

CHAPTER THREE: Managing Payments

Section 1 - *Participants*

Payments, the outflow of funds, are made to four groups: vendors, grant recipients, employees, and benefit recipients.

Vendors. The first group to whom the Government regularly disburses funds includes vendors and other miscellaneous providers. Disbursements to vendors range from payments for office supplies to payments for defense contracts.

Grant Recipients. The Government awards grants to a number of recipients such as states, universities, and research centers.

Employees. Federal employees make up the third group to whom Federal agencies disburse funds. The two most common types of payments are for salary and travel.

Benefit Recipients. The fourth group to whom agencies provide payments is benefit recipients. These payments may be Social Security benefits, Supplemental Security Income, civil service retirement and annuities, railroad retirement, military benefits, and veterans' pensions.

Government payments are issued for a variety of reasons, including:

- Salary and travel expenses for Federal employees;
- Vendor payments to companies that provide goods and services to the Federal Government;
- Grant payments for many Federal programs;
- Payments for Social Security and other benefit programs;
- Tax refunds; and
- A multitude of miscellaneous purposes.

A few Federal agencies issue their own payments, most notably the Department of Defense (DOD). However, the Financial Management Service (FMS) issues approximately 85 percent of all Federal Government payments for most of the other agencies. FMS issues payments from four Regional Financial Centers (RFCs) located in Austin, TX; Kansas City, MO; Philadelphia, PA; and San Francisco, CA.

The payment process begins with a Federal agency deciding to make a payment to a vendor, a grant recipient, an employee, or a benefit recipient. Certifying Officers in Federal agencies are the only Government officials authorized to request that FMS issue a payment on the agency's behalf. They are personally accountable for verifying that all payments under their jurisdiction are legal, proper, and correct. Certifying Officers send payment requests to FMS via a paper voucher or electronic file. Treasury keeps a paper and an electronic signature on file for each Certifying Officer.

When a payment request is received, FMS verifies that the Certifying Officer's signature is correct. Once the signature is verified, a Disbursing Officer at the RFC issues the payment according to the Certifying Officer's instructions. Payment instructions from the Certifying Officer include the recipient's name, dollar amount of the payment, where the payment is to be directed, etc.

Payments issued by FMS, DOD, and other disbursing agencies are drawn on the Treasury's General Account at the Federal Reserve Bank of New York. Both paper and electronic payments are cleared through the Federal Reserve Bank by debiting the Treasury's account and crediting the financial institution that received and processed the original payment.

Section 2 - *Disbursement Mechanisms*

The Federal Government uses several types of cash management mechanisms to disburse payments, including cash, checks, and a variety of electronic funds transfer (EFT) mechanisms. While FMS encourages and promotes the use of EFT, it recognizes that agencies still have payment cash flows that require the use of cash and checks.

Electronic Funds Transfer

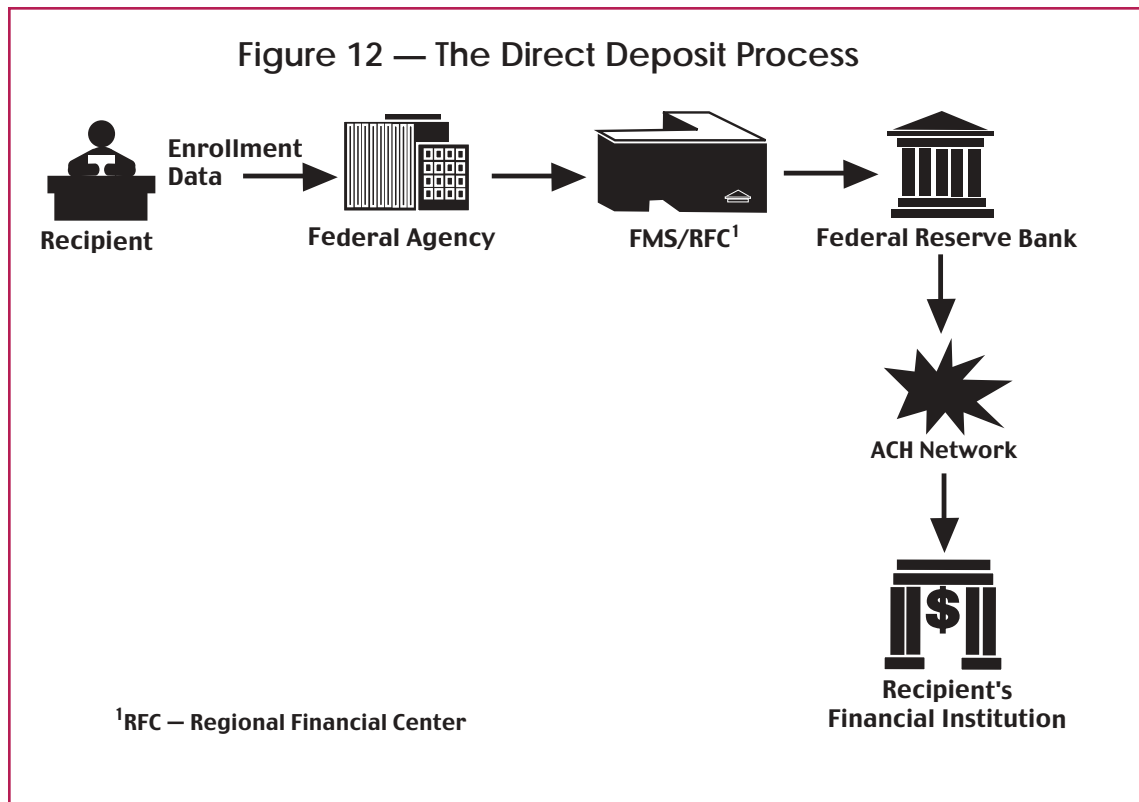
➤ Direct Deposit

Direct Deposit is an electronic payment alternative that uses the Automated Clearing House (ACH) system. Payments can be made to individuals or businesses. Payment types include Federal employee salary, vendor, travel advances and reimbursements, recurring benefits, and other miscellaneous expenses. Payments to businesses often include an addendum record that provides information about the payment. The recipient uses this information to update its accounts receivable system.

The Direct Deposit Process:

- Federal agencies or financial institutions enroll payment recipients for Direct Deposit by obtaining their bank account information and benefit payment data.
- The Federal agency sends a payment file to one of FMS' Regional Financial Centers.
- FMS prepares a Direct Deposit payment file and forwards the file to the Federal Reserve Bank for processing in the ACH system.
- Payments are posted to the recipients' accounts, and the funds are available at the start of business on the payment date.
- The Treasury's account at the Federal Reserve Bank is debited the same day.

Figure 12 — The Direct Deposit Process



Direct Deposit Benefits

Recipient Benefits

- Provides convenience.
- Provides a highly dependable, efficient payment system.
- Eliminates lost, forged, or stolen checks.
- Increases security.
- Provides payment information to the vendor/recipient.
- Provides the vendor/recipient with funds on the payment date.

Agency/Government Benefits

- Eliminates check ordering, storage, and printing costs.
- Eliminates postage costs.
- Provides a complete audit trail.
- Reduces paperwork.

► Vendor Express Program

The Financial Management Service (FMS) implemented the Vendor Express Program in 1987. This program electronically transfers money and remittance information through the Automated Clearing House (ACH) network to commercial payees of Federal agencies. FMS expanded the program with electronic data interchange (EDI) capabilities in 1994.

Enrollment Form

The ACH Vendor/Miscellaneous Payment Enrollment Form (SF 3881) is an optional form that agencies may use to enroll their vendors in the Vendor Express EFT/EDI Program. It contains the financial institution information necessary to route an ACH payment to the recipient's account. The Federal agency initiates and completes the Agency Information section of the SF 3881; the vendor completes the Payee/Company Information section; and the financial institution completes the Financial Institution Information section. Then, the vendor should return the completed SF 3881 to the agency that initiated the form.

The Central Contractor Registration database, created by the Department of Defense, is an additional option for vendor enrollment. (See page 82.)

Formats

EDI is the computer-to-computer transmission of business information in a standardized format. The formats used are in the form of transaction sets, with one transaction set equating to one business document and identified by a unique three-digit code, e.g., the 820 Payment Order/Remittance Advice. The 820 transaction set, Payment Order/Remittance Advice, is used to electronically order payments to be issued and remittance information to be sent.

A key feature of the Vendor Express EFT/EDI Program is the use of addenda records in ACH payment formats. An addendum record contains payment-related accounting information transmitted along with the actual payment. Initially, Vendor Express used the Cash Concentration or Disbursement Plus Addendum (CCD+) ACH payment format, which accommodates one addendum record with 80 characters.

As the program expanded, the Corporate Trade Exchange (CTX) format was implemented. The CTX format allows for up to 9,999 addenda records with approximately 800,000 characters. This format allows for a complete 820 transaction set to be transmitted in the addenda records.

Remittance Information

The ACH Remittance Information Processing Rule, effective September 1998, requires that financial institutions provide addenda information to their corporate customers upon request. Vendors are encouraged to discuss remittance delivery capabilities with their financial institution prior to submitting the SF 3881 to the Federal agency. Financial institutions have different remittance delivery capabilities, ranging from electronic transmissions to facsimile reports.

