

Oregon State Treasury

Cash Management Manual

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INTRODUCTION

The Banking Section of Oregon State Treasury's Finance Division has prepared this publication to help you, the user, with the cash management services of Treasury and the various banks with which Treasury has established relationships with to provide banking services. Our purpose is to provide you with an overview of the relationship between the agency, Treasury, and the bank, as well as to provide specific job-level detail for your responsibilities that relate to this "Banking Services Triangle."

Section I gives an overview of how the three parties of the Banking Services Triangle relate to one another. Section II provides the policies of Treasury relating to banking services. The remaining sections cover specific areas of services offered by the Banking Section. We encourage you to read all of these sections to get a better understanding of services the Banking Section provides and how we might be better able to assist you.

This manual will be revised and updated periodically. We expect that changes will come not only from our examining what we do and looking for ways to do it better, but also from your suggestions on how we may operate more efficiently. Please send any comments you have to:

Oregon State Treasury
Banking Section
Finance Division
350 Winter Street N.E., Suite 100
Salem, OR 97301-3896

Section I - BANKING SERVICES TRIANGLE

The process of receiving and disbursing monies in state government utilizes three different entities. First is a State of Oregon agency that needs to deposit or disburse funds. Second is Oregon State Treasury, who maintains the agency's account to be debited or credited. Third are the banks with whom Treasury has established bank accounts in order to provide State agencies with a convenient way to deposit money into their accounts at Treasury.

Agency

Agencies receive money for a variety of reasons and from a variety of sources. This section of the manual will only address those sources outside of state government. Interagency payments will be addressed in Sections V and VI.

When money is received by an agency, it is deposited at various banks around the state with which Treasury has established bank accounts. Oregon Revised Statute (ORS) 293.265, with very few exceptions, does not allow a State of Oregon agency to have an account at a bank. Instead, the agency's account is at Treasury. When agencies deposit money at the bank, they are actually depositing to the Treasurer's account at the bank. In effect, Treasury is the agency's bank; and we have established relationships with various commercial banks to accept deposits from agencies as a mechanism for agencies to efficiently deposit money to their accounts at Treasury.

Credit to the agency's account occurs when Treasury is notified of the deposit. If the deposit was made at one of the banks that can provide electronic deposit information, the agency account is credited the day after the physical deposit is made. Otherwise, the account is credited on the day Treasury receives the deposit slip from the agency.

Similarly, when an agency writes a check (a demand draft) or draws a warrant (a certification of the validity of a debt with authorization to pay the debt) to pay a client or vendor, the check or warrant is not drawn on a bank. Instead, the item is drawn on Treasury, which has its

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own routing number that is recognized by the Federal Reserve System for check-clearing purposes, just like a bank. Treasury contracts with a single bank to provide the processing function for these items.

The State Controllers Division of the Department of Administrative Services (DAS) issues warrants based on agency requests through SFMS. Treasury transmits redeemed warrant and deposit information to DAS daily.

Treasury

Treasury is the bank for all State of Oregon agencies. Deposits are made to an agency's account at Treasury and checks/warrants are drawn on Treasury. Treasury provides statements to agencies detailing the activity in their accounts, invests excess funds, and calculates and pays interest to those accounts authorized by statute to retain interest earnings. It should be noted that the Treasury statements reflect transactions as they affect Treasury (as the bank) accounting records. **Therefore, debits and credits are the reverse of the debits and credits reflected on the agency's accounting records.**

Treasury also offers safekeeping services, provides consulting on banking and cash management issues, and contracts with certain banks for providing services to State agencies.

The concept of Treasury contracting with the banks for services is an important one. Legally, Treasury is the bank's customer, or the **owner of the account**; and the agency is an agent of Treasury. Because of this, only Treasury may enter into contracts that affect activity in these accounts.

There are several advantages to this type of central management of banking services which benefit the State as a whole: contracts can be negotiated on a statewide basis, which simplifies contract management and can result in significant savings on pricing issues; quality control of bank services is more effective; and issues tend to be resolved more rapidly due to the size of the combined business of the State.

Bank

As stated above, the commercial banks provide deposit or payment services. A bank allows any State agency to deposit money to the Treasurer's account at that bank. Oregon is fortunate to have a long tradition of branch banking which allows for coverage of all areas of the state with a relatively small number of banks. These banks offer the agencies a variety of services, including night depositories, coin and currency, lockboxes, merchant bankcard services, and much more. A list of participating banks and available services may be obtained by contacting the Finance Division of Treasury.

Communications With The Bank

If an agency has a problem with a bank, wants to acquire a new service from a bank, or has any other questions regarding its banking services, the agency should call the Finance Division of Treasury.

Keep in mind that Treasury represents the State of Oregon as a whole when dealing with the bank, and we are one of the largest customers in the state. It is in the best interest of the agency to take advantage of that expertise and influence.

Section II - POLICIES

ORS 293.875 designates the State Treasurer as the cash management officer for the state. It gives the Treasury the authority to review, establish, and modify procedures for the efficient handling of cash and cash equivalents under the control of the State Treasury, the Secretary of State, the Judicial Department, the Legislative Assembly, and State agencies. State agencies are directed to employ the principles, standards and related requirements for cash management prescribed by the State Treasurer.

Section III - TREASURY (TRS) ACCOUNTS (formerly Suspense Accounts)

Opening

If an agency needs to open a TRS account, the request must be made in writing to the Director of the Finance Division explaining the justification for the new account. The written request should be accompanied by the Request for New Treasury (TRS) Account form (Form C-1) which includes the following information:

1. Statutory authority providing for the account.
2. Whether or not check-writing authority is being requested.
3. Whether or not interest is to be retained, including statutory authority granting right to retain interest earnings.
4. Signature of officer authorized to open such an account.
5. Account title and number requested.
6. Anticipated monthly volumes for deposits and checks, if applicable.

If the ability to write checks is requested, the Banking Section will forward the request, if approved, to the Department of Administrative Services (DAS) for its approval prior to granting such authority.

Along with the Request for New Treasury (TRS) Account form, the agency will need to furnish the Banking Section with specimen signatures of all persons who will be authorized to sign checks or otherwise move funds from the account. These signatures should be submitted on the Signature Authorization Form (Form C-2). Rubber stamp facsimiles are not acceptable. When it is necessary to add or delete signatures, a complete new Signature Authorization Form must be submitted.

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At this time, the agency should order pre-encoded deposit slips. See Section IV, page 1 for instructions on ordering deposit slips.

OPTIONS: The agency can opt to use the Account Balance Transfer or Overdraft Protection options for the new TRS Account request. If you have any questions on the options listed below, please contact the Banking Operations Manager.

Account Balance Transfers To – This option is used only if the new TRS account will sweep the balance to another account on a daily basis. Provide the account number to sweep to on the C-1 form, leave blank otherwise. This option can be used in tandem with the Overdraft Protection option. (Account will net to zero daily.)

Overdraft Protection Account – This option is used only if the new TRS account will draw funds from another account to avoid overdraft situations. Provide the account number to draw funds from on the C-1 form, leave blank otherwise.

Closing

If an agency needs to close a TRS account, the request must be made in writing by an authorized signer on the account and sent or faxed to the Banking Section. The account must have a zero balance.

Section IV - DEPOSITING TO AN AGENCY ACCOUNT

ORS 293.265 requires all State of Oregon agencies to deposit monies with the State Treasurer not later than one business day after receipt, with certain exceptions. See Section II - Policies, policy 02.18.01 next Day Deposit.

If your agency receives many checks by mail, a bank lockbox service may be an option you should explore. See Section IX for more information on lockboxes.

Deposit Slips

Treasury requires that all agencies use pre-encoded deposit slips for making deposits to their accounts. These deposit slips must be obtained for any bank to which the agency is depositing. Treasury and DAS have contracted with Check Printing Company of Portland to print all State agencies' deposit slips. Agencies should order directly from this company, and Treasury's Deposit Slip Order Form (Form C-3a) is required. See Form C-3b for directions on ordering deposit slips. Orders may be placed at any time, and the minimum order is 50. Allow 21 days for receipt of your order.

