CASH MANAGEMENT POLICIES AND PROCEDURES HANDBOOK

# CHAPTER 3. COLLECTIONS AND DEPOSITS

## Section 1.0 General

This chapter discusses the regulations governing the Department's systems and procedures for making collections and deposits.

## Section 2.0 Policy

Organization units of the Department are to observe guidance on making collections and deposits issued by the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), and the Government Accountability Office (GAO). Additionally, organization units are to carry out the following:

a. Achieve same day deposit of funds. Where same day deposit is not cost-effective or possible, next day deposit should be achieved;

b. Separate the flow of receipts from the flow of related documents at the earliest possible processing point;

c. Maximize the use of electronic funds transfer systems for both payments and collections;

d. Give due consideration to financial institutions enrolled in the Treasury's Minority Bank Deposit Program when establishing new banking relationships; and

e. Refer debts more than 180 days past due to the Treasury's Treasury's Debt Management Services for collection.

## Section 3.0 Authority

In addition to this chapter the following laws and regulations govern organization units' collection and deposit practices:

a. 31 U.S.C. Sec. 3302 --- Custodians of Money;

b. Public Law 98-369, The Deficit Reduction Act of 1984;

c. Treasury Financial Manual (TFM), Volume 1, Part 5, Deposit Regulations;

d. TFM, Volume 1, Part 6, Chapter 8000, Cash Management;

e. 12 U.S.C Sec 265 --- Insured Banks as Depositories for Public Money; and

f. Debt Collection Improvement Act of 1996;

g. TFM Volume 1, Announcement No. A-2012-02, Limitations on Credit and Debit Card Collection Transactions;

h. TFM, Volume 1, Part 6, Chapter 3200, Policy for Providing Depositary and Other Financial Services to Federal Agencies;

Section 4.0 Collection Mechanisms/Deposit Systems

When cost-effective and consistent with current statutory authority, agencies should consider mechanisms in the following order:

a. Pay.gov, including, Automated Clearing House (ACH);

b. Fedwire Deposit System (FDS) (deposits requiring same-day settlement);

c. Plastic Card Collection Network (PCCN);

d. Treasury's Automated Lockbox Network;

e. Offset Programs; and

f. Treasury's General Account.

This section provides a narrative on these mechanisms. It also provides a narrative on using Minority Financial Institutions and Federal Reserve Banks for making deposits.

.01 Automated Clearing House (Pay.gov)

a. Description

ACH, the preferred method of collecting public monies in amounts less than $100,000 (except for payments which **must** be made the same day), is the least expensive of all electronic collection systems. It provides the Federal Government with a timely and efficient means for collecting funds using electronic processing. Two types of ACH collection systems are available: Direct Payment /Preauthorized Debit (PAD) and Automated Clearing House Customer Credit process. PAD is an electronic funds transfer that is authorized in advance by the remitter. It permits a Federal agency to collect payments automatically on a predetermined date, by electronically withdrawing the amount from the remitter's bank account. This application is ideal for recurring

collections such as loan repayments, and it may also be used for individual payments.

The Customer Credit is an electronic funds transfer that the remitter initiates by requesting his or her financial institution to send the payments to the ACH system and apply the payments to the agency account. This ACH application allows the remitter to control the timing and the amount of the payment.

b. Operating Procedures

To start the ACH method units must provide remitter with a Standard Form (SF) 5510, "Authorization Agreement for Preauthorized Payments." This form authorizes the Federal agency to debit the account of an individual or company. Once completed and signed, the remitter is to return the authorization to the agency. For PAD applications the agency includes the data from the SF-5510 into a PAD master file and transmits it to the Financial Management Service (FMS)-designated ACT processor at least one day before settlement. Currently the only ACT/PAD processors are Federal Reserve Banks and the FMS lockbox network.

For Customer Credit applications the agency incorporates the data from the SF-5510 into a Customer Credit master file and transmits it to one of FMS's designated lockbox banks.

Further information can be obtained from FMS Product Promotion Division on (202) 874-7018.