FMS developed the Payment Advice Internet Delivery (PAID) system to provide participating Federal agencies a method of making remittance information available to their vendors through the Internet. (See page 83.)

Prompt Payment Regulation (5 CFR Part 1315)

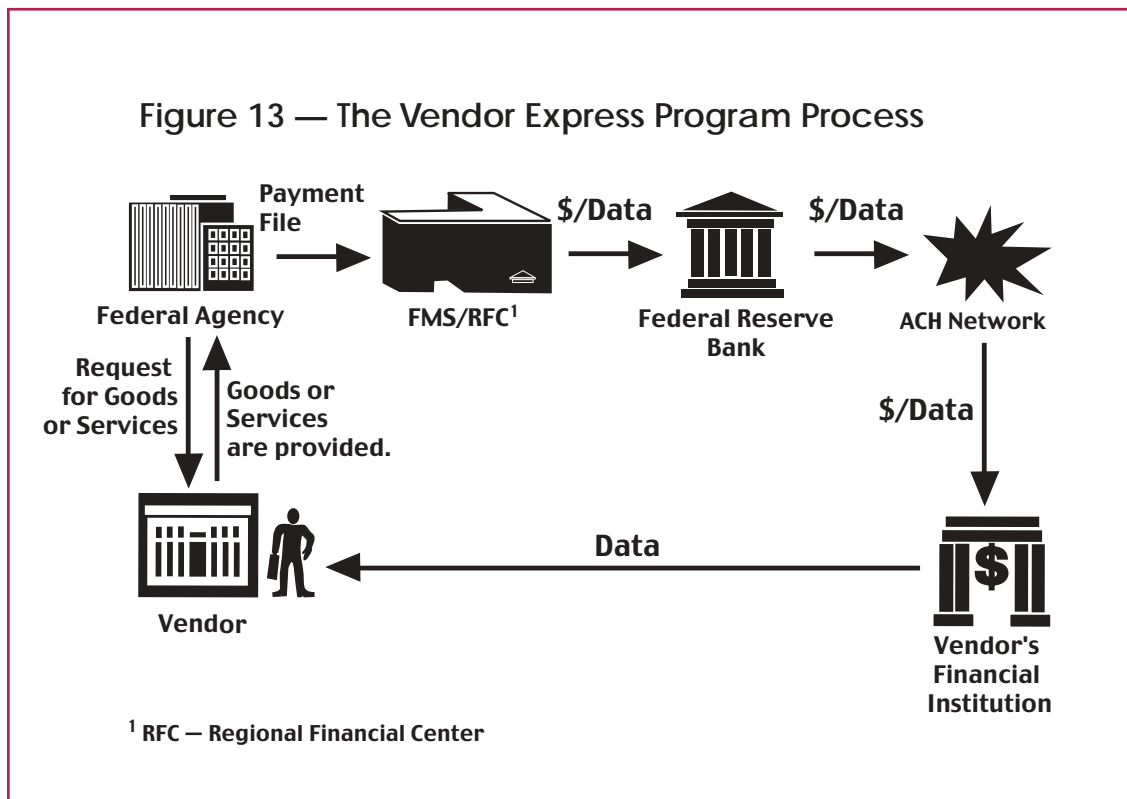
The Prompt Payment Regulation (5 CFR Part 1315) requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. The Prompt Payment Regulation reflects the requirements of the Debt Collection Improvement Act of 1996, which requires that most Federal payments, with the exception of tax refunds, be made by electronic funds transfer (EFT) beginning on January 2, 1999.

For more information on the Vendor Express Program, visit the web site at: www.fms.treas.gov/vendor.html.

The Vendor Express Program Process:

- The Federal agency procures goods or services from a vendor.
- The vendor provides goods or services to a Federal agency and submits a bill or invoice requesting payment.
- The Federal agency certifies payment to the vendor by submitting a payment request with payment information (i.e., addendum) to the agency's servicing Regional Financial Center (RFC).
- The RFC processes the Federal agency payment request and transmits the payment and the addendum information to the Federal Reserve Bank (FRB) for processing in the ACH system.
- The FRB passes the payment and addenda record(s) to the vendor's financial institution (FI).

- The vendor's FI credits the payment to the vendor's account on the payment due date, notifies the vendor of the transaction, and provides the addendum information to the vendor as previously agreed. The Treasury's account at the FRB is debited the same day.
- The vendor posts its accounts receivable records from the payment and addendum information received from its FI.



Vendor Express Program Benefits

- Sure and effective way to comply with the Prompt Payment Act.
- Fully traceable payments.
- Lower Government operating costs through reduced manual payment processing and streamlined operations.

➤ **International Direct Deposit**

The Financial Management Service (FMS) offers an International Direct Deposit (IDD) program that establishes an electronic funds transfer (EFT) service for foreign-resident payment recipients. The IDD program enables Federal payments to go directly to the recipients' accounts at financial institutions through a link between the Federal Reserve Bank of New York (FRBNY) and electronic payment systems in foreign countries (e.g., Bankers Automated Clearing Services (BACS), in the United Kingdom, or the countries' central banks).

Recipients benefit from the program by having their payments automatically converted to local currencies at the lowest exchange rate obtainable, thereby eliminating bank and check-cashing fees. IDD also eliminates the possibility of lost or delayed mail and assures receipt of payment on the payment date.

The Enrollment Process for IDD:

- FMS provides IDD service through one or more of its Regional Financial Centers (RFCs). Detailed processing instructions are available from the Federal agency's servicing RFC.
- Enrollment is generally handled directly between an agency and its recipients. The FRBNY or Federal Benefits Units (FBUs) of U.S. embassies or consulates may provide assistance. FMS will not be involved in the enrollment process.
- Agencies use enrollment information to update their payee records. From this file, agencies will send FMS certified payment requests.

The International Direct Deposit Process:

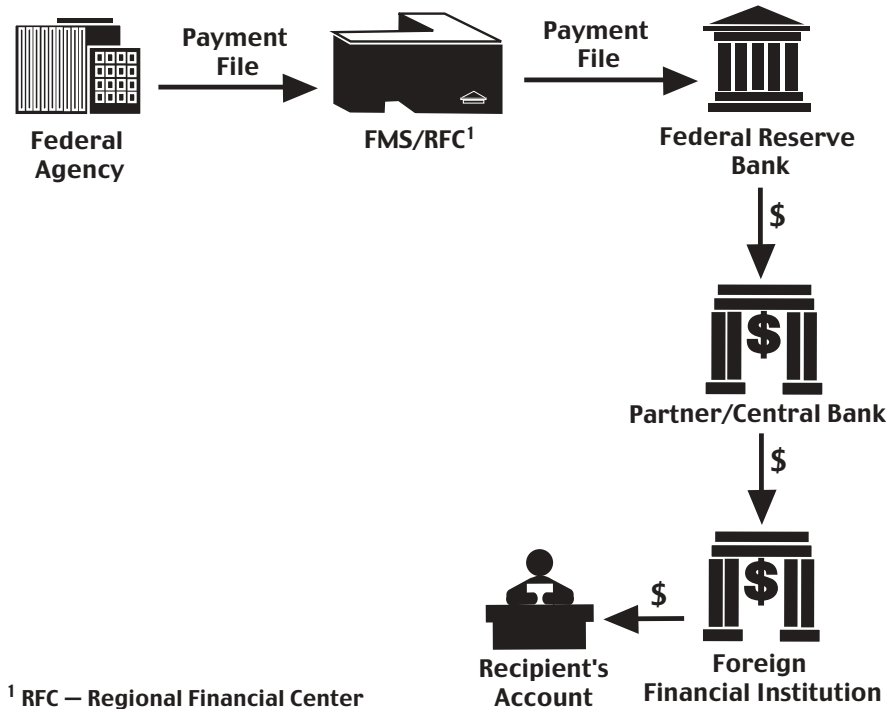
- The Federal agency transmits the payment file (in U.S. dollars) to FMS.
- FMS receives the payment files from the Federal agency; validates the agency's certifications; processes and passes the payment files to the FRBNY.
- Upon receipt of the payment file from FMS, the FRBNY will:
 - Validate the file (format and batch totals);
 - Separate the payments based on the country code in each batch header record;

- Purchase foreign currency from a foreign exchange counterpart; credit the U.S. dollars to the foreign exchange counterpart's account at its correspondent bank in the United States;
 - Convert the U.S. dollar value to its foreign currency equivalent for each country;
 - Convert to the respective payment formats of the foreign countries; either transmits or delivers the payment information for processing by the appropriate foreign payment system (i.e., Partner/Central Bank);
 - Return the file to FMS; and
 - Handle post-payment tasks, such as return items.
- Settlement Instructions - On the settlement date, the foreign exchange counterpart correspondent bank in the destination country will credit the FRBNY's IDD account with the foreign currency.
 - After processing and sorting the payment information received from FRBNY, the Partner/Central Bank will deliver the payments to the designated foreign financial agents.
 - The designated foreign financial agents will credit the recipients' accounts on the established payment date (e.g., the 3rd of the month for the majority of Social Security benefit payments).