Major banks provide the Banking Section with daily transmissions of all deposits made, and these deposits are electronically applied to the agencies' accounts the day after the deposit is made. Even though the smaller banks do not provide the information electronically, it is still more efficient to have all deposit slips identical in format, size, etc. It also insures timely credit to agency accounts and correct posting of debits and credits related to deposit adjustments or returned items.

Filling Out The Deposit Slip

Deposit slips should always be completed before going to the bank. The following information should be included on the deposit slip:

1. Field office name (may be preprinted).
2. Date.
3. Account number (should be preprinted).

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4. Coin and currency listed separately in area provided.
5. Checks listed by amount and Bank Fractional number (if listing checks on tape, attach tape to deposit slip and stamp tape with endorsement stamp). Note that all checks should have proper endorsement.
6. Total of deposit on deposit slip.

Things to do:

1. Place all cash in front of checks. The cash should be faced and in order by denomination.
2. Separate out any non-imageable items (checks drawn on foreign banks, checks in carrier documents, damaged checks, photocopies in lieu, and notices in lieu of return). These items must be prepared in a deposit separate from domestic checks, money orders, and cashiers checks.
3. **Send the State Treasurer's copy of all deposit slips for banks other than Bank of America, Key Bank, US Bank, and Wells Fargo Bank to the Banking Section.**
4. **Reconcile your Treasury accounts in a timely manner.**

Note: Remember that the validation of the deposit slip or a receipt does nothing more than confirm that the deposit was made and when. It does not confirm the accuracy of the information presented on the deposit slip. That confirmation is done by the bank's proof department later that day and by the agency upon notification by Treasury of credit for the deposit. Agency verification is the only way to detect that the amount credited from Treasury is the same as the amount that was validated on the receipt.

Things not to do:

1. **Do not** list coin or currency in check area of deposit slip.
2. **Do not** include Traveler's Checks with cash; list as checks.
3. **Do not** send copies of voided deposit slips to Treasury.
4. **Do not** cash personal employee checks out of agency cash receipts.
5. **Do not** accept third party checks.

ENDORSEMENTS

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All checks must be properly and clearly endorsed, preferably with a rubber endorsement stamp or with a check validation machine or slip printer. Checks should be restrictively endorsed as soon as possible after receipt, since they are negotiable instruments. See the DAS Oregon Administrative Manual (OAM) Chapter 10 for internal controls over receipts. The approved format for endorsement stamps is:

FOR DEPOSIT ONLY
Treasurer, State of Oregon
(Agency Name) - (Agency Account No.)
(Bank Name)
(Bank Account No.)

Following is an example of a correctly formatted endorsement stamp for a deposit made at US Bank. Note the bank account number is masked for security purposes. Please contact Treasury Banking Section to verify the correct account number for your deposit bank prior to ordering the endorsement stamp.

FOR DEPOSIT ONLY
Treasurer, State of Oregon
Parks and Rec. Dept - 63400-00401
US Bank
XXXXXXXXXX

Deviations from this format must be approved in writing by the Banking Section.

The area of a check available for the agency endorsement is restricted to the first 1.5" as measured from the trailing (or stub) end of the check. The agency may choose the size and type of font they desire, as long as it fits into this space. The remainder of the back of the check is reserved for bank endorsements. This is a requirement of Regulation CC from the Federal Reserve. It is important that agencies stay within this area for their endorsements; otherwise, significant delays can occur in notification of returned checks for which the banks will not be responsible. This may delay and impair efforts to collect on bad checks.

Agencies that need to charge back field offices for returned items will need to include an office number or identifier in the endorsement; however, the endorsement is still restricted to this same area.

Endorsement stamps are available through most office supply stores. The stamps should **not** be ordered directly through the bank.

Checks Drawn On Foreign Banks

Checks drawn on foreign banks are being accepted by agencies with increasing frequency. Please see the section above "Filling Out The Deposit Slip" for additional information about depositing foreign items. Some of the problems and risks associated with such items are:

1. Delay in receiving payment

Many foreign checks must be sent on collection. This means that credit is not received until the drawee bank (the foreign bank the check was written on) remits funds to Treasury's collecting bank. This may take 6 to 8 weeks in some cases. In the meantime, agencies will not receive credit on these funds. If a foreign check has a standard-appearing MICR line at the bottom, then it probably can be deposited directly and credit will be received at the spot foreign exchange rate offered by the bank.

2. Costs of collection

Collection of a foreign check will usually cost approximately \$150.00. For this reason, Treasury will not send on collection foreign items of amounts less than \$300.00.

3. Nonpayment risk

Checks may not be honored due to nonsufficient funds or other reasons and notification of this can be delayed for days or weeks. Furthermore, under the best of notification scenarios, trying to collect on a bad check from a foreign party is a difficult and usually fruitless effort.

4. Currency translation

Foreign checks denominated in foreign currencies must be translated into U.S. dollars using current spot foreign exchange rates. These rates can fluctuate on a daily basis, requiring the agency to check on their deposit bank's current spot rate to be sure of receiving the equivalent in U.S. dollars. If the item is sent on collection, the exchange will be determined by the drawee (foreign) bank when it receives the item.

We recommend that agencies reassess their policies regarding the acceptance of foreign currency denominated checks and consider discontinuing this practice unless absolutely necessary. If it is necessary to accept funds from a foreign entity, we recommend requesting the maker of the check to draw a check on a United States bank denominated in US dollars. The item may then be deposited for immediate credit using a regular deposit ticket.

Making The Deposit

Deposits to the Treasurer's accounts are usually over the counter (at a teller window), through a night drop, by armored car, or electronically. Regardless of the method, there are a few basic rules that always need to be followed.

1. All night depository deposits should be made with locking or sealed bags.
2. Unprocessed bags should not be returned to the agency.
3. **All corrections made after the deposit is taken to the bank must be made on deposit correction advices, not by alterations to the deposit slip.** Under no circumstances should money be added to, or subtracted from, a deposit after it has been handed to a teller or dropped into a night depository. Subsequent deposits can be made if an error was made, such as cash inadvertently left out of a deposit or some similar error; but the original deposit must not be altered except by a debit or credit advice from the bank.

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4. Never take "less cash" on a deposit.
5. Deposits containing cash should be counted in front of the agency representative making the deposit or delivered into a dual control arrangement at the bank. All night depository and armored car deposits should likewise be processed under dual control. (If you are interested in obtaining armored car service, contact the purchasing area of Department of Administrative Services.) If there is no dual control arrangement at the bank or branch where an agency makes its deposits, the Banking Section should be notified. We will work with the agency and the bank to set up adequate cash controls for these deposits.
6. Notification of an error in the form of a deposit correction will be sent by the bank to the Banking Section, with a copy forwarded to the agency's central office. The appropriate adjustments to the account will be made upon receipt of the advice from the bank. If an agency makes an error on a deposit slip and the bank does not find it at the time of deposit, the bank will generally not correct the error if it is less than \$5.00. Therefore, if the bank does not correct an error under \$5.00, Treasury will not make the deposit correction either. Agencies will be responsible for making the required adjustments on their own accounting records. The Banking Section will work with any agency in need of more timely notification of deposit corrections to the central office to try to set up a workable program with the applicable banks.
7. **Under no circumstances is the agency to attempt to direct the bank to provide service in a manner inconsistent with those procedures outlined above. Any deviations from these procedures must be approved in writing by the Banking Section of Treasury. Remember: The owner of the account the agency is depositing to at the bank is the State Treasurer.**

Returned Items

Occasionally, an agency deposits a check that is returned unpaid from the bank on which the check was written. The original debit advices are sent to the Banking Section, so Treasury accounts can be corrected. The quicker the items can be handled, the better the chances are of recovering the original payment. It is expected that agencies will act on returned items at once to maximize their chances of collection.

