

ALERT! ALERT! ALERT!

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ALERT #125

TO: Department Controllers, Fiscal Officers and Other Interested Parties

FROM: Arthur L. Barnhart *ALB*
State Controller

DATE: November 2, 1999

SUBJECT: *Point of Sale Electronic Collections*
Accounting Policy on Credit Card Fees
Forgiveness, Settlement, or Compromise of Debt Due the State
Processing Of Bankruptcies On Claims Due to the State

Point of Sale Electronic Collections

Recently, new electronic check clearance technology became available in beta retail sites around the country. This new technology will allow a merchant to convert a paper check to an electronic debit by scanning the MICR line at the bottom of the check. Essentially it permits merchants to convert a paper transaction to a more immediate electronic transaction. You need to be aware of this since some agencies find it necessary to make some purchases by paying with a state warrant at the time of sale at the merchant's location.

The Point of Sale (POS) procedure works basically like this:

1. Limited to point of sale, personal check payments only.
2. The merchant must have a sign advising customers that if they pay by check, the check will be cleared electronically. Typically, there will be no exceptions although the customer can always choose cash or some type of credit/check card the merchant otherwise takes.
3. The merchant will scan the paper check for the routing and account information; this data is added to the amount to create an ACH debit.
4. These new devices will print "Void, Used or Processed" on the paper check which is then returned to the customer.
5. The customer signs an authorization.

State warrants are not eligible for this procedure. They are, by NACHA rule, considered third party items since they are payable at the State Treasury rather than at a traditional bank. In addition, the state contract with our payor bank prohibits debits of this type to our warrant clearing account. Merchants participating in this program should be advised to watch for government warrants.

If your agency conducts business in this manner, please educate your employees to refuse to participate in POS debits. Do not allow a merchant to use this new process with a state warrant unless this office



and the office of the State Treasurer direct you otherwise. If your employees have trouble with merchants who are using this technique, they can advise the merchant to contact the State Treasurer's Office at 303-866-2441.

Accounting Policy on Credit Card Fees

No formal policy on accounting for credit card fees has yet been adopted by the state controller. A national survey of the other state policies should be available mid-November. This survey information combined with the language from HB99-1127, *Government Acceptance of Additional Forms of Payment*, and the processing flows that evolve from the credit card services RFP will all have a bearing on the final policy. Since the Department of Regulatory Agencies began a pilot program of accepting credit cards via the Internet on November 1 for real estate and appraiser license renewals, it was necessary to establish an interim process for recording these fees.

Effective immediately, the following codes will be used for recording fees for credit card programs not grandfathered under HB99-1127. For governmental funds credit card fees will be debited against revenues RSRC 5208 Credit Card Fees Nonexempt and RSRC 5209 Credit Card Fees Exempt will be used. Agencies should set up sub-revenue codes if they think that they will have to segregate credit card fees for separate programs. For example, Regulatory Agencies might use 5208 01 to capture credit card fees for real estate license and 5208 02 for credit card fees for CPA licenses if that information is of value to them. This would be at the discretion of the agency. Agencies may go back to the beginning of the year and journal credit card fees that were expensed in governmental funds to the above revenue codes by crediting the expense and debiting the revenue.

Questions about credit card fee accounting may be directed to Alan Boisvert at 303-866-3894 or Dennis Wolfard at 303-866-3895.

Forgiveness, Settlement, or Compromise of Debt Due the State

During the past several months, the State Controller's Office and Central Collections Services (CCS) have received numerous questions regarding the process to forgive, settle, or otherwise compromise an amount due the state.

Per state statutes and the GSS Accounts Receivable Administrative Rule, the state controller and the state treasurer are required to review and approve any forgiveness, settlement, compromise, or other adjustment which results in the state collecting less than the full amount of a debt due the state. All such requests must be submitted in writing to CCS. Requests must justify why it is in the best financial interest of the state to accept an amount less than the full amount due. CCS will review the request and make a recommendation to the state controller. The state controller must approve the request before it goes to the state treasurer. The decisions of the state controller and state treasurer will be communicated to the requesting state agency through CCS.

The State Controller's Office is developing additional guidance involving the management of past due accounts receivable. Questions regarding past due accounts receivable can be addressed to CCS or your field accounting specialist.

Processing Of Bankruptcies On Claims Due to the State

Recent court decisions and complexity of the bankruptcy law have made it much more difficult to determine which claims have and have not been released in a bankruptcy. Effective January 1, 2000, bankruptcy actions on claims turned over to CCS or eligible to be turned over to CCS must be referred to your account representative at CCS. Centralizing action on these matters will solidify state policy and not jeopardize one agency's position on a debt due to another agency's action based on a misunderstanding of the status of the law.

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