Payment Recipient:

The recipient enrolls with the Federal agency. Within a short time, the recipient will receive a direct deposit payment in his/her foreign bank account denominated in the local currency on the designated payment date. The recipient pays no collection fees, benefits from a commercial rate of exchange, and is not subjected to mail delays.

Figure 14 — The International Direct Deposit Process



International Direct Deposit Benefits

Recipient Benefits

- Offers convenience by crediting the recipient's bank account in foreign currency or (in some instances) U.S. dollars in the foreign country.
- Provides a highly dependable, efficient mechanism by crediting the payment on the payment date.
- Eliminates lost, forged, and stolen checks.
- Eliminates check cashing fees.
- Receives a better exchange rate (U.S. dollars to foreign currency).

Agency/Government Benefits

- Eliminates duplicate payments.
- Eliminates checks and postage costs.
- Is less costly than checks.
- Reduces paperwork and related administrative costs.

➤ **Electronic Transfer Account**

The Debt Collection Improvement Act (DCIA) of 1996 requires most Federal payments, except for tax refunds, to be made by electronic funds transfer (EFT) after January 1, 1999. The Treasury issued 31 CFR Part 208 (EFT Regulation) on September 25, 1998, to implement the EFT requirements of the DCIA.

The Electronic Transfer Account (ETASM) is an account designed by the Treasury to ensure that individuals who want to receive Federal payments electronically have access to an account at a reasonable cost and with the same consumer protections available to other account holders at the same financial institution. The EFT Regulation provides that any individual receiving a Federal benefit, wage, salary, or retirement payment is eligible to open an ETASM.

In July 1999, the Treasury published in the Federal Register a Notice of ETASM Features. Each financial institution that chooses to offer the ETASM is required to offer the account under the terms and conditions of the ETASM Financial Agency Agreement (FAA). The FAA incorporates, by reference, requirements set forth in the Federal Register Notice of ETASM Features.

Based on the features set forth in the ETASM Notice, the ETASM shall:

- be an individually-owned account in the recipient's name at a Federally insured financial institution;
- be available to any individual who receives a Federal benefit, wage, salary, or retirement payment;
- accept electronic Federal benefit, wage, salary, and retirement payments and other such deposits as a financial institution agrees to permit;
- be subject to a maximum price of \$3 a month;
- allow each month, at no extra charge, a minimum of four cash withdrawals through any combination of proprietary automated teller machine and/or over-the-counter transactions, and four balance inquiries;
- provide the same consumer protections available to other account holders at the financial institution;

- allow access to the financial institution's on-line point-of-sale network, if available;
- require no minimum balance, except as required by Federal or State law;
- be either an interest-bearing or non-interest-bearing account at the option of the financial institution; and
- provide a monthly statement.

Participation in the ETASM Program is voluntary for financial institutions and Federal payment recipients.

The ETA Process:

Deposits made to an ETASM follow the same process as described for Direct Deposit. (See page 45.)

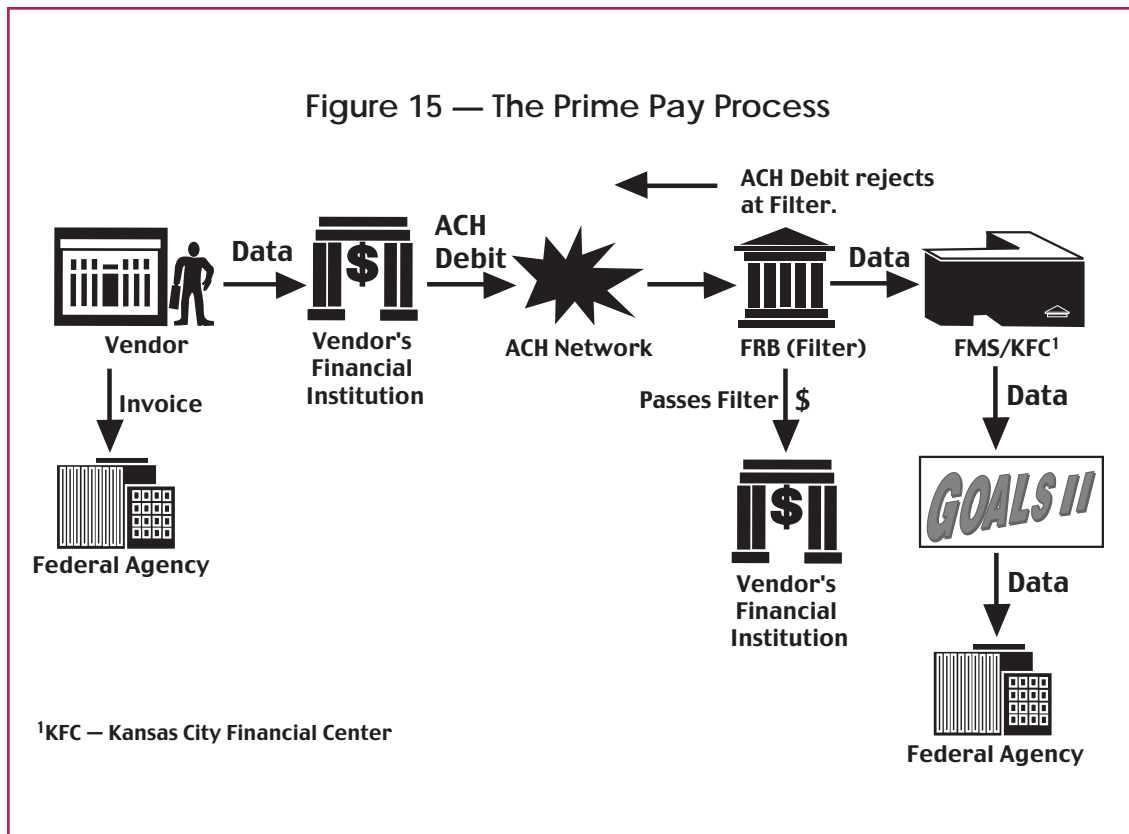
➤ Prime Pay

Prime Pay is an Automated Clearing House (ACH) payment initiated by a vendor for goods or services provided to a Federal agency. To participate in Prime Pay, the Federal program agency and the vendor agree to payment terms, and the Federal program agency certifies to the Financial Management Service (FMS) the vendor's ability to participate in the Prime Pay option. This program is only available through and managed by FMS Kansas City Financial Center.

The Prime Pay Process:

- The vendor submits an invoice to the agency.
- The vendor, through its financial institution, initiates the ACH debit transaction along with pertinent payment information (e.g., invoice, contract, etc.).
- The transaction flows through the ACH system to the Federal Reserve Bank (FRB). At the FRB, security is maintained through the use of a “filter.” The filter rejects any ACH debit transaction that does not match specific criteria, including originating bank, vendor, and dollar limits. If the ACH transaction passes the debit filter, the information is delivered to FMS.
- FMS sorts and delivers the payment information to the designated Federal agencies.
- The Federal agencies update their accounts payable systems and reconcile ACH charges to original invoices from the vendor or other supporting documentation.
- Funds settlement occurs on the designated payment date. The Federal Reserve Bank (FRB) charges the Treasury's account and simultaneously credits the account of the vendor's financial institution.
- The Kansas City Financial Center reports the data to the agency via GOALS II.

Figure 15 — The Prime Pay Process



Prime Pay Benefits

Vendor Benefits

- Controls the collection of funds.
- Accelerates the collection of funds.
- Streamlines accounts receivable processing.

Agency/Government Benefits

- Streamlines accounts payable processing.
- Provides direct cost savings from negotiating discounts and no late payments.
- Improves quality of service to customers.
- Eliminates costs associated with checks.

➤ Fedwire

Fedwire is the Federal Reserve Communications System linking the 12 Federal Reserve District banks, its 25 branches, and certain eligible U.S. depository institutions. Fedwire is a transaction-by-transaction processing system designed for only high-dollar, low-volume items that must be received by payees the same day as originated by the agency.

If both the originating and receiving depository institutions are in the same Federal Reserve district, the FRB makes the appropriate entries to pass value from the originating financial institution's account to the receiving financial institution's account. The FRB then notifies the receiving institution of the transfer by sending a message over Fedwire. If the two institutions are in different districts, the FRB in the originating district notifies the FRB in the receiving district, and then arrange to pass value between the two, settling through the Interdistrict Settlement Fund.

The Fedwire network is a series of connections among the FRBs, linking each bank with at least two other FRBs to provide alternate communication lines in case of breakdowns. The FRB guarantees to pass value as of the date the Fedwire transfer is initiated, if the transfer meets all required criteria, including the initiation cutoff deadline.

The FRB tries to complete a given transaction within minutes after receiving it from the originating institution. Interdistrict transfers take longer because two FRBs must handle the message. However, the total elapsed time is normally 30 minutes or less.