Returned items received which do not belong to the agency should be delivered, along with a copy of the bank advice, to the Banking Section at Treasury. Do not return the items directly to the bank.

Section V - DISBURSING MONEY

There are two basic ways to disburse money from an account at Treasury: by paper or by electronic funds transfer (EFT) (see Sections VI and XIV). A paper disbursement can take the form of a check (if the agency has check-writing authority), a warrant, or an account transfer (if the recipient is a State agency and the funds are being transferred from a Treasury (formerly suspense) account).

All disbursements from Treasury accounts require the approval of authorized agency personnel. This is usually accomplished by an authorized person signing the item, whether it is a check, an account transfer form, or a request for an EFT disbursement. Signatures must be provided to the Banking Section on the Signature Authorization Form (Form C-2).

Account Transfers

Account transfer is the preferred method for sending interagency transfers out of a Treasury account to another account. One mechanism for initiating account transfers is the Account Transfer Request (Form C-6). This form designates the Treasury account funds are to be transferred from, the account the funds are transferred to, and includes the signature of an authorized signer on the Treasury account.

An account transfer allows for funds to be transferred from one account at Treasury to another account at Treasury or in RSTARS without the use of a commercial bank. This saves both money and time, since Treasury is charged for all activity in its accounts at the banks; and transfers require less handling than checks and related deposits.

The Banking Section has developed alternative ways for an agency to generate account transfers electronically -- through the State Treasury ACH Network (STAN). See Section VI.

Checks/Warrants

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Although the use of EFTs for State payments is increasing dramatically, more than 10 million checks/warrants are still written each year. Again, these checks/warrants are written on Treasury -- not on a bank. Treasury has its own ABA routing number which is used for the clearing of State items through the Federal Reserve and other payment systems. Treasury contracts with a local bank to provide settlement and sorting services. This bank processes State checks/warrants from the Federal Reserve and other banks and pays them for these items. Treasury then pays the bank on a same-day basis. State checks/warrants become void after two years from date of issue.

State agencies are not to affix the maker signature on State checks/warrants using rubber stamps. Validation machines, scanned digital signatures, and signature plates associated with computerized printing are not considered rubber stamps and are allowable methods for signing checks. Proper internal controls should be maintained to limit access to validation machines, scanned digital signatures and signature plates, as appropriate.

Treasury has developed a custom single state check design to help combat the increase in check fraud. Check fraud has grown rapidly in the banking industry with the significant improvements in desktop publishing, scanning, color printing and color photocopying equipment that is now very affordable. The State Printer has entered into a contract with one vendor to supply all check stock for State agencies. The check stock utilizes a controlled paper stock with a variety of security features designed to make checks difficult to replicate using new computer and copier technology. In addition, the check stock contains numerous security features designed to make alterations obvious to anyone cashing the checks. Although the size of the checks and where the information is printed varies among different agencies, all checks will be easily identified as State of Oregon items based on the background color, check design, and paper type. See Policy 02.18.02 Check Issuance.

Agencies currently utilize approximately 260 Treasury checking accounts with Treasury. Historically, agencies have had near total autonomy in determining their check design, including the check size, paper size, and printing methods. This flexibility has resulted in a very

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wide range of check colors, designs, and paper types. The single state check concept still allows agencies the same flexibility with how the information on the check is displayed and how the check is printed. **Note:** Agencies are required to provide a contact phone number on all state issued checks, so benefit recipients, vendors, contractors, etc. have a way of contacting the issuing agency in case there are questions and/or issues regarding the check.

Agencies exempt from utilizing the Department of Administrative Services purchasing and printing contracts are still required to use the vendor and paper stock selected by the State Printer and Treasury and to order new check stock through the State Printer.

Checks which have the MICR line printed by the agency during the check printing process are not required to send checks to Treasury for MICR line testing on each new check stock order. However, these agencies are responsible for ensuring that the MICR line is properly printed on all checks. Any additional fees the check processing bank charges Treasury, due to agency check runs with MICR line problems, will be passed on to the agency.

CAUTION: An area 5/8" deep along the bottom of the check is reserved for the common machine language characters. No other magnetic ink printing, signatures, or wording may appear in this area. Signatures applied with signature plates during check runs must not dip into the 5/8" MICR band. Code information must be printed with magnetic ink, within the area provided in accordance with specifications outlined in American Bankers Association Booklet #147 R3 or the Supplement to 147 R3.

Agencies work with DAS Printing in designing and ordering new check stock. The check stock printing vendor sends a *blue line* copy of the check to Treasury. Treasury reviews the *blue line* copy to determine if the necessary information is included. The check stock vendor prints the checks and delivers the required number of copies for MICR line testing to Treasury at the same time they deliver the check stock to the agency. **Agencies must not use the new check stock until they hear from their DAS printing analyst that the results of the MICR line testing are acceptable.**

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The check stock printing vendor submits checks to Treasury for MICR line testing. The checks are trimmed, burst, and state "voided" on the face of the check. Treasury will forward the checks to the check processing bank for testing. The DAS printing analyst will notify the agency of the test results as soon as possible. Ten (10) check samples are required for testing. The test checks may be pulled from any where in the order.

Following is a list of check requirements and recommendations. Please contact Treasury if you have any questions.

Front of Check:

- State seal (should be at least 1/2" in diameter)
- Issuing agency name
- "To the State Treasurer Salem, Oregon"
- "State of Oregon" (optional)
- Check number
- Check date
- Check amount
- Field for written amount of check (recommended)
- "Void 2 Years after Date Issued" (8 pt type minimum)
- Fractional routing number "96-10/1232"
- "Pay to the order of"
- Issuing agency phone number
- No solid border around date, signature, payee, written amount and numerical amount field is allowed
- Only two (2) asterisks in the numerical amount field allowed, and the bank suggests using a floating dollar sign
- No asterisks in the written amount field
- Dollar amount area must be at least 1/2 inch from the right of the check, 1 3/8 to 2 9/16 inches from the bottom of the check and the area should be 2 1/2 inches wide
- No shading of fields (Shading produces poor check images; and since the implementation of Check 21 in

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October of 2004, most banks are moving to image replacement documents.)

- No commas in the dollar amount
- Do not use silver/gold embossed text or logos
- Use a font that is basic and clearly legible (avoid Serif font), and be sure font is dark enough and large enough (10pt minimum) to be imaged
- The phrase “Payable Through US Bank” in 8 pt font. Recommended placement is upper middle of check; but if this is not possible, contact Treasury for exception processing. Black ink is recommended, but green is also acceptable.

Warning Band:

- Top – “Do not accept this check unless you can see a true watermark of chain-linked shapes when held to the light”
- Bottom – “The face of this check has a colored background **Explanation of additional security features indicated on reverse side”

Signature Line:

- Microprint (when checks are printed by State vendor)
- 3/16” from warning band
- Title of person signing check or, in lieu title, the wording “Authorized Signature” (without the title or wording, it leaves the signer open to personal liability)

MICR Line:

- 5/8” band at bottom of check
- Transit # - “123200101”
- Checking account number
- Check serial number in Auxiliary On-Us Field
- Space 44 of the MICR line should be left blank

Stub:

- “Non-Negotiable” screened on stub
- Inventory number

Back of Check:

- Screen of salmon and “Original Document”
- Security Features noted in the box:
 - Microprint Signature Line (if printed by State vendor)
 - Chemical Protection
 - Erasure Protection
 - Security Screen
 - Visible Overt Fibers
- Endorsement area not more than 1 ½”

Check Truncation

Check truncation is offered by Treasury to State agencies that want to reduce administrative costs associated with handling and storing paper checks after redemption. Truncation is a process where the items processing bank digitally images redeemed checks and then destroys the originals. Copies of the items are available for up to seven years from redeemed date. This process eliminates the handling and storage of the redeemed checks by Treasury and the agency and significantly reduces the handling and processing required by the bank. Because of the reduced processing costs, Treasury is able to offer a reduced rate for accounts subject to truncation.

