



# Procedures for Paying City Claims

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# I. Introduction

This research memorandum discusses the appropriate process for paying city bills. It does not, however, directly address such related topics as the validity of expenditures, internal accounting procedures, audit and reporting requirements, interfund transfers, municipal deposits, or methods of financing projects. Information concerning these topics may be obtained by contacting the League of Minnesota Cities.

The procedures described here are set by law and apply explicitly to all forms of statutory city government, unless otherwise indicated. Brief attention is given to home rule charter cities at the end of this memorandum.

# II. The role of city officials in disbursing funds

The basic procedure involved in paying city bills and the official involved in the payment are the same in Standard Plan and Plan A cities. The procedure involved in paying city bills and the officials involved in the payment are slightly different for plan B statutory cities. The following subsections describe these procedures.

## A. Standard plan and plan A statutory cities

Minn. Stat. § 412.271, subd. 1

Minnesota law provides that the city council (for standard plan and plan A statutory cities) has full authority over the city's financial affairs, including the disbursement of public funds.

Minn. Stat. § 412.201;  
Minn. Stat. § 412.141  
Minn. Stat. §; 412.02, subd. 3

All written instruments must be executed (signed) by the mayor and clerk, pursuant to authority granted by the council. In these types of statutory cities, the treasurer shall pay out money only upon the written order of the mayor and clerk. In cities with a combined clerk-treasurer position, the duties of the treasurer shall be performed by the clerk-treasurer. Therefore, the council, mayor, clerk, and treasurer should be jointly involved in nearly every disbursement of city funds.

### 1. Use of facsimile signatures

A.G. Op. 469a-16 (May 21, 1965)

City officials' signatures may be made by rubber stamp or machine if the council approves this practice by resolution.

Minn. Stat. § 47.41

The use of facsimile signatures is specifically permitted by statute in all cities. Any one or more of the required signatures may be by facsimile. Any public officer who is authorized to sign any of the following instruments may authorize the bank to honor instruments bearing a facsimile of his or her signature:

- Checks.
- Drafts.
- Warrants.
- Warrant-checks.
- Vouchers.
- Check-orders on public funds.

[Minn. Stat. § 47.42](#)

The public officer will not be personally liable for any loss that results from the use of his or her facsimile signature if all of the following circumstances are met.

- The city council has passed a resolution to approve the public officer’s use of a facsimile signature.
- The city council has insured the depositor against loss of any funds withdrawn upon unauthorized use of the facsimile signature.
- The loss is not due to a wrongful act of the public officer.

## **2. Claims**

When the city owes money to a particular individual or business, that person or business has a claim against the city depository—the bank account in which the city deposits its money. The individual or business that is owed money is called the claimant.

[Minn. Stat. § 412.271, subd. 2](#)

Claims must generally be in writing and are paid through an order drawn by the mayor and clerk upon the treasurer. An order is a numbered document in the form of a check signed by the mayor and city clerk. When an order is presented to and signed by the treasurer, it becomes an order check. An order check is the written instrument that authorizes the bank to disburse city funds to the party and in the amount indicated on the order check.

[Minn. Stat. § 412.271](#)

The basic process for paying claims in Standard Plan and Plan A statutory cities entails the presentation of an order, signed by the mayor and clerk, to the treasurer for the amount of the claim. The treasurer then signs the order and issues that document to the claimant as an order check. The claimant may cash or deposit the order check just as he or she would a personal check.

This process for paying city bills changes depending on the nature of the claim and the authorization required for issuing the order. Subsequent sections of this memorandum will discuss the types of claims that require prior council approval, when prior council approval is not required, and how authority to pay claims may be delegated.

## B. Plan B statutory cities

Minn. Stat. § 412.691

In plan B statutory cities, the city manager is the chief purchasing agent for the city. Contracts for purchases in the amount of \$20,000 or less are made by the city manager. The council may, by resolution, set a lower limit. Purchase contracts in amounts in excess of the limit may be let by the council upon obtaining the city manager's recommendation. Contracts and other documents are executed (signed) by the mayor and city manager.