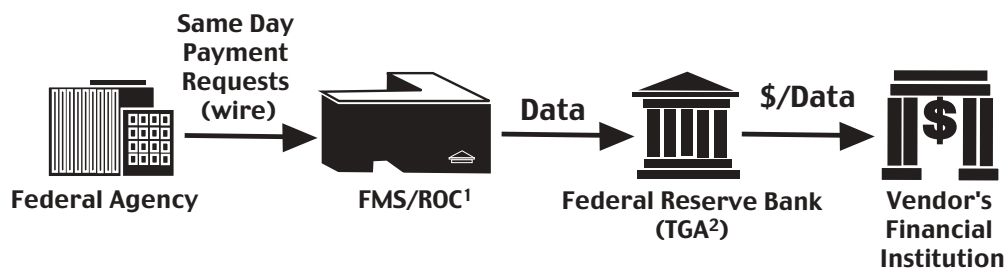
The charge the FRB imposes on member banks for Fedwire service is much less than the fee banks generally charge their customers for the service. The certainty of settlement and the speed of the transaction, however, make it ideal for large dollar transactions.

The Fedwire Process for Payments:

- A Federal program agency (FPA) uses the Electronic Certification System (ECS) to submit a file of Same-Day Payment Requests (SDPR) to an FMS Regional Operations Center (ROC).

- After FMS' authentication, the SDPR is forwarded to the Bank Communication System (BCS) application for conversion to Fedwire format and on-line host-to-host delivery to the Federal Reserve Bank of New York for subsequent delivery to the payee's financial institution.
- The Fedwire payment process is managed by the Philadelphia and San Francisco Regional Financial Centers.

Figure 16 — The Fedwire Process for Payments



¹ ROC — Regional Operations Center
² TGA — Treasury's General Account

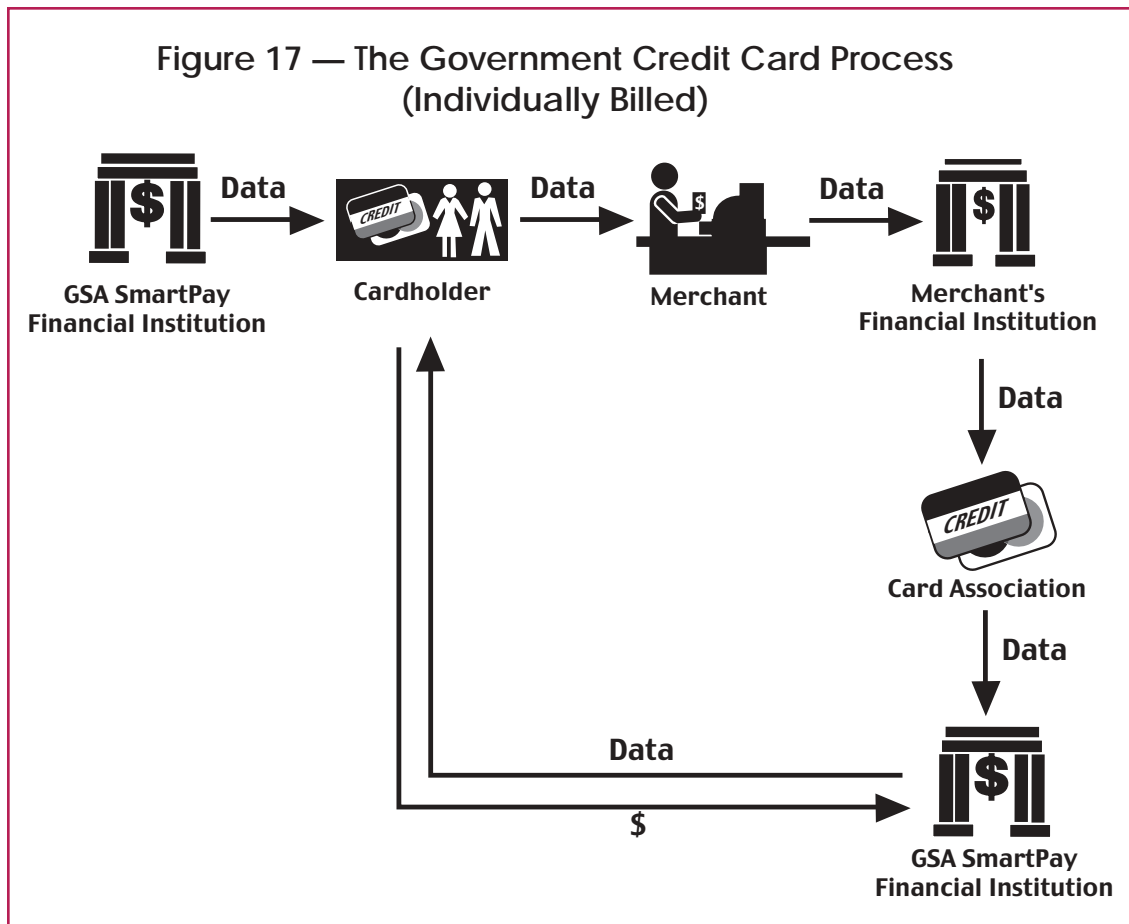
➤ **Government Credit Card — (Travel, Purchase, and Fleet Cards)**

The General Services Administration (GSA) established the GSA SmartPay Program to provide Government credit cards to use for travel, purchase, and fuel and maintenance of agency-owned or leased vehicles, airplanes, boats, and equipment. GSA awarded contracts to five financial institutions to issue VISA or MasterCard credit cards to Federal employees. The credit cards are used by authorized employees to make purchases and pay for travel expenses. The card bears the employee's name and can only be used by this individual.

The Government Credit Card Process:

- The GSA SmartPay financial institution (FI) issues a credit card to the cardholder.
- The cardholder makes a purchase from the merchant.
- The merchant sends the data to its FI.
- The merchant's FI sends the data through the card association.
- Data flows from the card association to the cardholder's FI designated by the Federal agency.
- For individually-billed travel cards, the cardholder's FI will send the data (credit card statement) to the cardholder. The cardholder will send the funds to its designated FI. (For centrally-billed travel, purchase, and fleet cards, the bill is reviewed by the cardholder or Travel Management Center and payment is made by the agency.)

Figure 17 — The Government Credit Card Process
(Individually Billed)



Government Credit Card Benefits

- Requires no administrative fee to use the card.
- Streamlines the procurement and payment process.
- Reduces cash held in the imprest fund.
- Provides volume discounts.
- Reduces administrative costs.
- Provides an audit trail, reduces exposure to theft or fraud, improves control, and provides timely information and reports.
- Offers worldwide acceptability by merchants.
- Eliminates need for individual agency contracts since card services are provided through a governmentwide GSA contract.

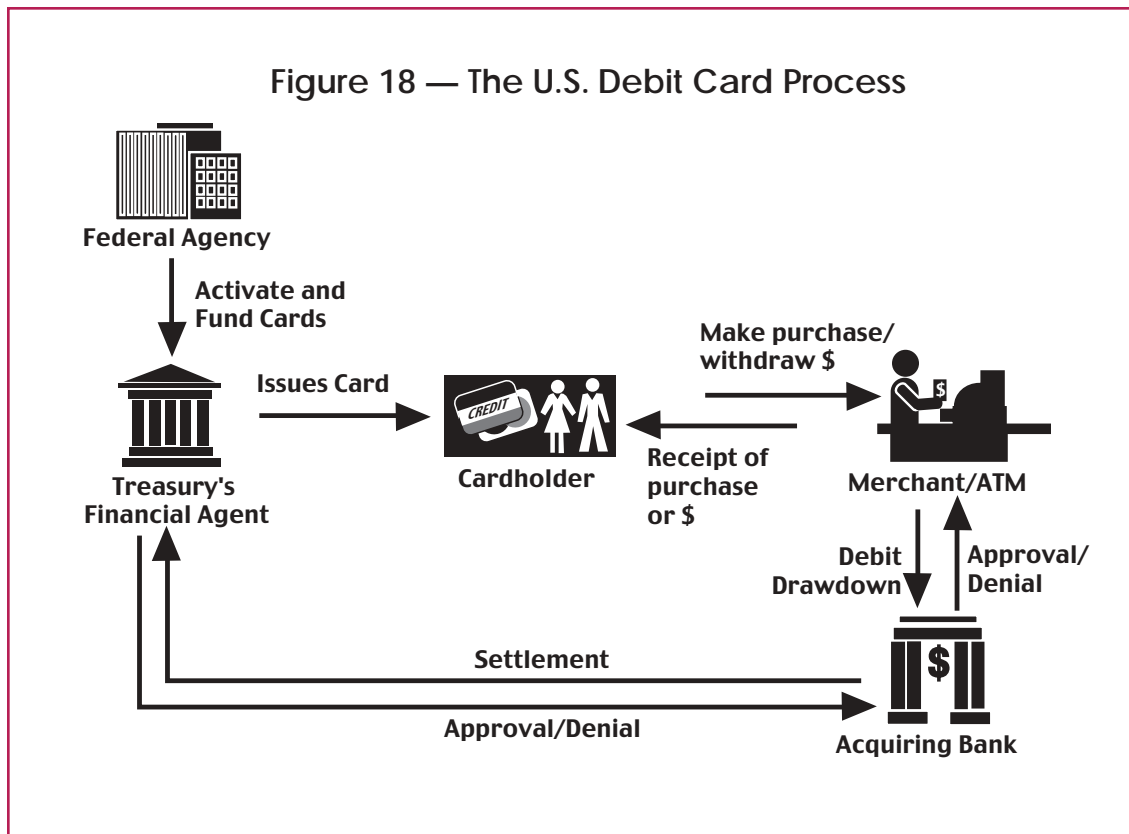
➤ **U.S. Debit Card**

The U.S. Debit Card is a magnetic-stripped card intended to replace cash, checks, and Third Party Drafts used by Federal agency cashiers. The cards use the on-line debit system that requires the use of a personal identification number (PIN) and the off-line debit system that uses the cardholder's signature as authorization. The card can be pre-funded for a specific amount or the value can be set as they are issued.