.02 Fedwire Deposit System (FDS)

a. Description

The Treasury Financial Manual, I Volume V, Part 4500, Deposits to Treasury through the Fedwire Deposit System (FDS) is for individual payment and collection amounts in excess of $100,000 or when there is an immediate need for receipt of funds acknowledgment (for payments less than $100,000).

Under FDS, remitters can instruct their banks to transfer payments electronically to Treasury's main account at the Federal Reserve Bank of New York (FRBNY). Participating organization units are to provide the remitter with the account symbol number and any additional administrative instructions to assure proper credit. On the payment date, a remitter instructs its financial institution to charge its account for the remittance amount. The value of the funds moves via Fedwire from the remitter's bank to Treasury's account at the FRBNY. The FRBNY immediately transmits detailed information on the deposit to Federal Reserve member banks used by DOC. Member banks used by DOC format the information and make the information available on-line to FMS and the program agencies via the Deposit Message Retrieval Subsystem (DMRS) for up to 60 days.

b. Operating Procedures

1. Units that receive large payments, either periodic or one-time remittances, should consider using the Fedwire Deposit System (FDS).

2. All fund transfer activity using FDS and affecting Treasury accounts will be processed through FMS. No other connection to the FDS is authorized.

3. Units must provide specific information to depositors so that a FDS transfer message can be sent to Treasury. Likewise, the depositors must communicate this information to the bank sending the funds transfer. The message format is provided in Treasury Financial Manual, I Volume V, Part 4500, Deposits to Treasury through the Fedwire Deposit System (FDS), Appendix 2. Policies and procedures on depositors' requests for fund transfers are determined by the bank sending the transfer; i.e., timing and payment.

4. Units desiring to use FDS must obtain advance written approval from Treasury for each particular class or type of deposit activity before advising depositors to use the system. Approval is also required any time the average deposit volume of an approved deposit activity is expected to increase substantially.

.03 Plastic Card Collection Network

Credit card services are provided to Federal agencies by the Department of the Treasury under a Master Agreement with select financial institutions. See 1 TFM 5-4700, Plastic Card Collection Network, and Appendix C, The Use of Plastic Cards for Collection, of this Handbook, for detailed coverage.

.04 Treasury's Automated Lockbox Network

a. Description

The Treasury Automated Lockbox Network is comprised of designated financial institutions selected by FMS. These institutions, which provide lockbox remittance services for Federal agencies, are strategically located to minimize mail, processing, and collection float. Lockbox processing accelerates deposits to the Treasury's General Account at the FRBNY. When using this method, organization units instruct remitters to mail payments directly to a designated lockbox bank. The bank assigns a unique lockbox post office box number for each organization unit program. This process simplifies receipt and processing of collections. The bank transfers deposits to the Federal Reserve daily for credit to the unit's account(s). (See 1 TFM 5-4600)

Three types of lockbox services are available: wholesale lockbox; retail lockbox; and electronic lockbox. A discussion of each can be found in I TFM 5-4640.

b. Operating Procedures

Units desiring to use lockbox services should conduct a review (I TFM 6-4650.20) consisting of current collection practices and deposit information.

After the review, units will determine if a lockbox is appropriate. If determined to be beneficial, the unit will contact FMS. If FMS concurs, a lockbox bank will be selected to collect and deposit the unit's receipts. If a lockbox application is determined not to be beneficial, FMS will recommend an alternative collection mechanism.

1. Units cannot enter into new contractual agreements, modifications of existing contracts, or renewal of existing contracts for agency collection systems without FMS approval. FMS has exclusive authority to contract for lockbox services with the selected bank and the unit (I TFM 5-4620).

2. FMS shall compensate the banks for specified lockbox services (i.e. personnel, facilities, equipment, and materials). Services that may be required outside the scope of those authorized by FMS will be contracted and paid for separately.

3. Units are responsible for the accounting requirements of all transactions and funds transferred. Units are to monitor lockbox performance daily to ensure quality service, reconciliation of detail remittance data, and the timely transfer of funds. Units are to prepare the necessary financial statements and reports to FMS (I TFM Part 2).