Copies of truncated items may be obtained by mailing or faxing a Check Photo Request Form (Form C-7) to the Banking Section. The fax number is (503) 373-1179.

When copies are requested, it can take a couple of business days from the date of the receipt of the request to retrieve the item copies. Items with a redemption date beyond 90 days in the past can take longer to retrieve. Copy requests needed due to possible fraud on an item redeemed within the last day or two should be submitted on a C-24 Urgent Possible Counterfeit Check request form.

Agencies interested in learning more about check truncation should contact the Banking Section.

Check Image

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Check image service is offered by Treasury to State agencies that would like to receive digital images of their redeemed checks on CD Rom. An added level of service is available that allows agencies to access images of their redeemed items via an Internet browser for a period of 90 business days after redemption.

Digital images provided via CD Rom or Internet browser may be viewed and printed out by agency staff on demand. The quality of digital images exceeds microfilm copies that banks have provided in the past.

Note: As a result of Check 21 implementation, banks are rapidly moving to imaging; and because the shadowing of check fields produces poor quality images, shadowing is not allowed by State agencies. Images provided on CD Rom offer the agency an easy way to archive check images onsite without requiring the storage space needed for original redeemed checks.

Section VI - ELECTRONIC FUNDS TRANSFERS

An electronic funds transfer (EFT) is any movement of funds by non-paper means. When referring to EFT transactions, it usually means transfers through an Automated Clearing House (ACH) or the Federal Reserve's Fedwire system. Other EFT systems may deal with international payments or payments within an organization. EFTs offer a number of advantages over paper-based systems. Among these are the security features. An EFT system generally has various levels of security, which may include encryption of data, authentication of transaction accuracy, and secured access to facilities. There is not a paper item to be lost in the mail or stolen from a mailbox. There is no need to go to the bank to make a deposit. Additionally, the money is generally available for investment sooner, thereby increasing interest earnings.

All State EFTs are required to flow through Treasury and must be authorized by a person whose signature is on file with Treasury (Form C-9).

Wire Transfers

1. Background

A wire transfer is a same-day transfer of funds through the Federal Reserve's Fedwire system. Wire transfers are typically used when money must be transferred immediately, large amounts are transferred and it is imperative to be able to confirm receipt, and when international payments are made.

2. **Incoming**

State agencies may receive monies electronically through wire transfers into a Treasury account at the bank. Agencies receive credit for these deposits on a same-day basis. To insure that proper and timely credit for incoming wires is received, it is critical to notify the Banking Section using the Incoming Wire Notification form (Form C-10).

3. **Outgoing**

All wire transfers are to be initiated through the Banking Section. An agency sending wire transfers to the same beneficiary, account, and financial institution three or more times per year should establish a recurring wire transfer to reduce the costs associated with wires. To establish a recurring wire, complete the Wire Transfer – Recurring Payments Setup form (Form C-11). To send recurring wires after the they have been established, complete the Request for Wire Transfer - Recurring form (Form C-12). To send one time wire transfers, complete a Request for Wire Transfer - Non-Recurring form (Form C-13). Requests may be sent to Treasury via fax (Attn: EFT Coordinator) at 503-373-1179, or via mail.

Any wire transfer request received after 10:30 a.m. will be considered a request for the next business day. Treasury requires 24-hour notice (from the 10:30 a.m. deadline) on all transfers between \$1 million and \$5 million; 48-hour advance notice is required on all transfers in excess of \$5 million.

Automated Clearing House (ACH) Transactions

1. **Background**

A clearing house is an arrangement between two or more banks to exchange checks presented for payment to one and drawn on the other. Members of the clearing house present such checks in bulk and then settle the net difference after the exchange. An Automated

Clearing House (ACH) is simply where a clearing house has made arrangements to pass payments electronically rather than by check.

2. **Incoming**

Many agencies receive monies electronically through ACH into a Treasury account at the bank. These are incoming ACH credits. Agencies receive credit for these deposits on a same-day basis. This can be a fast and efficient means of receiving money, and agencies are encouraged to use this option whenever it is available. Treasury has its own ABA Routing Transit Number which makes identifying which agency account to apply ACH credits much easier. However, agencies must still complete the appropriate Payment Information Form and send it to the Banking Section for verification. There are two Payment Information Forms. The ACH Vendor Payment System form (Form C-21) is to be used for the receipt of funds from federal agencies unless the federal agency has their own form. The ACH Direct Deposits form (Form C-22) is to be used for all other payments. Treasury is to sign these forms and return them to the agency who then forwards the original to the party requesting to send ACH credits to the agency.

Incoming ACH debits would be where an entity desires to take money out of the Treasurer's account. **Treasury does not allow anyone to send ACH debits to its accounts.** Vendors may contact agencies and suggest payment in this manner. **Agencies are to tell vendors this is not acceptable.**

3. **Outgoing**

Sending an ACH credit results in a payment to another party and can contain more information than a check. Such information can include invoice numbers, dates, tax ID numbers, and more. Common uses of ACH credits include pension and payroll payments, vendor payments, and other benefit payments. ACH debit transactions can also be made through the ACH system. For instance, Lottery debits retailers' bank accounts for monies received from sales of Lottery tickets and the Department of

Veterans' Affairs debits mortgagors' accounts for loan payments. This is done much like a credit transaction.

Agencies must obtain written authorization by the account holder to send ACH credits or ACH debits. These authorizations must be retained on file. Sample authorization agreements for both ACH credits and debits are available from Treasury (Forms C-22a and C-22b).

ACH systems are batch process systems that are designed for future settlement of transactions. The Automated Clearing House will take the transaction information and store it up to 30 days for payment to occur on the settlement date.

ACH transactions are initiated through a bank that is a member of an ACH association. The bank processes the information and delivers the payment information to its appropriate member banks or to other Automated Clearing Houses, who will then forward the information to their appropriate member banks. These banks will then credit or debit their customers' accounts as required to complete the transaction.

Treasury requires all new transactions be tested prior to making an actual dollar transfer even though prenotes are no longer required under ACH rules. These tests, or prenotes, are zero dollar transactions that verify the validity of the information being transmitted. These prenotes require six business days to allow for the receiving bank to notify Treasury's bank of any errors in the transactions. For this reason, the ACH system is not an efficient choice for one-time payments, but rather is designed for repetitive transactions.

Because of the formatted, batch, and forward nature of ACH transactions, they are much less expensive than wire transfers.

4. **State Treasury ACH Network (STAN)**

STAN is the Treasury ACH Network software application for State agencies. It is used for the centralization of Automated Clearing

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House transactions through the Oregon State Treasurer. Internal transfers can be accomplished through this system, creating account to account transfers. Transfers to local governments using the Local Government Investment Pool can also be done, as well as payments to vendors and other outside payments. There are two types of STAN users:

- a. Site to Site – The agency creates NACHA compliant files without the assistance of a Treasury provided solution and sends the file to Treasury via an encrypted connection.
- b. STAN Online – The agency uses a Treasury provided browser based application to create and send ACH transactions to Treasury over the Internet.

ACH transactions received from agencies by Treasury are sent on to our Originating Depository Financial Institution (ODFI) for submission to the ACH.

Some of STAN's highlights:

- Single point of entry through Treasury into the ACH system.
- Editing of ACH batches prior to submission, resulting in decreased risk of failed transactions.
- Multiple levels of access and functional security capability, resulting in dual access controls.
- Ability to build batches at selected levels of control, which reduces workload and increases security.
- Encrypted transmission between Treasury and the ACH provider.
- Dollar limits on transactions, batches, and daily business.
- Ability to send both ACH credits (make payments) and ACH debits (take money from other entity's accounts).
- Internal transfers (between State agencies and local governments) can be accomplished same day.
- Availability of a variety of paper or electronic reports.
- Ease of reconciliation because outstanding items are eliminated.
- Easy to learn and operate.