The U.S. Debit Card Process:

- Federal agencies establish an account with FMS' designated financial agent. The account may be pre-funded or the Automated Standard Application for Payments (ASAP) system may be used.
- Federal agencies activate and fund the cards by entering the financial agent's Internet site and enabling the debit card to access a designated amount of funds. Once the debit card is activated and funded, the cardholder can have immediate access to funds or access can be scheduled for a future date.
- When an individual receives the U.S. Debit Card, he or she can obtain funds at an automated teller machine (ATM) and purchase items or services at the point-of-sale. Card balances may be obtained by accessing the voice response system. Expanded capabilities, such as changing PIN numbers, are available to the cardholder by entering the financial agent's Internet site.
- Federal agencies and cardholders may view reports on-line or request reports to be e-mailed in an Excel file from the financial agent.
- As the debit card is used, the account with the financial agent is debited by the amount of the transactions. If the ASAP system is used by the Federal agencies, the financial agent requests a drawdown of funds in the amount of the day's transactions during end of day processing.

Figure 18 — The U.S. Debit Card Process



U.S. Debit Card Benefits

- Provides versatility and security.
- Provides immediate access to cash, purchases, and services.
- Facilitates the elimination of imprest funds.
- Maintains funds in the Treasury's account until withdrawn.

➤ **Stored Value Cards**

Stored Value Cards (SVCs) are smart cards with electronic value stored on the card's embedded computer chip. The SVC looks like a credit or a debit card, but uses chip technology versus the conventional magnetic stripe. The Financial Management Service (FMS) has been using SVCs in a variety of "closed" environments. Most of these applications have been in partnership with the Department of Defense (DOD).

The Departments of the Army and Air Force, and the U.S. Marine Corps are providing recruits with SVCs at military training sites. Each recruit is issued an SVC pre-loaded with an advancement of salary. The recruits use their cards to purchase supplies and services required during military training at the merchant locations on base.

Stored value card programs are currently being used at several overseas peacekeeping bases, such as in Bosnia. Stored Value Cards are the standard means of making payments to soldiers, civilians, and contractors for an advance of pay, check-cashing operations, and cash conversions. The finance office issues the soldier, civilian, or contractor a personalized, reloadable SVC, which must be used for the duration of the cardholder's deployment on the base. The SVC is used to purchase goods and services at all merchant locations on the base and to purchase foreign currency from the finance office.

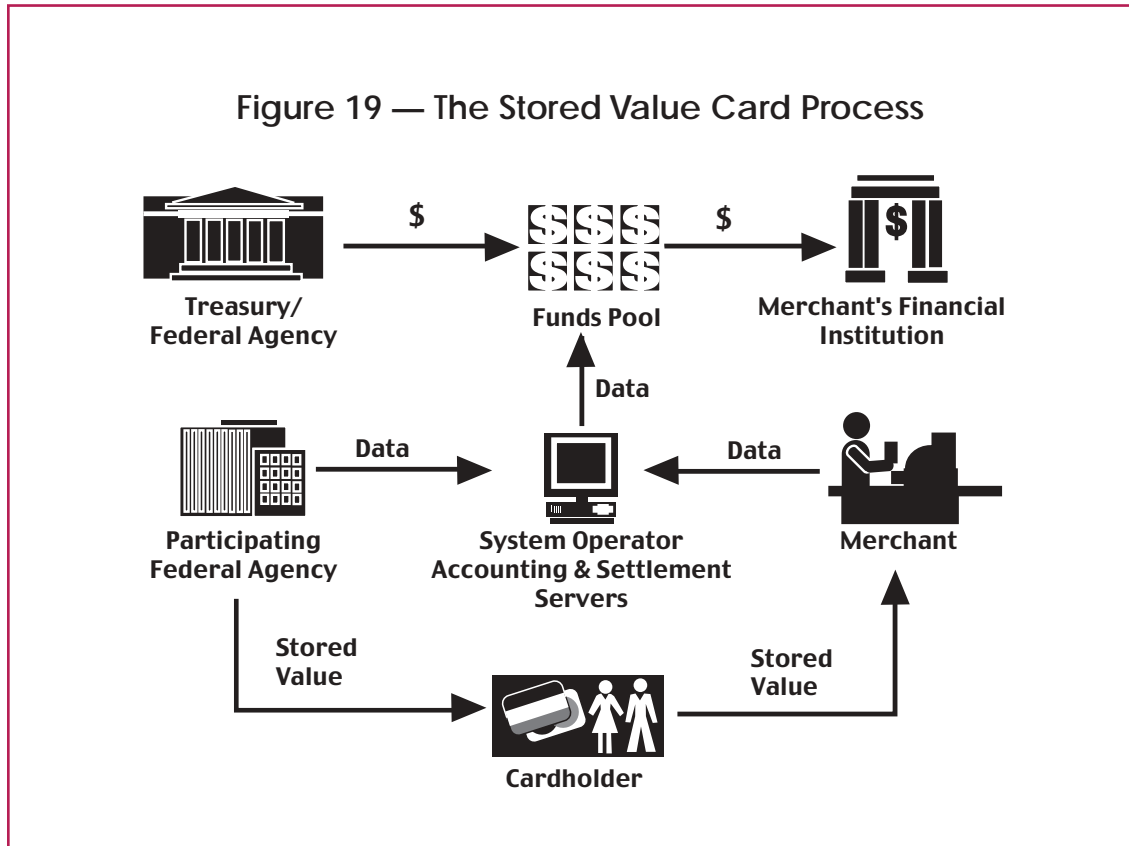
Similar SVC programs are being implemented with the Department of the Navy to replace coins and currency on board ships. This card uses the SVC application on the chip for purchases on board the ship, and a magnetic stripe for purchases or automated teller machine (ATM) cash withdrawals when ashore.

The Stored Value Card Process:

- FMS sends SVCs to the participating agency.
- The agency issues and activates the SVCs.
- If the value is not pre-loaded by FMS, the agency writes value onto the card. A file with all of the cards issued, activated, and funds loaded is sent to the back-end server.
- The agency or FMS will debit a funding source and place the funds into a funds pool.
- The cardholder purchases goods and/or services by inserting the card into a point-of-sale terminal at merchant locations. The electronic value is deducted from the card and stored in the point-of-sale terminal.

- The point-of-sale terminals are uploaded to a back-end server. The value collected by the merchant locations for sales is debited from the funds pool. The merchants' bank accounts in the United States are credited via ACH.

Figure 19 — The Stored Value Card Process



Stored Value Card Benefits

Cardholder Benefits

- Reduces the potential for loss of funds.
- Provides an easy-to-use, secure payment method at designated sites.

Agency/Government Benefits

- Reduces funds held outside the Treasury.
- Eliminates the cost to transport, secure, and account for coins and currency.
- Automates payments, accounting, and settlement processes.
- Streamlines business processes.
- Supports the stability of local currency (when used outside the United States).

► Society for Worldwide Interbank Financial Telecommunications

The Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a worldwide interbank telecommunications network. SWIFT is a secure, inexpensive international messaging system that exchanges financial data securely to more than 7,000 financial institutions in 192 countries. Secure messaging helps members, sub-members, and participants reduce costs, improve automation, and manage risk.

SWIFT's purpose is to provide technology-based communication services across all financial markets through member banks so that they can profitably meet their own and their end-customers' needs.

SWIFT can only be used between member banks for administrative messages such as:

- payment instructions;
- funds transfers for customers;
- funds transfers for the bank's account;
- advices and foreign exchange transactions;
- confirmations and advices concerning loans and deposits;
- collection advices and payment acknowledgments;
- letters of credit;
- balance reports; and
- advices and confirmations of securities transactions.

The actual settlement of funds is executed by a member bank operating on the instructions of the member bank that has sent the SWIFT message. Funds settlement can occur in U.S. dollars or foreign currency.

Currently, the U.S. Department of State's U.S. Disbursing Officers (USDOS) use the SWIFT network to transmit payment instructions, through the Federal Reserve Bank of New York (FRBNY), to banks overseas where the USDOS have bank accounts. Payment instructions can be for payments in U.S. dollars or foreign currency to payees overseas.

SWIFT Benefits

Recipient Benefits

- Offers convenience by crediting the recipient's bank account in foreign currency or U.S. dollars in the foreign country.
- Provides a highly dependable, efficient mechanism by crediting the payment on the payment date.
- Eliminates lost, forged, and stolen checks.
- Eliminates check-cashing fees (exchange U.S. dollar check for foreign currency).