4. Units shall provide FMS advance written notice (minimum of 30 days) of any required changes to the operating process in providing lockbox services. Processing specification and pricing changes cannot be negotiated or implemented without FMS approval.

5. Units shall direct questions about reconciling detail data/documents processed through the lockbox to the lockbox bank customer representative. Operational problems over an extended period should be reported to FMS.

6. Units shall inform FMS in writing (within ten days) if the lockbox bank fails to perform the required services, as detailed in the Memorandum of Understanding (MOU).

7. Units shall inform FMS if the bank fails to process payments timely and/or transmit funds, which result in a delay in the availability of funds to Treasury.

.05 Offset Programs

a. Description

Offset programs are a tool the government uses to collect outstanding debts by withholding potential Federal payments. The Tax Refund Offset program operates by withholding all or a part of an income tax refund. Under the Treasury Offset program, other potential Federal payments are withheld to effect collection of debts due the Federal government. Federal Salary Offset is a mechanism for collecting obligations from Federal Employees.

b. Operating Procedures

Unless otherwise prohibited by law, agencies must refer federal debts more than 180 days delinquent to the Debt Management Service. Using the Taxpayer Identification Number (TIN), delinquent debts are computer-matched against potential Federal payments for possible offset. Specific debt referral requirements and procedures are provided in the Department's Credit and Debt Management Operating Standards and Procedures Handbook.

.06 Treasury General Account (TGA)

a. Description

A TGA is a bank account in a commercial bank or other financial institution (FI) in which an agency can deposit cash and checks. TGA depositories are designed to move funds efficiently from many widely dispersed points of initial deposit to a "concentration" account. Receipts are hand delivered to the bank before the bank's deposit cut off time. Except where specifically authorized by Treasury, units will not mail deposits to commercial banks. Regardless of where the deposits are made, units will try to limit deposit transmittals to no more than one each day. However, when clearly beneficial to the Government, units will make multiple deposits.

b. Operating Procedures

Units interested in depositing collections with a TGA depositary should submit a request to the FMS's Banking Management Division. When making such a request, units are to first consider using electronic fund transfer options for making deposits. Requests for general depositary should include the following:

1. The name and location of the unit's current depositary;

2. The time and manner deposits are made with the current depositary;

3. The name and location of the proposed depositary (specifying the name and location of the bank branch, if applicable);

4. The time and manner deposits will be made with the proposed depositary;

5. The total dollar amount deposited monthly;

6. The total number of checks (including Treasury checks) deposited monthly;

7. The amount of cash deposited monthly;

8. A brief justification statement, including why EFT options are not appropriate; and

9. A statement why a minority bank cannot be used if the proposed bank is not a minority bank.

Requesters with questions about TGA arrangements may contact the FMS Banking Management Division on (202) 874-6900.

.07 Minority Bank Deposit Program

a. Description

The Minority Bank Deposit Program (MBDP) promotes the development of minority-owned business enterprises by increasing Federal and private sector use of minority financial institutions. Participating institutions include: commercial banks and savings and loan associations which are minority-owned or minority-controlled; women's commercial banks; savings and loan associations; and limited income credit unions serving predominantly low income members.

b. Operating Procedures

Units are to establish depositary relationships with an eligible participant(s) if such change(s) to a minority-owned financial institution would be cost-effective and mutually beneficial to the unit and the new financial institution. Eligible participants are financial institutions that have certified ownership, control, operation, and if necessary, its board of directors conforms to certain requirements defined by Treasury. Such participants must recertify periodically with Treasury.

Proximity of the minority financial institution to the depositing unit is the most important factor in determining whether to use minority depositories.

If a unit determines it advantageous to use a local MBDP participant for its banking needs, the unit should send a request to Treasury prescribed by I TFM 5-4000. The request should include the information described in Section 4.05(b) of this chapter. When preparing a request(s) to establish or change depositary arrangements, units should consider using a minority financial institution. If a minority financial institution is not chosen, an explanation must be provided on the request(s). If a unit fails to include this information, Treasury may return the request. Additional guidance on depositing with a minority financial institution can be obtained by contacting the Financial Management Service, Department of the Treasury, on (202) 874-7055 or (202) 874-6590.