- Online application only requires a browser to access.
- Application support and maintenance provided by Treasury at no cost to the agency.

Treasury will provide setup and training for new STAN Online users as well as ongoing user support. Treasury will also provide support for site-to-site users. Most questions can usually be answered by a telephone call to Treasury.

5. Interagency Agreement

ACH commerce is governed by the National ACH Association (NACHA). NACHA promulgates numerous rules and regulations in a rapidly changing environment. Agencies must be aware of and adhere to applicable rules.

Agencies which use STAN ACH applications, whether the site-to-site or Stan Online version, must enter into an interagency agreement with Treasury. The interagency agreement covers the responsibilities of both parties and emphasizes the importance for agencies to follow the applicable NACHA standards.

6. Agency Payments

Agencies wishing to initiate payments through the ACH should contact the Relationship Management Team at Treasury to discuss the application being considered and the best method available to take advantage of the opportunities of the ACH system.

As discussed previously, there are various means of delivering transaction information to the bank to initiate an ACH transaction. The various methods are dependent on the type of application, volume, etc. The Relationship Management Team will work with the agency and the bank to set up an ACH payment program that best fits the agency's needs.

a. Delivery methods:

- (1) Site to Site initiated transmission for high-volume activity.

- (2) STAN Online initiated transmission for low-to-moderate volume.
 - (3) Paper initiation through Treasury for very low volume.
- b. Formatting of transmissions must be in conformance with the rules of NACHA. Questions concerning these rules may be directed to the Relationship Management Team at Treasury.
 - c. If an agency has a very low volume of payments that it needs to send electronically and does not use the STAN system, the agency may request that Treasury initiate the payments using Treasury's STAN satellite. This should be requested for recurring payments that will be made periodically to the same beneficiary. To initiate an ACH payment in this manner, the agency must complete, and remit to Treasury, the ACH Transmittal Setup Request (Form C-14) at least 10 days prior to the first payment request for that beneficiary. The agency may then request payments to the beneficiary using the Request for ACH Transmittal (Form C-15).

7. Paying the Bank

Treasury has authorized the bank to debit its account for the amount of the ACH transactions initiated by agencies. Treasury debits the agencies' accounts for the amount of the payments made.

Section VII - MERCHANT BANK CARDS

Increasing numbers of agencies that receive payments from the public are requesting approval from Treasury to allow the use of merchant cards for these payments. Examples of those utilizing this service are shoppers in the Capitol Gift Shop, purchasers of maps from the Department of Geology and Mineral Industries, students paying tuition at Portland State, as well as numerous others. These agencies see acceptance of merchant cards as a way to improve service to their customers by offering an additional mechanism for payment.

The bank providing the service makes its money by charging the agency a per transaction fee or a percentage of the sales, known as the discount. The bank debits Treasury once a month for the previous month's discount total, and the Banking Section debits the agency's account.

Deposits of merchant card receipts are made electronically. Agencies are assessed a discount fee and can be assessed monthly lease fees, software fees or the cost of purchasing its own software or equipment used to transmit the information.

Bank card services are only available through Treasury. Therefore, if agencies are interested in learning more about how they might be able to use merchant cards as a payment option for their customers or clients, they should contact:

Banking Section
(503) 378-4633

Section VIII - PROCUREMENT CARDS

If agencies wish to purchase items on credit, procurement cards are available from the Department of Administrative Services. Interested agencies can contact the Statewide Accounting and Reporting Section at (503) 373-7277 to discuss their SPOTS program.

Section IX - LOCKBOXES

A lockbox is a collection system in which a bank or third party receives, processes and deposits an agency's mail receipts. Mail is generally delivered to a specific post office box where the bank or third party picks up the mail several times daily and delivers it to its lockbox area. The mail is immediately sorted, opened, and processed in a highly secure environment.

A lockbox is a highly efficient mail receipt processing operation. Lockbox operations have significant capital investments in advanced technology and maintain flexible staffing capabilities to match volume fluctuations. This enables the lockbox operation to process all receipts the same day as received and to make multiple deposits each day to meet major check-clearing deadlines, thus ensuring the best availability of funds.

There are essentially two types of lockbox processing services:

Wholesale - designed for relatively high-dollar, low-volume corporate-to-corporate payments not accompanied by scannable documents.

Retail - designed for relatively low-dollar, high-volume consumer-to-corporate payments accompanied by scannable documents. Volume must be at least 10,000 items per month.

Customer Benefits

- Speeds the receipt of paper remittances and increases funds availability by reducing mail and check-clearing float.
- Ensures agency compliance with the statutory requirements to deposit moneys by the day following their receipt.
- Improves internal controls over the collection process reducing the risk of loss of funds.

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- Reduces collection expenses by decreasing in-house processing costs.
- Responds quickly to volume surges and reduces processing delays.
- Provides timely electronic transmission of selected remittance information.
- Mails customer's backup daily.

Treasury administers a master agreement with a bank to provide both retail and wholesale lockbox services. Several boards and commissions use lockbox services to collect license fees. Other agencies use the lockbox services for tax remittances, loan repayments, and other types of fees.

Treasury will help agencies coordinate the setup of lockbox services. If you believe you may have applications or programs which may benefit from the use of a lockbox service or if you have further questions, contact:

Banking Section
(503) 378-4633

Section X - FRAUD COLLECTION

Occasionally state checks/warrants are forged and cashed. Agencies are responsible to identify and process forged items for collection in a timely manner. Agencies process forged items for collection through Treasury. Treasury processes the forged items through its disbursement bank which then processes them for collection through other banks as appropriate.

Treasury tracks forged checks/warrants using a database program and classifies forgeries in the following categories:

- Altered Items
- Counterfeit Items
- Deceased Payee
- Forged Endorsement
- Improper or Lack of Endorsement

Because time is of the essence, the issuing agency must act as soon as possible after discovery of these items in order to expedite recovery of funds. The Uniform Commercial Code (UCC) governs the collection processes for checks including liability for forged items.

The costs associated with collection efforts on forged checks/warrants occasionally outweigh the monies that are collected. These costs include agency staff time to research items, prepare necessary affidavits, and tracking outstanding collection items, in addition to bank and Treasury fees and Treasury staff time. Agencies should consider adopting a threshold for collection on checks/warrants whereby items below the threshold are written off. Before adopting a policy or threshold for writing off losses on forged checks/warrants with no collection effort, agencies should verify that there are no statutory or program requirements that necessitate such collection efforts.

Altered Check/Warrant

Typically, checks/warrants are altered either by changing the payee's name, the amount of the check, or both. Typically checks/warrants are

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altered using erasers, tape, chemical solvents, or knives to lift the information. Safety paper and toner grip are security features designed to make any alterations apparent to someone cashing the check/warrant.

To process altered items, send the following to Treasury:

1. Original check/warrant plus one additional copy of both the front and back. If the original is not available, send an authentic reproduction (plus one copy) of the front and back of the check/warrant. To order a reproduction, send a Check Photo Request form (Form C-7) to the Banking Section.
2. Original plus one additional copy of notarized Affidavit of Altered Item (Form C-16). Each check/warrant sent for processing must be accompanied by a separate affidavit.
3. Original plus one additional copy of Fraud Collection Claimant Information sheet (Form C-17).
4. Two copies of agency's record of check/warrant issuance.
5. A cover letter which includes:
 - a. Agency's name and address
 - b. Contact person's name and telephone number
 - c. Agency's account number to be credited when collection is effected

Counterfeit Check/Warrant

A counterfeit check/warrant is an “unauthorized” check/warrant which was cashed as an original. Counterfeit items can be produced a number of ways. Color photocopies are common. The check is paid multiple times and is caught through the reconciliation process. Checks can be scanned and modified using a scanner, a desktop publishing application, and a color printer. The payee and amount are typically changed. If magnetic ink is used by the forger, the bank will not need to strip the bottom of the check/warrant MICR line. If you receive checks back, you should inspect those items that are stripped to verify immediately if you have a counterfeit item. Forgers can also order check stock from a variety of check providers using the agency’s account number. These counterfeits probably won’t look like State checks but may be processed by the banks nonetheless.