Agency/Government Benefits

- Eliminates checks and postage costs.
- Is less costly than checks.
- Reduces paperwork and related administrative costs.

International Vendor Payments

FMS' Kansas City Financial Center (KFC) provides international payment services in local currencies for U.S.-based (domestic) Federal agencies. These payments are designed to meet the needs of Federal agencies that do not have regular (recurrent) business overseas or who are not normally serviced by the Department of State. The payments to benefit recipients and vendors can be made via check or EFT. Contact the KFC Customer Assistance Staff at (816) 414-2100.

Grant Payment Systems

There are two governmentwide Grant Payment Systems: (1) Automated Standard Application for Payments (ASAP), a Financial Management Service (FMS) system, and (2) Payment Management System (PMS), a Health and Human Services (HHS) system.

In 1998, the Chief Financial Officers (CFO) Council mandated that all Federal grantor agencies use either ASAP or the PMS by October 2002. Another recommendation from the CFO Council requested that FMS and HHS work together to build a common front-end interface for users to access both systems.

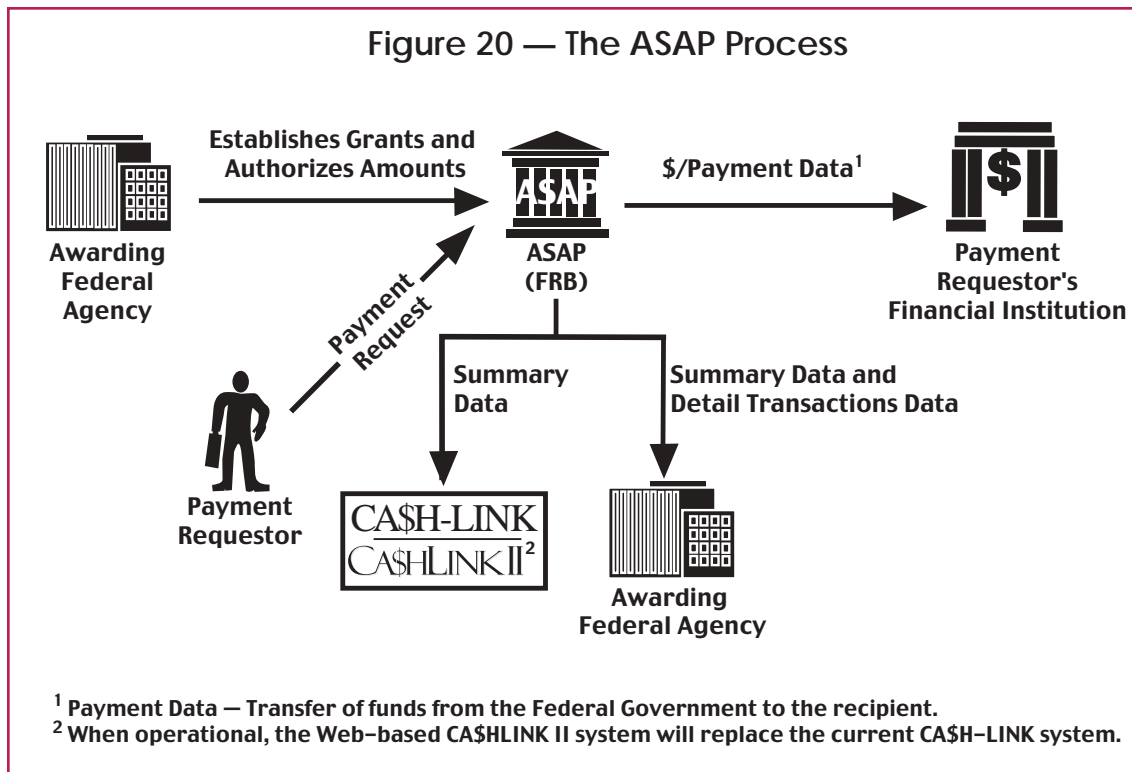
➤ Automated Standard Application for Payments

Automated Standard Application for Payments (ASAP) is an all-electronic payment and information system through which grantee organizations receiving Federal funds can draw from accounts preauthorized by Federal agencies. ASAP is also used to make replenishment payments to designated financial agents that are performing financial services for FMS and other Federal agencies.

The ASAP Process:

- Agencies establish and maintain accounts in ASAP to control the flow of funds to organizations. Federal agencies enter spending authorizations into their ASAP accounts in accordance with their program needs and schedules.
- Payment requestors at grantee organizations and designated financial agents initiate payment requests through ASAP to meet cash needs. This is done primarily through on-line connections with ASAP. In a case where a financial institution is acting as an agent to the organization, a request for funds can be made via the Federal Reserve's Fedwire system.
- ASAP submits the funds and payment data to the payment requestor's financial institution. Approved requests for next-day or future-day payments are accomplished via the Automated Clearing House (ACH) system. Same-day payments are accomplished via the Fedwire system.
- ASAP submits summary data to CASH-LINK/CA\$HLINK II and submits summary data and detail transactions data to the awarding agency.

Figure 20 — The ASAP Process



ASAP Benefits

Recipient Organizations

- Highly secure electronic access from the recipient's desktop.
- Touch-tone phone payment request capability.
- Same-day payment within minutes via direct link to Fedwire.
- Next-day and future-day payments via direct link to ACH.
- Payment warehousing capability.
- Flexibility to create individual and summary payment requests.
- Payment requestor templates for storing recurring payment requests.
- Recipient-defined remittance codes for ASAP accounts.

- On-line review of up-to-the-minute ASAP account balances, account statements, transaction detail, and payment status.
- A single entry point for recipients to request Federal funds.
- Extended hours of operation – ACH payment requests cutoff at 11:59 p.m. eastern standard time (EST) for next-day payments; and Fedwire payment requests cutoff at 5:45 p.m. EST for same-day payments.
- Nationwide customer service and support through FMS' Regional Financial Centers in three time zones.
- Opportunity to provide input on the system's design through active ASAP user groups.

Federal Agencies

- Accounts that are defined, managed, and controlled by the awarding agency.
- Nationwide customer service and support through FMS' Regional Financial Centers in three time zones.
- Highly secure automated interfaces between agency systems and ASAP for account management, authorization, and reporting functions.
- Optional agency review of payment requests.
- Opportunity to provide input on the system's design through active ASAP user groups.
- Up-to-the-minute on-line inquiry of ASAP account balances, account statements, transaction detail, and payment status.
- Highly secure on-line access from the agency user's desktop.
- Extended hours of operation, with batch files processed immediately upon receipt.
- Centralized grant payment and information system improving inter- and intra-governmental efficiency and effectiveness.

► Payment Management System

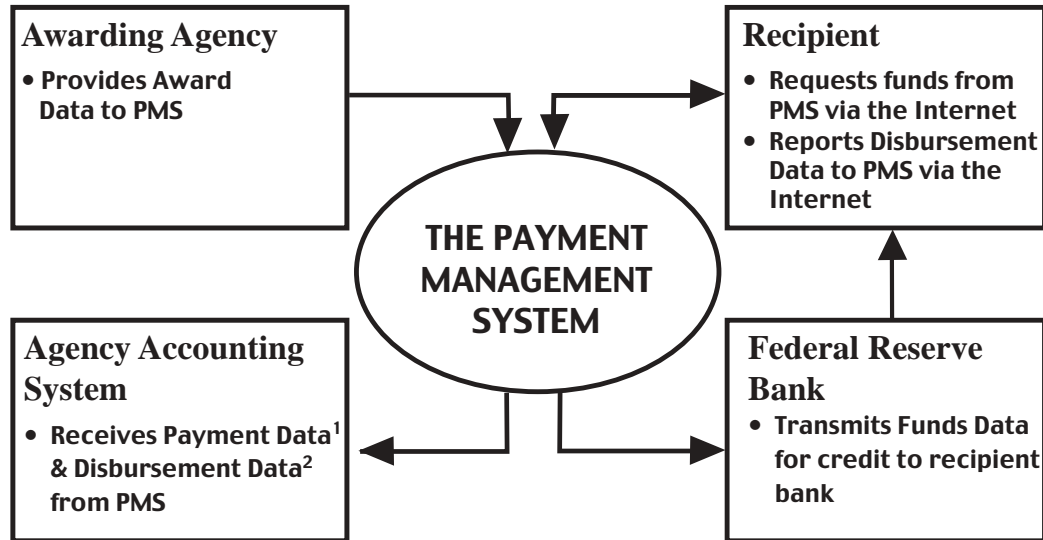
The Payment Management System (PMS) is operated by the Division of Payment Management (DPM) of the Department of Health and Human Services (HHS). The DPM's mission is to provide world class financial and administrative support services to HHS and other Federal agencies in the arena of grant payments and cash management.

PMS serves as a fiscal intermediary between awarding agencies and the recipients of grants and contracts. PMS places particular emphasis on: (1) expediting the flow of cash between the Federal Government and recipients; (2) receiving and reporting recipient disbursement data to the awarding agencies; and (3) managing cash advances to recipients.