.08 Federal Reserve Banks (FRB)

a. Description

FRBs serve as the fiscal agent for the U.S. Government. As such, they accept and process deposits from Federal agencies for credit to their agency location codes at the FRBNY. They provide a deposit system for agency-collected checks, cash, currency, and money orders. FRB's accept agency deposits in the same manner TGA's do. However, unlike the hundreds of banks in the TGA system, only 37 cities around the country have FRBs or branches.

b. Operating Procedures

Units must contact their FRBs for a CASHLINK Identification Number (CIN). The CIN is derived from the agency location code (ALC) and is used by the FRB to identify agency transactions.

The mailing of deposits (versus hand carrying) to FRBs may be done when specifically authorized by Treasury's FMS. In these cases, the deposit time frame requirements apply to the timely mailing of deposits. When a deposit consists only of Treasury checks, units are authorized to mail those checks to the nearest FRB. Treasury checks received totaling $5,000 and over will be deposited on the same day received at the nearest FRB rather than at a local commercial designated depositary (I TFM 5-2030). Exception: Treasury checks received by agencies outside the United States may be deposited to a designated commercial depositary. Detailed guidance on depositing at FRBs is cited in I TFM 5-2000.)

.09 TFM, Volume 1, Part 6, Chapter 3200, Policy for Providing Depositary and Other Financial Services to Federal Agencies;

Bureaus are required to comply with this TFM. Highlights of this TFM include:

a. Description

The Federal Finance Assistant Commissioner area (Federal Finance) and the Payment Management Assistant Commissioner area (Payment Management) of FMS provide depositary and other financial services to Federal agencies using a network of Federal Reserve Banks (FRBs) and financial institutions designated by FMS to act as depositaries and/or fiscal and financial agents.

b. Operating Procedures

Federal agencies receiving or holding public money from any source are statutorily required to deposit these funds into the U.S. Treasury, unless otherwise authorized by law. FMS, as part of its mission, is the agency responsible for collecting, holding, disbursing, and accounting for public money on behalf of most federal agencies. Consequently, Federal agencies generally may not hold public money outside of the U.S. Treasury and must deposit all public money into an account in the name of the U.S. Treasury using one of the various collection mechanisms established by FMS.

FMS is authorized to perform other financial services reasonably related to its core mission providing central collection and payment services to Federal agencies. Examples of services that FMS is legally authorized, but not required, to provide to Federal agencies include:

- Lockbox-related services, such as detail sorting, special handling, photo-copying, custom file assembly, and issuance of receipts;

- Custom cash management and other financial services in closed environments, such as military bases or Federal prisons.

Legally authorized services may be provided on either a reimbursable or nonreimbursable basis.

## Section 5.0 Processing Deposits

When funds are received by the organizational unit in offices other than the finance or accounting office, such funds will be sent to the finance or accounting office for deposit promptly, but no later than one working day after receipt. A program official with a question about a collection will not delay transmission pending resolution.

### .01 Separation of Payment and Remittance Advices

To expedite the flow of funds and enhance internal control, units receiving remittances directly (i.e., not through a lockbox) will separate all forms of payments received from accompanying accounting documents. This should be done at the initial stage of processing. Once this is completed, the payments will be promptly deposited.

### .02 Use of Amount Encoders

Units normally processing over 5,000 deposit items per day will use amount encoders.

### .03 Postage, Registration, and Other Expenses

Postage, registration, and other expenses incurred in mailing deposits may not be deducted from the amount of the deposit. Registration is not required for the shipment of checks.

### .04 Coverage of Deposits under Government Losses in Shipment Act

Deposits prepared and made in accordance with regulations prescribed pursuant to the Government Losses in Shipment Act, as amended (40 U.S.C. Secs. 721-729), are covered under the Act while in the course of shipment. Therefore, such remittances should not be insured by the depositor.