Counterfeit checks/warrants are covered under the UCCs as “**unauthorized signatures**”. If the counterfeit items are discovered after the **midnight deadline** (as discussed later in this chapter), they should be processed for collection as a forgery where **ordinary care** was not exercised by the person or bank accepting the check/warrant. Therefore, send the following to Treasury:

1. Counterfeit check/warrant plus one additional copy of both the front and back. If the original is not available, send an authentic reproduction (plus one copy) of the front and back of the check/warrant. To order a reproduction, send a Check Photo Request form (Form C-7) to the Banking Section.
2. Notarized original and one copy of Affidavit of Forgery (Form C-18). Each check/warrant sent for processing must be accompanied by a separate affidavit.
3. Original plus one additional copy of Fraud Collection Claimant Information form FormC-17).
4. A cover letter which includes:
 - a. Agency's name and address

- b. Contact person's name and telephone number
- c. Agency's account number to be credited when collection is effected
- d. Original payee's name and amount

Deceased Payee

If a check/warrant is cashed after the payee's death, and it is 180 days or less since the item was negotiated, send the following to Treasury:

1. Original check/warrant plus one additional copy of both the front and back. If the original item is not available, send an authentic reproduction (plus one copy) of both the front and back of the check/warrant. To order a reproduction, send a Check Photo Request form (Form C-7) to the Banking Section.
2. Original plus one additional copy of Fraud Collection Claimant Information form (Form C-17).
3. Two copies of death certificate.
4. A cover letter which includes:
 - a. Agency's name and address
 - b. Contact person's name and telephone number
 - c. Agency's account number to be credited when collection is effected

Forged Check/Warrant

A forged check is one with an endorsement made without the express, implied, or apparent authority of the person whose name is signed. To determine if the item is a forgery that can be returned for collection:

1. It must be 18 months or less since the item was returned to the agency.
2. The item cannot be altered.

3. The endorsement must be in the name of the payee.

Send the following information to Treasury:

1. Original check/warrant plus one additional copy of both the front and back. If the original is not available, send an authentic reproduction (plus one copy) of both the front and back of check/warrant. To order a reproduction, send a Check Photo Request form (Form C-7) to the Banking Section.
2. Notarized original Affidavit of Forged Endorsement (Form C-19) plus one copy. Each check/warrant sent for processing must be accompanied by a separate affidavit.
3. Original plus one additional copy of Fraud Collection Claimant Information sheet (Form C-17).
4. One copy of each Handwriting Exemplar form (Form C-20a & C-20b).
5. A cover letter which includes:
 - a. Agency's name and address
 - b. Contact person's name and telephone number
 - c. Agency's account number to be credited when collection is effected

Lack of Endorsement

Checks/warrants lacking endorsements are ones with no endorsement or ones not endorsed by all payees (when there are two or more payees). It must be no more than 180 days since the item was negotiated. Send the following to Treasury:

1. Original check/warrant plus one additional copy of both the front and back. If the original is not available, send an authentic reproduction (plus one copy) of the front and back of check/warrant. To order a reproduction, send a Check Photo Request form (Form C-7) to the Banking Section.

2. Original plus one additional copy of Fraud Collection Claimant Information sheet (Form C-17).
3. A cover letter which includes:
 - a. Agency's name and address
 - b. Contact person's name and telephone number
 - c. Agency's account number to be credited when collection is effected

Time Periods for Reporting Forgeries

The UCCs speak to contributory negligence on forged signatures or alterations of negotiable instruments. If an agency fails to exercise "**ordinary care**" in the issuance of a check/warrant and this contributes to an alteration of the check or someone forges the signature, the State cannot assess payment against a person who, in good faith, pays the check/warrant. **Ordinary care** means observance of commercial standards prevailing in the area and applies to all parties (including all banks) in the check/warrant issuance and collection process.

Under the UCCs, customers must discover and report any alteration on the face or back of the check/warrant within 180 days after the statement or item is made available. Since Treasury receives daily presentments from the disbursement bank, the 180 day period should be considered to start on the day the item was negotiated. In addition, if an agency doesn't detect and report the alteration within 30 days, the agency is precluded from asserting against the bank for any subsequent items passed by the same wrongdoer. Altered items will generally be passed back up the collection chain to the person or bank that initially cashed the check, since they should have caught the alteration.

Unauthorized signatures (counterfeit) checks/warrants present a unique problem, since the banks have no responsibility to verify maker signatures on state checks/warrants drawn on Treasury. Counterfeit items must be discovered and reported within the "**midnight deadline**" for final settlement in order for Treasury to return the checks to the

disbursement bank. The midnight deadline means that the checks/warrants must be returned by midnight of the next business day following the receipt of the item. If counterfeit items are discovered after the **midnight deadline**, they should be processed for collection using the Affidavit of Forgery (Form C-18) citing the appropriate reason why the person/bank accepting the check should not have accepted it.

Agencies that do not truncate checks should scan the returned checks daily for unusual items. Counterfeit items will generally be a different color and/or size and will often have a stripped MICR line (another MICR line taped to the bottom of the check).

Under the UCCs, agencies have 18 months to discover and report unauthorized endorsements. Banks often maintain record availability for one year. Therefore, agencies should strive to discover and report unauthorized endorsements within one year of the time the check/warrant was negotiated.

Controls Over Check Issuance

Since the UCCs specifically address ordinary care and contributory negligence, it is absolutely essential that agencies exercise due diligence in its control over the check issuance process.

Treasury has implemented a custom single state check stock which contains numerous security features designed to deter alteration and replication. In addition, all banks have been notified of this check design which places a burden of **ordinary care** upon them to know what a valid State check looks like.

Treasury has issued policy 02.18.02 which can be found in Section II of this manual. This policy specifies required controls for agency issuance of checks. Further, agencies should be familiar with and comply with the internal control procedures outlined in Chapter 10 of the DAS Oregon Administrative Manual (OAM).

Section XI - SAFEKEEPING

Treasury provides agencies with a means to place items of value in safekeeping. These items are held for various reasons related to an agency's activities. They usually are some form of security being held to insure performance, cover a liability, or provide some other means of financial protection. Treasury keeps these items in one of its two vaults, under dual control. Quarterly, agencies are provided with a computer listing of items held in safekeeping for them. There is no charge for this service.

It is the responsibility of the agency to determine the value of the instrument being held, and that value is entered on the safekeeping receipt. In most cases, it is also the responsibility of the agency to determine the types of instruments that are acceptable. If the responsibility for determining the types of acceptable instruments falls with Treasury, assigned time certificates of deposit and bearer bonds are currently listed as acceptable. This list is subject to amendment at any time. For a current list, agencies may call the Administrative Accountant in the Banking Section at (503) 378-4633.

If the item being held in safekeeping is a bearer instrument, Treasury will not clip matured coupons to deliver to the instrument's owner. This is the responsibility of the agency.

Requests for release of items held in safekeeping must be in writing from an authorized person of the applicable agency. Agency personnel picking up the items should also be authorized and must sign off on the original safekeeping receipt.

Section XII - STALE-DATED CHECKS/WARRANTS

Pursuant to ORS 293.450, on August 1 of each year, State agencies are required to provide certification to the Division of State Lands summarizing all outstanding checks/warrants that were two years old as of July 1 of the current year. The detail listings of outstanding checks/warrants must include all information required by State Lands and are to be mailed directly to them according to their instructions. State Lands can be contacted at (503) 378-3805.

State Lands will notify Treasury of the appropriate transfer of funds to be made.

Section XIII - LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

Oregon's Local Government Investment Pool (LGIP) was created by Oregon Laws in 1973, Chapter 748. It is a diversified portfolio offered to eligible participants of the State of Oregon. The Local Government Investment Pool (LGIP or the "Pool") is an alternate investment vehicle offered to participants that includes, but is not limited to, any municipality, political subdivision or public corporation of this state that by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State's short-term funds. Since its inception, over 900 local governments in Oregon have participated in the pool.