See Part II - A - *Standard Plan and Plan-A statutory cities.*

Like Standard Plan and Plan A cities, signatures in a Plan B city may be done with a rubber stamp or machine if approved by the council by resolution.

Claims for payment should be reviewed and approved in the same manner as they are in Standard Plan and Plan A statutory cities. These review and approval requirements are described below.

## III. Paying claims where prior council approval is required

Minn. Stat. § 412.271

Prior council review and approval is needed when paying claims for goods and services.

Minn. Stat. § 412.271, subd. 2

Minnesota law provides that no order shall be issued for claims arising from the purchase of goods and services until the city council has reviewed and approved the claim. Either the person claiming payment or the person's representative must prepare a written, itemized list of goods and services provided to the city. The claimant must also sign a declaration stating that his or her claim is just and correct and that no part of it has been previously paid.

Minn. Stat. § 412.271, subd. 3

The written claim is then brought to the council for its approval. The council may approve the claim, approve only part of it, or choose not to approve the claim at all. The clerk endorses the claim as either "allowed in the sum of \$\_\_\_\_" or "disallowed," depending on the council's action. If the claim is approved only in part, the council must specifically indicate which items have been rejected. An order is then drawn by the mayor and clerk upon the treasurer. As previously described, the order shall be drawn so that when the treasurer signs it, it becomes a check upon the city depository.

Minn. Stat. § 412.271, subd. 3

At its discretion, the council may have the above-mentioned declaration printed on the back of the order-check. The statement should read as follows:

"The undersigned payee, in endorsing this order-check, declares that the same is received in payment of a just and correct claim against the city of\_\_\_\_, and that no part of the claim has heretofore been paid."

When endorsed by the person seeking payment, this statement operates as a sufficient declaration of the claim.

## IV. Paying claims where prior council approval is not required

Minn. Stat. § 412.271, subd. 1

Prior city council approval is not required to pay claims where the exact amount of the claim has been fixed by judgment, previously approved contract, or state law. The following are the types of claims where council approval is not required before payment is made:

Minn. Stat. § 412.271, subd. 1

- Judgments.
- The principal or interest on obligations where the exact amounts have been previously fixed by contract.
- Rent.
- Other fixed charges determined under a contract that the council has previously authorized.
- Wages that have been previously set by either the council or state law.

Nonetheless, reports on such expenditures should routinely be given to the council by the clerk or treasurer.

Special attention should be given to paying city employees, establishing petty cash accounts, making immediate payments on certain contract claims, and payments by independent boards and commissions. The following subsections address each of these subjects.

### A. Paying city employees

Minn. Stat. § 412.271, subd. 2

When city employees are paid on an hourly or daily basis, the clerk must keep a payroll. The payroll must indicate each employee's name and the number of hours or days the employee has worked. A timekeeper, supervisor, officer or employee having knowledge of how much an employee has worked must sign a declaration stating that the hours and days indicated on the payroll are accurate to the best of his or her knowledge.

The employee being paid must also sign a declaration stating that he or she has been paid and has done the work for which payment is received. The effect of these declarations is the same as if subscribed and sworn to under oath. These declarations should take substantially the following form:

Minn. Stat. § 412.271, subd. 2

**1. Declaration by timekeeper, supervisor, etc.:**

I declare under penalties of perjury that to the best of my information and belief the items of this payroll are correct.

\_\_\_\_\_  
Date                      Signed

Minn. Stat. § 412.271, subd. 2

**2. Declaration by employee:**

I declare under the penalties of perjury that I have received the wages stated on this payroll opposite my name and have done the work for which wages were paid.

\_\_\_\_\_  
Date                      Signed

Minn. Stat. § 412.271, subd. 2 (c)

Notwithstanding the procedures described above, a city may choose to use electronic time recording systems if the city council adopts policies to ensure that the timekeeping and payroll methods are accurate and reliable.

**B. Imprest funds (petty cash)**

Minn. Stat. § 412.271, subd. 5

The council is authorized by law to establish one or more imprest funds. Imprest funds operate like a petty-cash account. These funds are designed to allow cash payments in situations where the traditional payment method is impractical. While there is no fixed dollar limit, imprest funds are generally used to handle small purchases. Large purchases of goods and services should be made by order-check, with prior council approval as described above. Imprest funds may not be used to pay claims based on the salary or personal expenses of a city officer or employee.