The system, which is Web-enabled and Internet accessible, performs the following functions:

- 1) Record authorized amounts from Federal awarding agencies on-line via the Internet;
- 2) Receive payment requests from recipients on-line via the Internet;
- 3) Edit these payment requests for accuracy and content on-line and on a real-time basis;
- 4) Transmit the authorization to the Federal Reserve Bank for ACH (next day) payments or through the Treasury's Electronic Certification System for Fedwire (same day) payments;
- 5) Record the payment transactions and corresponding disbursement transactions in the appropriate recipient account(s) and maintain available (undrawn) grant balances on such accounts; and
- 6) Update agency accounting systems on such payment transactions and available grant balances.

Figure 21 — The Payment Management System Process



¹ Payment Data – Transfer of funds from the Federal Government to the recipient.

² Disbursement Data – Expenditure of Federal funds by the recipient.

Payment Management System Benefits

Recipient Organizations

- Convenience of a Web-based access from any location.
- Convenience of electronic payment in a secure environment.
- Same-day and next-day funds availability.
- On-line, real-time inquiry capability on account balances, payment status and history, and award information.
- A single entry point for recipients to request Federal funds.
- Convenience of an electronic interfaced system for award authorization information and disbursement reporting.
- Availability of warehousing payment delivery.
- Direct and specialized staff support to recipients for awards, payment and disbursement-related questions from 7:00 a.m. to 7:30 p.m. eastern standard time.
- Touch-tone phone access for requesting funds.

Federal Awarding Agencies

- Automated system contributes greatly to awarding agency's administrative savings.
- Web-based posting of award authorizations.
- Up-to-the-minute information on account balances, payment status and history, and award information through the Internet.
- Central standardized application for Federal grant payment and reporting services.
- Electronic transfer of payment and disbursement data to awarding agency accounting systems.
- Direct and specialized staff support for award authorization postings from 7:00 a.m. to 7:30 p.m. eastern standard time.
- Fiscal year-end disbursement accrual calculations.
- Cash management enforcement.
- Audit confirmation and resolution services.
- Cash Management Improvement Act (CMIA) annual Federal Interest Liability Review Services.

Cash and Checks

► Imprest Funds

An imprest fund is a fixed cash or petty cash fund. Monies in imprest funds are held outside of the Treasury. Many Federal agencies maintain an imprest fund cashier to make small purchases and other payments. As funds are depleted, they are replenished by Treasury check or electronic payment depending upon capabilities, needs, and policies of the Federal agency.

As imprest funds are held outside of the Treasury's account at the Federal Reserve Bank, they increase the Nation's outstanding debt and therefore carry an implied interest cost. There are other concerns involving imprest funds, including security of the cash and reconciliation of cash balances. For these reasons, the Treasury issued a policy directive advising Federal agencies to eliminate agency imprest funds, except for waived payments, by October 1, 2001.

Imprest Fund Benefits

- Cash is on hand for emergency purchases.

➤ Third Party Drafts

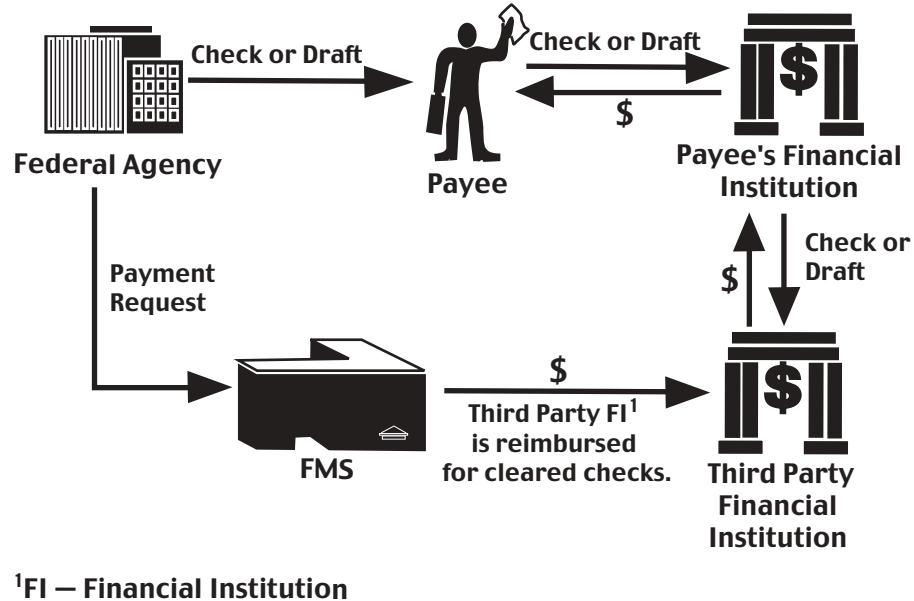
Third Party Drafts are check-like instruments drawn on and paid by an outside contractor (typically a financial institution). The contractor supplies the Federal agency with check stock to be issued against an account maintained by the contractor. The Third Party Draft is often used to reduce or eliminate imprest funds, while maintaining the ability to make on-the-spot payments.

Each agency establishes the maximum amount for which it will issue Third Party Drafts. However, the face value of each draft must not exceed \$10,000, and this limitation must be printed on the face of the draft. An agency requiring a draft amount limit higher than \$10,000 must request a waiver. It must send a request for waiver detailing the benefits and savings to the Financial Management Service, the Director of the Cash Management Policy and Planning Division for review and approval. (See Appendix C, FMS Locator.)

The Third Party Draft Process:

- The assigned person (or cashier) at the Federal agency completes the check with payee information (i.e., name, amount, and invoice number).
- The check is given to the payee, who deposits or cashes the check at its financial institution.
- Once the check is accepted, it flows through the Federal Reserve Bank and is presented for payment at the issuing financial institution.
- The contractor advises the Federal agency of the amount of cleared checks.
- The Federal agency requests the servicing Regional Financial Center to send a Fedwire payment to the contractor that is equal to the amount of the cleared checks.

Figure 22 — The Third Party Draft Process



Third Party Draft Benefits

- Reduces the need for cash.
- Reduces cashier liability.
- Provides additional audit trails and internal control.
- Provides timely payments.
- Improves data collection.
- Reduces the risk of theft and fraud.
- Provides ability to meet emergency demands.

► Treasury Checks

Treasury checks are issued by the Financial Management Service's Regional Financial Centers (RFC) at the request of a Federal agency Certifying Officer (CO). Typically, checks are mailed to recipients who deposit or cash the checks at their own financial institutions. Checks may be used for any type of payment. While most checks are issued by the U.S. Treasury, non-Treasury Disbursing Officers have the authority to issue U.S. Treasury checks.

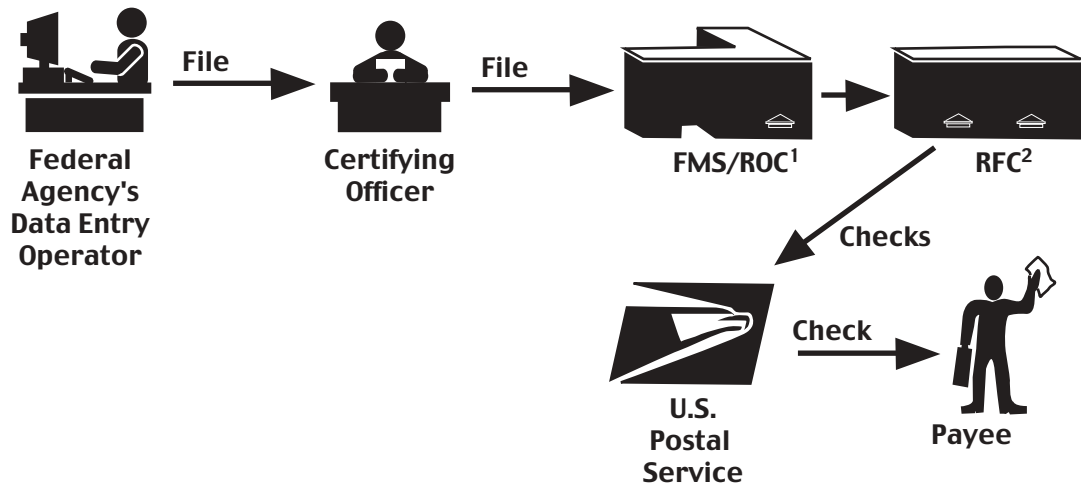
The Treasury Check Process:

A Federal Program Agency (FPA) has two options for delivery of check payment files to FMS. They are Host-to-Host Bulk and the Electronic Certification System (ECS).

- Host-to-Host Bulk – a check payment file is transmitted directly from the FPA host computer to FMS host computer located in a Regional Operations Center (ROC). When the host-to-host bulk method is used, an accompanying document known as a Summary Schedule is sent via ECS. The Summary of Schedule is the CO's certification for the payment file. The payment file is then matched up with the Summary Schedule to complete the authentication process allowing FMS to create the checks for subsequent delivery to the Postal Service.
- ECS – an FPA Data Entry Operator creates a check payment file on an ECS personal computer for subsequent certification by an FPA CO. The certified payment file is then transmitted to the ECS application at a ROC for subsequent authentication and check creation. The checks are then delivered to the Postal Service.

For more information on the ECS process, see page 79.

