interest liability when this funding technique is properly applied.

Example: A State mails $1 million in checks to contractors for a Federally funded program. The State has developed the following clearance pattern, based on when checks historically have been presented for payment, and has determined the average day of clearance, weighted by dollar amount, to be 5 days after checks are issued:

Day	Percent of dollars paid out	Factor (day x percentage)
0 (checks issued)	0	
1	0	
2	0	
3	0	
4	40	1.60
5	30	1.50
6	15	0.90
7	10	0.70
8	5	0.40
Average day of clearance	....	5.10

The State requests $1 million on day 4 and receives that amount on day 5, which is the dollar-weighted average number of days required for checks to be presented at the State's bank, and neither the State nor the Federal Government incurs an interest liability.

(1) In determining a dollar-weighted average day of clearance, fractions of days are rounded to the nearest whole number.

(2) The standards and maintenance requirements for clearance patterns, as set forth in §205.8, apply for average day of clearance calculations.

(e) *Reimbursable funding.* Reimbursable funding is a method of transferring Federal funds to a State after the State has paid out its own funds for program purposes. After June 30, 1994, reimbursable funding is prohibited, except where mandated by Federal law.

§ 205.7 Requesting and transferring funds.

(a) *Electronic funds transfer.* To the maximum extent practicable, a Federal agency shall use EFT for transfers of funds to a State.

(b) *Minimizing the time between transfer and payment.* A State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out.

(c) *Procedures for funding techniques.* Unless otherwise specified in a Treasury-State Agreement, a State and a Federal agency shall adhere to the following procedures for each funding technique:

(1) *Zero balance accounting.* A State shall request funds the same day it pays out funds for program purposes, and a Federal agency shall deposit funds in a State account the same day it receives a request for funds.

(2) *Estimated clearance.* A State shall request funds 1 business day prior to the day it expects to pay out funds, in accordance with a clearance pattern, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(3) *Average clearance.* A State shall request funds 1 business day prior to the dollar-weighted average number of days required for funds to be paid out after a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(4) *Pre-issuance funding.* A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(5) *Reimbursable funding.* A State shall request funds only after it has paid out its own funds for programs purposes, and a Federal agency shall deposit funds in a State account the next business day after receiving a request for funds.

(d) *Limiting the amount transferred.* Consistent with a funding technique and with funds transfer procedures in a Treasury-State Agreement, a State and a Federal agency shall limit the amount of funds transferred to a State to the minimum required to meet a State's actual, immediate cash needs.

(e) *Frequency of requests for funds.* A Federal agency shall allow a State to submit requests for funds, or bills, as often as daily. However, this requirement shall not be construed to change Federal agency guidelines defining a properly completed request for funds.

(f) *Prohibition of reimbursable funding requirements.* A Federal agency may not require a State to use reimbursable funding, unless mandated by Federal law.

§ 205.8 Clearance patterns.

(a) *Use and basis of development.* When required by a funding technique, a clearance pattern will be used to schedule the transfer of funds to a State and to support the calculation of interest. A State may:

(1) Develop a separate clearance pattern for an individual program; or

(2) Develop a composite clearance pattern for a logical group of programs that have the same disbursement method and that reasonably can be expected to have comparable clearance activity. A composite clearance pattern for a group of programs must be applied separately to each program in the group when scheduling funds transfers or calculating interest; or

(3) Develop a clearance pattern on another basis that is agreed upon by the FMS.

(b) *Standards for clearance patterns.* A State shall ensure that a clearance pattern accurately represents the flow of Federal funds and that a clearance pattern reflects seasonal or other periodic variations in clearance activity. A State shall ensure that a clearance pattern is auditable.

(c) *Maintaining clearance patterns.* (1) If a State has actual or constructive knowledge, at any time, that a clearance pattern does not correspond to a program's clearance activity, or if a program undergoes operational changes that may affect clearance activity, the State shall:

(i) Immediately notify the FMS in writing of the program requiring a new clearance pattern, and

(ii) Develop a new clearance pattern and certify that it corresponds to a program's clearance activity.

(2) If a Federal agency has actual or constructive knowledge, at any time, that a State's clearance pattern does not correspond to a program's clearance activity, the agency shall notify the FMS in writing of the State and the program. The FMS shall immediately notify the State of the programs, and the State shall either:

(i) Develop a new clearance pattern and certify that it corresponds to a program's clearance activity, or

(ii) Re-certify the accuracy of the existing clearance pattern.

(d) *Certification for accuracy.* An authorized State official shall certify that a clearance pattern corresponds to a program's clearance activity. If a State develops a clearance pattern for a program or a group of programs, as set forth in paragraphs (a)(1) and (a)(2) of this section, an authorized State official shall re-certify the accuracy of the clearance pattern at least every 5 years. If a State develops a clearance pattern on another basis, as set forth in paragraph (a)(3) of this section, the FMS may prescribe requirements for re-certifying the accuracy of the clearance pattern.

§ 205.9 Treasury-State agreements.

(a) *Purpose.* A State may enter into a Treasury-State Agreement with the FMS to set forth terms and conditions for implementing this subpart.

(b) *Components.* A Treasury-State Agreement pursuant to this subpart must include, but will not be limited to, the following:

(1) *Programs.* Consistent with § 205.4, a Treasury-State Agreement must indicate the programs subject to this subpart.

(2) *Funding techniques.* A Treasury-State Agreement must indicate the funding techniques to be applied to the programs subject to this subpart, in accordance with the following:

(i) Zero Balance Accounting, Estimated Clearance, and Pre-Issuance Funding are techniques available for selection by a State, subject to the approval of the FMS.

(ii) A State may request approval to use the Average Clearance funding technique, but must provide the FMS with adequate justification for its use in lieu of Estimated Clearance.

(iii) Reimbursable funding is available for selection by a State, subject to the approval of the FMS, only for a program for which the State used reimbursable funding prior to the later of July 1, 1993, or the first day of a State's 1994 fiscal year. However, reimbursable funding is not available for selection