Minn. Stat. § 412.271, subd. 5

A city council can establish an imprest fund by transferring money from the city’s general fund and appointing a fund custodian. The custodian is responsible for the safekeeping and proper disbursement of funds.

Minn. Stat. § 412.271, subd. 5

The custodian must prepare a written claim that itemizes all disbursements from the fund. This claim must be presented to the council at the next meeting after the disbursements have been made. The council will then act upon the claim, by approving, approving in part, or disapproving the claim.

Minn. Stat. § 412.271, subd. 3

The clerk must endorse the claim as allowed or disallowed, depending on the action taken. The custodian is then issued an order for the amount allowed by the council.

When the order is signed by the treasurer it becomes an order check. The proceeds from the order check are used to replenish the imprest fund.

Minn. Stat. § 412.271, subd. 5

However, if the council disapproves or approves only a portion of the custodian’s claim, the custodian becomes personally liable for the difference. Obviously then, an imprest-fund custodian should clearly understand the fund’s purpose to avoid personal liability for expenditures.

## C. Immediate payment of claims

Minn. Stat. § 412.271,  
subd. 4

Claims based on a contract may be paid immediately if postponing payment until the next council meeting would cause a city's loss of discount privileges or other loss. Before an immediate payment can be made, however, a majority of council members must endorse the written claim. The claim must then be acted upon at the next council meeting as if it had not been paid. Early payment in this manner does not affect the right of the city or any taxpayer to subsequently challenge the claim's validity.

## D. Independent boards, commissions, and departments

Minn. Stat. § 412.271,  
subd. 6;

A.G. Op. 469b (Apr. 12,  
1967)

Some cities have boards and commissions possessing independent legal authority to spend public money without council approval. A good example of this is a library board. In contrast, the council must generally approve expenditures for the city fire department and liquor store. Likewise, a hospital board does not possess independent authority to spend money, and such authority may not be delegated to it.

Minn. Stat. § 412.271,  
subd. 6

It is worth briefly noting that boards and commissions, with independent authority to spend money, may establish imprest funds and make immediate payment of claims as described in the preceding two sections. The post-expenditure approval described in those sections would be sought from the independent board or commission, rather than the city council.

## V. Delegation of authority for paying certain claims

Minn. Stat. § 412.271,  
subd. 8

A city council may delegate its authority to pay certain claims. This authority may be given by the council to a city administrative official. City administrative officials include a city manager, administrator, treasurer, senior fiscal officer, clerk or clerk-treasurer. In order to delegate this authority, a city must do the following:

- ***Adopt a resolution.*** Cities delegating authority to pay claims must adopt a resolution specifying the type of claims to be paid and the administrative official to whom this authority is granted.
- ***Establish internal accounting and administrative control procedures.*** These procedures must ensure the proper disbursement of public funds. They must include frequent periodic council review of the administrative official's actions. When money is disbursed under these procedures, a list of expenditures must be submitted for the council's information at the next meeting.

A.G. Op. 218-R (Jan. 17, 1951)

- **Prepare annual audited financial statements.** Cities delegating authority, as described here, must also prepare annual audited financial statements. Moreover, these statements must be certified by an independent public accountant or the state auditor. Cities that do not prepare such statements may not delegate authority in this manner.

A city council may not delegate authority to a liquor store manager to pay employee wages and other bills from liquor-store receipts. However, a liquor-store manager can be allowed to make necessary purchases for day-to-day operations through use of an imprest fund as described above.

## VI. Time considerations in paying claims

Regardless of who has authority to pay bills in a given instance, state law imposes time frames for paying certain types of claims. However, actual payment may sometimes be delayed because there are insufficient funds available, or because the order check has been lost or destroyed. The following subsections describe the legal time frame for paying certain claims, as well as what happens if there are insufficient funds available or a duplicate order check is required.