### .05 Depositing User Charges, Reimbursements, and Refunds

a. User Charges--fees or charges collected from sources outside the Federal Government for goods or services. The price includes both the cost to the agency and any profit. Unless otherwise provided by law, all monies received must be deposited to the Treasury as General Fund receipts. Generally, agencies cannot retain receipts.

b. Reimbursements--payments from the public or from other Government accounts, received by the Government for goods sold or services rendered. Such payments are legally authorized for credit directly to specific appropriation and fund accounts. The amounts are deducted from the total obligations incurred (and outlays) in determining net obligations (and outlays) for such accounts.

c. Refunds--returns of advances, collections for overpayments made, adjustments for previous amounts disbursed, or recovery of erroneous disbursements from appropriation or fund accounts that are directly related to, and reductions of, previously recorded payments from the accounts. Refunds are to be deposited to appropriation accounts.

.06 TFM, Volume 1, Announcement No. A-2012-02, Limitations on Credit and Debit Card Collection Transactions, Effective June 30, 2012

Bureaus are required to comply with this TFM, effective June 30, 2012.

The revised policy, effective June 30, 2012:

a) Lowers the maximum dollar amount allowed for a credit card collection transaction; and

b) Eliminates the maximum dollar amount limit for a debit card collection transaction.

Significant requirements from the revised policy include:

- Agencies must limit their credit card collections so that individual credit card collection transactions are no more than $49,999.99. This limit has been lowered from the current amount of $99,999.99, and now applies only to credit card collection transactions.

- If the agency's cash flow includes individual credit card collection transactions greater than $49,999.99, then the agency should use other electronic collection alternatives for those transactions. Available electronic alternatives include Automated Clearing House debits or credits, and Fedwire transactions.

- Agencies may not split individual credit card collection transactions greater than $49,999.99 into two or more transactions over one or multiple days.

- Additionally, this policy should be reinforced in agency communications with customers.

- Agencies may not establish a minimum collection transaction amount as a condition for honoring a card. This applies to credit and debit card collection transactions. FMS may allow or establish a minimum transaction amount in certain circumstances for system security reasons or to meet an agency business or operating need.

- FMS and its acquiring processor will monitor agency compliance with this requirement and will provide assistance to agencies not in compliance or that request guidance.

Section 6.0 Frequency of Deposits

The deposit of all funds received for credit to the account of the U.S. Treasury should be made without delay. Depositors should limit their transmittals of deposits to one per day. Depositors may need to set an internal "cut-off" time when preparing deposits, and deposit on the following day all receipts processed after that time. To ensure that the maximum amount of funds is deposited each day, the depositor will establish a processing schedule to allow the deposits to reach the depositary before the depositary's daily "cut-off" time.

.01 Receipts $5,000 or More

Receipts of $5,000 or more will be deposited daily before the depositary "cut-off" time. Funds received too late to meet the depositary's "cut-off" time must be deposited the next business day. Daily aggregate deposits (excluding Treasury check deposits) of $50 million or more will be reported to Treasury on the day of the deposit. Finance officers are to include the name of the organization unit, the deposit amount, and the name and location of the depositary to Treasury's Financial Management Service Funds Control Branch via telephone (202)874-9790 or Fax (202)874-9945.

.02 Receipts Less than $5,000

Receipts of less than $5,000 may be accumulated and deposited when the total reaches $5,000. However, deposits will be made by Thursday of each week regardless of the amount. In addition, collections shall be deposited according to Treasury procedures. Collections, which cannot be identified for credit to the proper account upon receipt, shall be deposited to the Department's deposit fund suspense account until identification is made.

.03 Discretion over Deposits

Receipts of less than $5,000 may be deposited if:

a. Facilities lack adequate safeguards against loss or theft; and

b. Daily deposits are cost beneficial.

Section 7.0 Internal Controls over Collections

All officers and employees of the Federal Government who officially receive funds for the United States, shall keep proper records, provide adequate physical control over such funds, and place the collections under accounting control promptly after receipt. This includes donated, quasi-public, and unearned monies. Designated accountable officers shall account for all receipts and deposits.