The LGIP is open every day that the Federal Reserve and Oregon State Government are open.

State agencies have three options for making payments to local governments – warrant/check, automated clearing house (ACH) directly to a commercial bank account, or by a balanced transfer through the Statewide Financial Management System (SFMS). State agencies need to work directly with the receiving local government to determine the appropriate option for making payment; however, agencies are strongly encouraged to make payment via ACH or balanced transfer through SFMS.

If the local government prefers to have the payment made to a Pool account, there are two things that need to occur. The first being the establishment of a Pool account by the local government, assuming the local government does not already have one. To establish an account, the local government should contact Oregon State Treasury at 1-800-452-0345 or (503) 373-1194 for assistance with the process or visit Treasury's web site at <http://www.ost.state.or.us/divisions/finance/index.htm> under the Local Government Services section. The second action is one that needs to be taken by the state agency wanting to transfer funds to a local government's Pool account. The state agency should review the list of "SFMS Distribution Document Numbers" at

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<http://www.ost.state.or.us/divisions/finance/lgip/SFMS%20Distribution%20Document%20Numbers.pdf> to determine whether there is an appropriate distribution document number description for the funds being transferred. If there is not an appropriate identifier, the state agency needs to contact Oregon State Treasury at 1-800-452-0345 or (503) 373-1194 to request a new distribution document number. This distribution document number is essential, because it helps the receiving local government identify what the funds are for and from which agency the funds are received.

In addition to establishing the Pool account and distribution document number, the agency should check the "Vendor Mail Code Profile" (S051) in SFMS, mail code 001. In the middle of the screen on the right hand side is the "License" field. If the vendor is part of the Pool, there will be a nine digit entry, beginning with LGIP. The "001" mail code is required on the LGIP balanced transfers.

Once all of these things are done, an agency may transfer funds through SFMS to the local government's Pool account using the balanced transfer T-Codes 291 through 294. T-Codes for expenditure transactions are 291 and 293, and T-Codes for revenue transactions are 292 and 294.

Section XIV - PREPAID CARDS AND ELECTRONIC FUNDS TRANSFER

Funds Disbursement by State Government

One of the primary functions of many government agencies is disbursement of funds to its customers or clients. As discussed in Section V of this Cash Management Manual, there are two basic ways to disburse funds to those clients: by paper (check or warrant) or by electronic funds transfer. In recent years, calls to gain efficiencies, streamline processes, increase security measures, and cut costs, both to the state and to customers, have resulted in several agencies making decisions to move towards electronic disbursement methods.

Advantages of Electronic Payments for the State and Program Recipients

As outlined in detail in Section VI, of this Cash Management Manual, an electronic funds transfer (EFT) is any movement of funds by non-paper means. EFT's offer a number of advantages over paper-based systems. Among these are the security features. An EFT system generally has various levels of security, which may include encryption of data, authentication of transaction accuracy, and secured access to facilities. There is not a paper item to be lost in the mail or stolen from a mailbox.

The state also saves money from utilizing electronic funds transfer methods instead of manually processing checks. This cost savings to the state is a result of movement to electronic payments and away from paper checks; it includes savings from prepaid card programs, but is not limited to those programs.

If a customer has a checking account, savings account or other deposit account, they are able to have funds deposited directly into that account and save time by not going to their bank to deposit their check. Additionally, the money is generally available for investment sooner, thereby increasing interest earnings. However, if the customer has

limited or no access to mainstream financial services or chooses at their own discretion NOT to use an existing deposit account, the availability of a prepaid card program often times saves these customers from experiencing check cashing fees that can range from 2 to 7 percent of the check amount. For instance, on a \$200 check, the recipient could pay \$4 to \$14 at a check cashing location to have access to their funds.

Determining Disbursement Methods for State Agencies

The State Treasury works with state agencies to determine the most cost effective method to handle funds whether it be receipting or disbursing. It is ultimately the agency's decision on how funds are disbursed. Some agencies provide electronic funds transfer as an option for distribution of funds. Others have mandated electronic methods. When an agency mandates electronic methods of disbursing funds, the customer has the option of using their own electronic deposit solution, such as a checking account, savings account, or any one of a number of reloadable prepaid cards that are available in the marketplace. Where the customer is unable or unwilling to provide their own alternative, the state aims to meet the needs of unbanked or underbanked citizens of Oregon by offering a prepaid card program to offer an electronic deposit alternative for these unbanked customers.

Mandating Electronic Payments

Electronic payment mandates are business decisions that are legislatively authorized and made at the discretion of the agencies responsible for disbursing payments. Any questions or concerns regarding the mandate of payment options, or related exemption processes, should be addressed to the mandating agency. It is important to understand that where a mandate exists, it is NOT the use of the state-offered prepaid card program itself or any other prepaid card that is mandated; it is simply the use of an electronic funds transfer option.

Current Prepaid Card Program Offered by the State

Where electronic payments are mandated and a customer is unable to provide their own deposit alternative, the state currently contracts with U.S. Bank to provide a prepaid card solution for state agencies. U.S. Bank was selected through a competitive RFP process in late 2004, resulting in an executed contract in May 2005. Performance related to the

contract is reviewed formally on at least an annual basis and ongoing operational issues are addressed throughout the year. Please call Treasury Management Services to inquire about the current status of this or any successor contracts.

Determining Fees Charged to Cardholders

There are no fees to state agencies for use of the card program.

Fees for certain services under the prepaid card program are negotiated by the State Treasury. These fees are outlined in the prepaid card contract and disclosed to the cardholder when they receive their card. Importantly, all point-of-sale transactions, including those with “cash back” option is free of charge. Because cardholders served by the prepaid card program are located throughout Oregon, in both rural and metropolitan areas, it is the state’s intent to ensure that all cardholders have the greatest opportunity to obtain access to their funds in a number of different ways. The current contract balances that access with the various demographics for each of the participating programs in order to ensure the best “least-cost” access for the most cardholders. As detailed in this document, access to funds via ATM, teller and point-of-sale give the cardholder a variety of methods to access funds regardless of their physical location around the state. Importantly, all point-of-sale transactions, including cash back options, are unlimited and free.

Treasury believes that it is important for agencies to make information available regarding the current contract including the general fee structure and options for accessing funds free of charge. Some highlights are included below. Please contact Treasury for any questions or for additional details:

Using Prepaid Cards Free of Charge

Again, it is important to understand that the prepaid card solution is just one option that is offered to customers. OST encourages the use of direct deposit into customer’s bank accounts. However, for the unbanked, underbanked or those simply choosing, at their own discretion, not to have funds deposited into their existing account, the card program can offer a more cost effective and secure way to receive funds than a check or warrant. There are a

number of ways that cardholders can access their funds for free through ATM access, teller withdrawals and unlimited point-of-sale transactions with cash back options.

Accessing Cash Free of Charge

The state has negotiated a number of different ways for customers to access funds free of charge. Importantly all point-of-sale transactions are free. Cardholders can also select the cash back option at merchants that offer point-of-sale PIN transactions. U.S. Bank will not charge the cardholder for ATM cash at any U.S. Bank ATM or any VISA/PLUS- branded ATM in the United States or for the first two transactions at any non-U.S. Bank ATM. As with all traditional bank customers, if you request an ATM withdrawal from an ATM owner other than your own bank, in this case, U.S. Bank, you may also be charged a fee that U.S. Bank has no control over.

Cardholders can also obtain cash via free teller withdrawals, two times per month, at any participating financial institution that accepts VISA at their teller window. These two options are in addition to the always UNLIMITED point-of-sale and cash back options.

Using the Card to Purchase Goods at a Store

These transactions are called Point-of-Sale (POS) transactions. If you are using the card to purchase something at a merchant, there is no fee associated with it. It will work just like any other Visa, except that it is paying the merchant from the amount stored on your card, not using credit. With participating merchants, you can also request cash back without paying a fee.