### A. Prompt payment of claims

Minn. Stat. § 471.425, subd. 2

Minnesota law requires that both home rule charter and statutory cities make payments to vendors in accordance with the terms of any contract or purchase agreement related to a sale. However, if a contract is silent in this respect, standard payment periods are imposed by law. One of the following requirements must be met, depending upon how often the city has regular meetings:

- Payment must be made within 35 days of satisfactory delivery of goods or receipt of the invoice, whichever is later, if the city holds regularly scheduled meetings at least once a month.
- Payment must be made within 45 days of satisfactory delivery of goods or receipt of invoice, whichever is later, if the city does not meet regularly at least once a month.
- Payment must be made within 45 days of satisfactory delivery of goods or receipt of invoice, whichever is later, for any joint powers board.
- Finally, it is worth noting that municipal contracts must require that a prime contractor pay any subcontractors within 10 days of receipt of payment from the municipality.

Minn. Stat. § 471.425, subd. 4a

Minn. Stat. § 471.425, subds. 2 and 4

Again, the above timelines do not apply if the sale or service contract terms specify a different payment arrangement. Also, a city need not meet these payment deadlines if it disputes in good faith the validity of the claim for which payment is sought.

Minn. Stat. § 471.425,  
subd. 4

Invoice errors can also push back the date that payment is due. If a city receives an erroneous, defective or otherwise improper invoice, it must notify the vendor within 10 days of receiving it. Notification is best given in writing. Upon receiving a corrected invoice, the city must make payment within the standard payment periods described above.

Minn. Stat. § 471.425,  
subd. 4

The statute requiring prompt payment of claims also requires that interest be paid on late payments. The statute sets the interest rate at 1.5 percent per month or part of month, with a minimum payment penalty of \$10 on late payments of \$100 or more. For late payments less than \$100, the municipality must calculate and pay the actual interest. However, no interest is owed when payment is delayed because of a good faith dispute over the claim's validity or the quality of goods or services purchased.

## **B. Claims not paid due to insufficient funds**

Minn. Stat. § 412.271,  
subd. 3

In rare cases, there may be insufficient funds available to pay a properly authorized order that has been presented to the treasurer. The treasurer must mark the date of presentation on any order not paid because of insufficient funds. Such orders must be paid later with interest in the sequence that they were received. The interest rate set by statute is 5 percent of the amount of the order, unless the council sets a lower rate by resolution. This lower rate applies only to orders issued after the lower rate is set. The lower rate, however, may not be set below the above-mentioned 1.5 percent provided for in the prompt payment of claims statute.

Minn. Stat. § 412.271,  
subd. 3;

Minn. Stat. § 471.425,  
subd. 4

It should be emphasized that the 5 percent penalty only applies if the order is marked not paid due to insufficient funds. If the city simply pays a bill late, only the 1.5 percent per month interest rate applies. If however, the order is not paid for lack of funds as well as paid late, the 5 percent penalty would also be required. Cities may wish to pass resolutions setting the penalty at the lower rate of 1.5 percent in order to simplify the calculations for late payments and penalties.

## **C. Lost or destroyed warrants or orders**

Minn. Stat. § 471.415,  
subd. 1

If an order or warrant is lost or destroyed, then a replacement may be issued by an official authorized to do so. The new document must correspond to the original in number, date, and amount. The new order or warrant must be endorsed on its face and be stamped with the word "duplicate" along with the date of the second issuance.

Minn. Stat. § 471.415,  
subd. 3

The officer or official issuing a duplicate must record the amount, date, and number of the original order or warrant, as well as the amount, date, and number of the duplicate.

Minn. Stat. § 471.415,  
subd. 2

The law requires that an affidavit be filed with the proper officer by the party to whom the original order or warrant was issued before the duplicate is issued. The affidavit must state the ownership of the original, the purpose for which it was issued, and the manner and circumstances of its loss or destruction. A city may, in its discretion, require that an indemnifying bond accompany the affidavit in an amount equal to the original order or warrant. The bond’s purpose is to protect the city in the event that it is forced to pay the original order or warrant.