.01 Basic Controls

Segregation of duties prevents the misuse of cash receipts and concealment of fraud in the accounting records. Special accounting controls are essential when sales or operating persons handle cash receipts. Persons responsible for handling cash receipts should not participate in the accounting or operating functions relating to the following activities:

a. Shipping goods and billing for goods and services;

b. Controlling accounts receivable and subsidiary ledgers;

c. Preparing and mailing statements of balances due;

d. Authorizing and approving credits for returns, and allowances or adjustments of amounts due; or

e. Reconciling bank or Treasury reports with accounting records.

Official collections shall not be commingled with personal funds or used for cashing checks or money orders. (See Section 6.0 of this Chapter for details on the frequency of making deposits.)

.02 Maintenance of Records

Units shall maintain records for sufficiently identifying collections if requested. Control records shall disclose:

a. Undeposited collections;

b. Unacknowledged deposits in transit (to the depositary); and

c. Deposits acknowledged by the depositary.

Proper control and accounting records shall be kept for checks and money orders received. When any unit makes or receives collections for another agency, the unit shall identify the collections in control records sufficiently to permit complete identification. Also, controls must ensure that contractors collecting funds for the Department maintain proper records and provide adequate physical control over such funds.

.03 Inscription and Endorsements

Units shall, where possible, instruct payers to make checks and other negotiable instruments payable to the specific organization or organization unit maintaining the accounts to be credited. These instruments should generally not be made payable to the Treasury. However, any remittance payable to the Treasury should be accepted and processed. Units should never instruct payers to make checks, money orders, or other instruments payable to individual officers or employees. In addition, units are to follow endorsement regulations in the Treasury Financial Manual (I TFM 5-2000).

.04 Documentation

Collections credited to appropriation and fund accounts must be proper and authorized by law or appropriate regulations. Units must produce references to such authorizations if requested by the Government Accountability Office. Collection records for refunds and reimbursements will include descriptions sufficient for identifying the source of, or reason for, the collection.

## Section 8.0 Crediting Collections

Generally, collections from sources outside the Federal Government received for the United States shall be remitted into the Treasury as general fund receipts. Such funds can be withdrawn only in consequence of appropriations made by law (Art. 1, sec. 9, cl. 7 of the Constitution). However, collections from external sources can be credited to appropriation accounts if specifically authorized by law.

Section 9.0 Classification: Reimbursements and Refunds

Collections credited to appropriation and fund accounts fall within two general classifications: reimbursements and refunds. (See Section 5.05 of this Chapter for a discussion of reimbursements and refunds.)

Section 10.0 Unidentified Remittances

Unidentified remittances presumed to be credited ultimately to a receipt, appropriation (expenditure), or fund account within the budget will be credited to a receipt clearing account. Otherwise, the remittances will be credited to a deposit fund suspense account outside the budget. If remittances are later identified to accounts within the budget, the amounts should be transferred to the proper account. Transfer documents must show the purpose for which the remittances were received. Reclassification will be made by journal voucher within an accounting station when corrections or adjustments are expenditure transactions between appropriation, fund, or receipt accounts. If the adjustment involves separate ALCs, accomplishment should be by IPAC; i.e., transfer between ALCs.

When an amount (or portion) due has been received but misclassified to the wrong account, clearance should be made by an expenditure transfer to the correct receipt account. When a receipt of all or a portion of an amount is received to which an agency is not entitled, (i.e., duplicate billing), and the receipt was credited to an agency's appropriation, the refund should come from that appropriation. If the receipt has been deposited as a miscellaneous receipt (which cannot be received without an appropriation), the refund must be charged to account symbol 20X1807, "Refund of Monies Erroneously Received and Covered." Such action is specified in 31 U.S.C. Sec. 1322(b) (2).

Section 11.0 Anticipated Collections

Units shall record all anticipated collections in their account. When anticipated collections have matured into valid receivables or become valid obligations of the paying agency as defined in 31 U.S.C. Sec. 1501, they shall be credited to the appropriate accounts.