room, and other miscellaneous taxes, where the state pays the vendor directly.
3. The state is subject to taxes imposed by the forty-nine other states if they do not choose to waive them. The same is true for political subdivisions of the other states. Washington State, a major vendor activity area for Alaska, has provided an exemption for other states (including Alaska) if the item is delivered and used outside of Washington State, and "title" to the item is taken outside of Washington State. Additionally, no political subdivisions of Washington State may tax a transaction the state does not tax.
4. The state is subject to the taxes of foreign governments if they do not choose to waive them.

Taxes billed on invoices or statements from vendors that are contrary to the above guidelines should be deducted as an erroneous charge.