## VII. Home rule charter cities

The procedures for disbursing city funds described thus far are largely found in the statutory city code, Minnesota Statutes, chapter 412. Home rule charter cities often have their own unique procedures for disbursing funds. Such procedures may be written directly into the city charter or the charter may direct that such procedures be established by ordinance. In either case, charter cities should adhere to their locally established procedures. However, there are also some specific statutory requirements for second, third, and fourth class home rule charter cities that must be considered. These requirements are very similar to those that have already been discussed for statutory cities.

Minn. Stat. § 471.38, subd.  
1

Generally, whenever a claim against a second, third, or fourth-class home rule charter city can be itemized, it must be made in writing. It must also contain a declaration that the claim is just and correct and that no part of it has been paid. The declaration must be in the following form:

Minn. Stat. § 471.391,  
subd. 1

“I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid.”

\_\_\_\_\_  
Signature of claimant

Minn. Stat. § 471.38, subd.  
2

This requirement, however, does not apply to any claims for the following.

- Claims for an annual salary that is fixed by law.
- Fees of jurors or witnesses that are fixed by law.
- Salary or wages that have been fixed on an hourly, daily, weekly, or monthly basis if set by the governing body and authorized by law to be paid on a payroll basis.

Minn. Stat. § 471.391,  
subd. 2

The check that is used to pay the claim may have the following statement printed on its reverse side, above the space for endorsement by the payee:

“The undersigned payee, in endorsing this check declares that the same is received in payment of a just and correct claim against the city and that no part of it has heretofore been paid.”

Minn. Stat. § 471.391,  
subd. 2

When the payee endorses a check that has this printed statement, it is deemed sufficient as the required declaration of claim.

Minn. Stat. § 410.33

A charter city may also choose to generally apply the procedures and exercise authority found in the statutory city code. For example, if a city's charter is silent on the matter of delegating authority to pay certain claims to an administrative official, then that city could still make such a delegation in the manner described above. However, in such an instance, the city should probably amend its charter or local ordinance to reflect the practice and to avoid future procedural confusion.

See Part II - A - *Standard Plan and Plan-A statutory cities*

Home rule charter cities may use rubber stamp or facsimile signatures in the same manner as statutory cities.

## VIII. Credit cards

Minn. Stat. § 471.382

A city council may authorize the use of a credit card by any city officer or employee who is otherwise authorized to purchase on behalf of the city. A purchase by credit card must comply with state laws applicable to purchasing. In addition, cities should have policies in place to prevent misuse.

Minn. Stat. § 412.271, subd. 2;  
Minn. Stat. § 471.38 subd. 1

State law requires that claims presented to the city for payment must be in writing and itemized. Bills from credit-card companies may not contain the detail necessary to satisfy these itemization requirements. Therefore, cities must retain invoices and receipts for all items charged to a credit card bill.

Minn. Stat. ch. 475

Additionally, city credit card use must comply with state laws governing municipal borrowing. These laws do not authorize cities to use their credit cards to carry debt. Therefore, cities that use credit cards must adopt a policy of paying the entire credit card balance each month.

The power to use credit cards for purchasing carries with it the potential for misappropriation. City purchasing policies should have provisions governing credit card use. A municipal credit-card-purchasing policy should contain provisions that:

Statement of Position:  
*Credit Card Use and Policies* (Office of the State Auditor, 2007)

- Identify the officers and employees who are authorized to make purchases on behalf of the city and are eligible to use the card.
- Identify the particular purchases that are to be made with the credit card.
- Set up a review process for all purchases made with the credit card.
- Prohibit the use of a city credit card for personal purchases.
- Require supporting documentation.
- Limit the total amount of charges that can be made on city credit cards.

Minn. Stat. § 471.382

The policy should remind city officers and employees that if they make or direct a credit-card purchase that is not approved by the city council, they may be held personally liable for the amount of the purchase.

## **IX. Conclusion**

It is important for cities to follow the proper procedures for disbursing funds. The most compelling reason is because state law prescribes the procedures. In addition, by following these procedures, a city can ensure expenditures are somewhat less susceptible to successful legal challenge. Finally, cities that use the appropriate methods for disbursing funds may find that financial audits are less costly and time consuming because the auditor can more easily track past disbursements.