Figure 23 — The Treasury Check Process



¹ ROC —Regional Operations Center
² RFC — Regional Financial Center

Treasury Check Benefits

- Provides an audit trail.
- Allows for economies of scale and centralized control.
- Provides accompanying documentation explaining the reason for payment.

Section 3 - *Other Payment Management Tools*

Electronic Certification System

The Electronic Certification System (ECS) is an automated system for voucher preparation, certification, transmission, and verification that replaces the manual optical character recognition (OCR) paper voucher and signature process. The ECS, developed by the Financial Management Service, generates voucher schedules, electronically certifies the vouchers, and transmits them via a dial-up telephone line to a mainframe host computer at the agency's servicing Regional Financial Center (RFC). The electronic certification process provides positive identification of the certifying officer who authorizes the voucher for payment and ensures the authenticity of the transmitted data.

The ECS also detects any deliberate or inadvertent manipulation, modification, and loss of data between the time the voucher is certified in the Federal program agency microcomputer and the time it is verified at the servicing RFC host computer.

The advantages of the ECS include the following:

- Improves payment integrity; protects against forged certifications and altered vouchers.
- Eliminates manual typing of vouchers; estimated 54 percent reduction in voucher preparation time with the ECS versus typing.
- Eliminates possibility of loss or delay of vouchers delivered by mail or courier.
- Maintains positive control over payment date. (Payments are dated and issued the day after transmission and verification, which results in reduced interest payments to vendors.)
- Reduces possibility of duplicate schedules being paid. (The ECS automatically rejects duplicate schedule numbers.)
- Saves cost of blank paper SF 1166 (Voucher and Schedule of Payment) forms, which is currently 55 cents each.
- Eliminates cost and management of SF 1166 forms.
- Eliminates the manual process of voucher examination, signature verification, and OCR scanning at the RFCs.

The ECS accepts all classes of payments for both Automated Clearing House and paper-check disbursing. It also provides for Same-Day Payment Requests and a Summary Schedule feature that certifies host-to-host telecommunicated payment files. The ECS uses a centralized key management system that provides for the capability to connect to multiple RFCs with one ECS personal computer. All payment data transmissions are verified using the Message Authentication Code technology at the servicing RFC prior to acceptance and processing of the payments. The ECS is operational at all of FMS' RFCs.

Secure Payment System

The Secure Payment System (SPS), a replacement for the ECS, is a state-of-the-art Internet capable client/server payment application scheduled for implementation in Fiscal Year 2003. Client personal computers at Federal program agencies will connect to the SPS host server application via the Internet or dial-up communications. Security and authentication techniques will be supported using the latest Public Key Infrastructure technologies.

Electronic Funds Transfer

On April 26, 1996, President Clinton signed into law historic legislation that has a major impact on the way the Federal Government makes payments. The Debt Collection Improvement Act of 1996, part of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134), requires the use of electronic funds transfer (EFT) for most Federal payments. This law applies to all payments, with the exception of tax refunds, made by Federal agencies and corporations. This includes Federal agency payments that are disbursed by the Financial Management Service (FMS) or those agencies with delegated or statutory disbursing authority. Additionally, the Act applies to recurring and nonrecurring payments, and appropriated and nonappropriated disbursements. The EFT provisions in the law are:

- EFT includes most transfers of funds other than cash or transfers originated by paper instruments, including Automated Clearing House (ACH), Fedwire, credit cards, automated teller machine (ATM), and point-of-sale (POS) transactions.
- The use of EFT was greatly expanded for all Federal payments after January 1, 1999.
- EFT is not required when an individual determines, in his or her sole discretion, that payment by EFT would impose a hardship.
- Recipients should designate one or more financial institutions or authorized payment agents to which these payments are made. Also, recipients should provide agencies with the necessary information to make these EFT payments, including the taxpayer identification number.
- Federal payments include, but are not limited to, Federal wage, salary, retirement, vendor, expense reimbursement, and benefit payments.

For more information on EFT, refer to 31 CFR 208 (Management of Federal Agency Disbursements) at: www.fms.treas.gov/eft/regs.

Central Contractor Registration

The Department of Defense (DOD) created a Central Contractor Registration (CCR) database in July 1998. The CCR is the primary database for current, accurate, and complete vendor information. This database now includes nearly 185,000 active registrants.

The CCR database includes all of the banking and other information necessary to make accurate and timely payments to vendors through electronic means. Contractors must be registered within the CCR to receive DOD contracts and payments. By keeping their CCR registrations current, contractors avoid repeated submission of vendor information, reducing a source of errors in contract payments and tax reporting. The system enables one-time entry and maintenance by the vendors, validates the Data Universal Numbering System (DUNS) number and Commercial And Government Entity (CAGE) code, and then provides the data to DOD and other Federal vendor databases.

The CCR is available to all Federal agencies through the Department of Defense. For more information on the CCR, see: <http://www.ccr2000.com>.

Payment Advice Internet Delivery

The Financial Management Service (FMS) developed the Payment Advice Internet Delivery (PAID) system to provide participating Federal agencies a method of making remittance information available to their vendors through the Internet.

The Debt Collection Improvement Act mandates that after January 1, 1999, all Federal payments, including vendor payments, must be made electronically. Electronic vendor payments with remittance information are sent to the vendor's financial institution (FI) through the Automated Clearing House (ACH) system. The vendor's FI passes remittance information to the vendor per a pre-existing agreement with the vendor.

The PAID system is free of charge to registered vendors with Internet access and is free of charge to participating Federal agencies. An agency interested in participating in PAID should contact the PAID administrator at the e-mail address: **web.afc@fms.treas.gov**. The agency will need to sign a Memorandum of Understanding with FMS. Once all the necessary information has been provided and the agreement has been finalized, the agency will notify its vendors that PAID is available.

Vendor Participation

To participate in PAID, a vendor must be using an Internet browser with the capabilities equivalent to Microsoft Internet Explorer version 3.x (or greater) or Netscape Navigator version 3.x (or greater). Vendors interested in participating in PAID should first check the list of participating agencies to determine if any of the agencies paying them are participants.

Vendors must register for PAID on-line by completing the registration form and choosing one of the following delivery methods: Web access to remittance data, e-mail delivery of remittance data, or e-mail notification of new remittance data. The PAID webmaster will verify and activate the vendor's registration, and the vendor will receive e-mail notification of acceptance. A vendor need only register one time for each taxpayer identification number (TIN) to access remittance data from all participating agencies.

Data in the PAID System

Displayed data fields are limited to the paying agency, date of payment, payment amount, invoice number, and other remittance information such as interest penalty (as provided by the agency in the addendum record). The TIN is used as the key to the vendor registration, but it is not displayed in PAID. Also, banking information is not part of PAID.

PAID only contains data on payments made by participating agencies to registered vendors. Vendors can only access their own payment data. PAID contains data for CCD+ payments only. Given the amount of remittance information contained in the CTX format, it is assumed that vendors receiving those transactions have existing agreements with their financial institutions to provide them with remittance information.

After receiving the registration acceptance notice, a vendor can log into PAID and query payments by date, date range, invoice number, dollar amount, agency, or any combination thereof. If a vendor registers for e-mail delivery of remittance data, it will receive a message containing its remittance information. If a vendor registers for e-mail notification, it will receive a message that it has new remittance information in PAID. Data should be available within 24 hours of the date of payment; and the data is retained for 2 months from the date of payment.

Information in PAID appears as it is provided by the Federal agency authorizing the payment. If a vendor has any questions or needs additional information about data displayed in PAID, it must contact the agency that authorized the payment.

Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) was enacted in 1990 to improve the transfer of Federal funds between the Federal Government and the States. The statutory purpose of CMIA is to:

- Ensure **efficiency** by minimizing the time between the transfer of funds to the States and the payout for program purposes;
- Provide **effectiveness** by ensuring that Federal funds are available when requested; and
- Ensure **equity** by assessing an interest liability to the Federal Government and/or the States to compensate for the lost value of funds.

The CMIA program applies to the 50 States, the District of Columbia, Puerto Rico, and the Territories of American Samoa, Guam, Northern Mariana Islands, and the Virgin Islands. The key partners involved in the CMIA process are the U.S. Treasury, the Federal granting agencies (20 Federal agencies), and the States.

All Federal financial assistance to the States is covered (some exceptions apply). This assistance includes approximately 250 grants. The program requires that major assistance programs, large dollar programs, are included in a written Treasury-State Agreement (TSA) that specifies how the Federal funds transfers will take place. In the event of an early drawdown or late payment of funds for the major assistance programs, an interest liability may accrue. More than 100 Federal programs are included in the TSAs, with an average of approximately 15-25 programs per State. The TSAs include/identify the following:

- Agents, Authority, Duration;
- Covered Programs/Covered Agencies;
- Definition of Funding Techniques;
- Grant-by-Grant Application of Funding Techniques; and
- Clearance Pattern Methodology.

The States also submit annual reports to FMS by December 31 of each year that include:

- Federal Interest Liabilities (calculated for each major grant program),
- State Interest Liabilities (calculated for each major grant program), and
- Direct Costs Claims (state costs for a portion of the CMIA administrative costs).