Overdraft Fees on Prepaid Cards

Effective August 15, 2010, amendments to Regulation E, the Electronic Funds Transfer Act, require financial institutions to require consumers to confirm their intent to opt into overdraft coverage associated with ATM or point-of-sale card transactions.

Cardholders that receive government benefits (unemployment benefits, state employee payroll and SAIF payouts) were given the option to opt-in to overdraft coverage. At the cardholder's

discretion, opting into overdraft coverage allows U.S. Bank to allow a transaction to occur without sufficient funds in the cardholders account and to charge an overdraft fee to their account. For cardholders that decline overdraft coverage or did not respond, U.S. Bank will not authorize ATM or prepaid card transactions if there are not sufficient funds in the cardholder's account. Simply put, the cardholder will be denied at the time of the transaction and not charged an overdraft fee.

The August 15, 2010 Overdraft Legislation does not apply to other programs within the state prepaid card program such as Child Support, as they do not disburse government funds.

Programs Currently Utilizing Prepaid Card Programs

- Oregon Employment Department - Unemployment Insurance Benefit - ReliaCard
- Oregon Department of Justice - Child Support Benefits - ReliaCard
- Oregon Department of Administrative Services - State Payroll - Focus Card
- State Accident Insurance Fund - Worker's Compensation Payout - AccelaPay Card

GLOSSARY OF TERMS

ABA Number - A unique identifying transit number assigned to each bank by the American Bankers' Association National Numeric System. The transit number has three parts. The first indicates the federal reserve district and city where the bank is located. The second part indicates the assigned bank number. The third part is a check digit. The transit number appears in the upper right corner of checks as a numerical portion of a fraction.

Account Transfer (formerly Suspense Transfer) - The transfer of monies from one Treasury account to another or from a Treasury account to an Agency account or General Fund account.

Agency Account (formerly Receipted Account) - An account established with the State Controller's Division, Department of Administrative Services. These accounts may have warrant-writing authority. Agency

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accounts require statutory authority to be opened, and all budgetary and cash controls for these accounts exist with the State Controller's Division.

Agency Account Number - The ten-digit account number designated by the Department of Administrative Services.

Appropriation - Monies considered and construed as constituting a credit in favor of the agency for the amount stated in the law making the appropriation, subject to the allotment as provided in Oregon Revised Statute 291.234.

Authorized Signer - An individual who has the legal right to issue instructions.

Automated Clearing House (ACH) - A computerized facility that performs the clearing of paperless entries between member depository institutions. It is a batch process system that is destined for future settlement of transactions. The ACH will take the transaction information and store it until necessary for payment to occur on the settlement date.

Bearer Bonds - Bonds issued with attachable coupons that must be presented to a paying agent or the Oregon State Treasury for semiannual interest payments. Federal law has prohibited the issuance of bearer bonds since 1982.

Check - A demand draft drawn on the Oregon State Treasury and payable through the Treasury items-processing bank.

Commercial Bank - A full-service institution that offers deposit, payment, and credit services to all types of customers, in addition to other financial services.

Counterfeit Check/Warrant - A copy of a check/warrant cashed as an original. It could be in the form of a photocopy, a newly created check created using the Treasurer's and agency's account number, or a scanned, altered and color print of an original.

Debt Service - Cash required at a given point in time for payments of interest and current maturity of principal of outstanding debt.

Discount Fee - A fee quoted as a percentage of the transaction amount.

Dual Control - The segregation of responsibilities to increase internal controls. This procedure requires that two members of the staff be involved in a transaction.

Electronic Funds Transfer (EFT) - Any movement of funds by nonpaper means. EFTs provide various levels of security and the funds are generally available for investment sooner.

Encryption - Encoding transactions at transmission and decoding upon receipt. Encryption is particularly important for applications involving sensitive data such as a wire transfer system.

Endorsement - Signature of the payee made for the purpose of negotiating a check/warrant.

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Federal Reserve - The organization created by the 1913 Federal Reserve Act. The system includes the twelve Federal Reserve banks and their branches, plus the member banks which are its legal owners. The Board of Governors, headquartered in Washington, exercises overall control over the nationwide operation of the Federal Reserve System.

Fedwire System - A system whereby debits or credits are processed through the accounts of member institutions at the Federal Reserve. Transfers between banks may be made in federal funds, or excess reserves may be borrowed or loaned.

Forged Check/Warrant - A check/warrant with an endorsement made without the express, implied, or apparent authority of the person whose name is signed.

General Fund Account- An account established with the State Controller's Division that exists within the General Fund. These accounts may have warrant-writing authority. General Fund Accounts require statutory authority to be opened, and all budgetary and cash controls for these accounts exist with the State Controller's Division.

Handwriting Exemplar - A form used in the forgery process to analyze the signature of a claimant to verify that the claimant's signature was indeed forged on the disputed item.

Imaging - A process which allows paper documents to be scanned, converted to a digital image, and stored for subsequent handling and processing.

Limitation - Authorization from the Legislature to expend monies up to the lesser of the amount of cash on deposit or the amount of a limitation.

Lockbox - A cash management system whereby an agency's customers mail payments to a post office box near the State's bank. The bank collects checks from the lockbox several times a day, deposits them to the Treasury's account, and informs the agency of the deposit.

Merchant Bank Card Services - The ability of an agency to accept a credit or debit card for payment of goods or services.

Midnight Deadline – The time for which Treasury’s presentment bank has to return counterfeit checks/warrants. It is midnight on the next banking day following the banking day on which it receives the item.

MICR - Magnetic Ink Character Recognition. The American Bankers' Association program that provides for encoding of checks and documents with standard characters in magnetic ink so that they can be electronically "read" and processed.

Night Depository - A small vault located on the inside of a bank but accessible to customers outside the bank for depository purposes. It is a convenient service offered to agencies wishing to deposit receipts after regular banking hours.

Pre-encode - To encode the dollar amount of a check on the MICR line prior to depositing the item with a bank.

Prenote - A zero dollar ACH transaction that is used to verify that information contained in the ACH record is correct.

Procurement Card - A bank card used to purchase goods or services.

Repetitive Transaction - Where the sender expects to send funds to a recipient on more than one occasion in the future, and where the only information expected to change in the record is the amount of money sent.

Returned Item - Checks, drafts, or notes that have been dishonored by the drawee or maker and are sent back to the presenting party.

Settlement Date - Date by which a security order must be settled, either by a buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale.

Sorting Services - Services provided utilizing electronic equipment having the ability to read, sort, and process MICR-encoded checks.

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Stale-Dated Check/Warrant - A State check/warrant that is past the expiration period stated on the face of the check/warrant.

State Treasury ACH Network (STAN) - Software application for State agencies, used for the centralization of Automated Clearing House (ACH) transactions through the Oregon State Treasury.

Third Party Check - A check that is signed over by the original payee (the person to whom the check is made payable) to a different person who then negotiates (cashes or deposits) the check.

Time Certificate of Deposit - Monies held in a financial institution for a fixed term or with the understanding that the depositor can withdraw only by giving adequate notice.

Treasury Account (formerly Suspense Account) - An account established with Treasury. These accounts may have check writing authority, if approved by both Treasury and the Department of Administrative Services. Treasury accounts require statutory authority to be opened, and are outside the purview of the Budget and Management Division of the Department of Administrative Services.

Truncation - A process whereby the items processing bank microfilms redeemed checks/warrants and then destroys the originals. Copies are available for up to seven years from the redeemed date.

Trust Fund - A fund established separate and distinct from the General Fund with either a constitutionally or statutorily dedicated purpose.

Warrant - A formal certification of the validity of a debt with authorization or direction to the State's items-processing bank to pay the debt upon presentment.

Wire Transfer - A transaction by which funds are moved electronically from one bank to another upon a customer's instructions through bookkeeping entries at the two banks.