

Paper Check Conversion Over the Counter

Does your agency deposit a large number of remittances in the form of personal and business checks or money orders? Do you take your deposits to a local financial institution with Treasury Government Account (TGA) status, or do you mail them to the local Federal Reserve Bank? Each of those methods has its risks and may delay credit to your account.

The Financial Management Service (FMS) has a product that will simplify and accelerate the deposit process and credit to your accounts. It is called Paper Check Conversion Over the Counter (PCC OTC). In fact, the Philadelphia Financial Center (PFC) was so impressed by the product that we implemented the system.

PFC will be using PCC to process the miscellaneous checks it receives and deposits on behalf of other Federal agencies. While PFC previously deposited these checks at a TGA bank, PCC will allow PFC to scan and deposit these checks without leaving the center. PCC will not only improve the efficiency of PFC's check deposit process, but also provide an automated audit trail for improved controls. PFC began using PCC on February 23, 2007.

What is Paper Check Conversion Over the Counter ?

PCC OTC is the process of converting paper checks (and money orders) presented to agencies into electronic ACH debits or electronic check debits through Check 21 to the check writer's account. The process works as a Point of Sale (POS) when the consumer presents a physical check to the cashier for payment, or as an Accounts Receivable when the check is received through the mail as payment and the writer of the check is not present. The agency cashier takes the completed check and inserts it into the Point of Sale scanner that reads the MICR (Magnetic Ink Character Recognition) line on the bottom of the check and captures the image of the check into the POS computer. The check image captured from the MICR line and other input data is transmitted to the Federal Reserve Bank of Cleveland (FRBC) through a secure, web-based system called ELVIS (ELectionic Verification and Image Service). FRBC settles the transaction through the ACH network, makes CA\$HLINK entries, and provides electronic deposit ticket and/or debit voucher (returns) (SF215 and SF5515) reporting back to the collection site.

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When processing as a POS (check writer is present), the cashier returns the cancelled check to the consumer on the spot with the transaction information.

When processing as an accounts receivable (mailed item), the agency retains the check (or money order), and is required to destroy the check in 15 days after receipt of settlement.

Prior to participating in the PCC OTC program, Agencies must submit an Agency Participation Agreement (APA) and an Agency Site Profile (ASP).

Paper Check Conversion Over the Counter (Continued)

What is Check 21?

Check 21, also known as 'Check Clearing for the 21st Century' Act, was signed into law on October 28, 2003. Provisions of the law took effect on October 28, 2004. It is important to understand the effects of Check 21 on PCC OTC. Check 21 provides the legal framework for the creation of substitute checks, which can be used in place of the original paper document, without an agreement in place with other financial institutions. A substitute check is a paper reproduction of the original check. To meet legal requirements it must:

- Contain an image of the front and back of the original check.
- Bear a legend that states, "This is a legal copy of your check. You can use it the same way you would use the original check."
- Display a MICR line containing all information appearing on the MICR line of the original check.
- Conform in paper stock, dimension, and otherwise, with generally applicable industry standards for substitute checks.
- Be suitable for automated processing in the same manner as the original check.

Check 21 provides one seamless deposit and reporting stream. Check 21 has brought the following changes:

- Eliminate TGA accounts and expenses.
- Consolidated image archive, reporting, verification, settlement, customer service and re-presentation for every agency point-of-presence worldwide, including lockboxes.
- Better accounting, security, privacy and management controls.

Overall, this legislation has modernized the nation's check payments system. Check 21 is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. ALL payment instruments are eligible for processing under PCC OTC, including Money Orders, Treasury Checks, Credit Card Checks, Traveler's Checks, Cashier's Checks, Official Checks, Third-Party Checks, Payroll Checks and Checks drawn by state or local government.

Check 21 requires financial institutions to accept a substitute check from a presenting institute and grant it equivalent status as the original check, if the substitute check meets prescribed requirements. It also requires a re-converting bank to meet the warranties and indemnities enacted through the legislation and subsequent regulations. Check 21 requires financial institutions to provide education to individual consumers on substitute checks and consumer re-credit rights. For more information on Check 21, visit www.frbservices.org/Retail/Check21.html

Learn More About PCC OTC

The PCC OTC website has information that can be used to find answers to your questions about using PCC OTC. It is updated often with new information on upcoming changes, FAQ's, news, etc. It can also be used to download the latest bulletins and newsletters. You can access the site at <https://www.pccotc.gov/pccotc/index.htm>.

Additional information about these documents can also be obtained by contacting the PFC Customer Assistance Staff at (215) 516-8022.

Government-wide Accounting Modernization Project to Improve and Streamline Agency Reporting and Reconciliation

Government-wide Accounting (GWA) provides the central financial accounting and reporting infrastructure for Federal payments, claims, collections, central accounts, and other financial transactions. This infrastructure results in the accumulation of government-wide financial information and the publication and release of various Treasury financial reports. The Financial Management Service (FMS) is the agency responsible for administering this accounting and reporting infrastructure and the creation of financial reports for the US Government.

The current accounting process has become inefficient, outdated, and untimely. Under the current process, Federal agencies must re-classify most of their transactions at the end of the month by Treasury Account Symbol (TAS). The TAS is an account symbol or title assigned by Treasury to each transaction based upon whether it is a receipt, appropriation, expenditure, or fund account. The current accounting process also includes a time-consuming reconciliation for agencies and FMS to ensure all transactions are reported and classified correctly. Consequently, it is difficult for agencies to close their books in a timely fashion.

The Government-wide Accounting Modernization Project (GWAMP) will change and streamline the central accounting, reporting, and reconciliation process for Federal agencies and FMS. Under GWAMP, agencies will classify transactions to the proper TAS when transactions are actually initiated. Additionally, agencies will classify their transactions by a new data element, the Business Event Type Code (BETC), when the transactions occur. The BETC identifies the type of transaction and the accounting effect on the fund balance with Treasury.

This new reporting process will have substantial benefits for agencies, as it will eliminate the multiple and duplicative reporting and reconciliations performed by agencies on a monthly and annual basis. Specifically, this reporting process allows FMS to provide agencies with an account statement. The account statement will provide agencies with online, near real-time access to their beginning fund balance, receipts and disbursements by transaction date, and the ending fund balance. Agencies will also be able to use the account statement to drill down to the transaction level for more detailed information on payment and collection activities. When implemented fully, the account statement will enable agencies to reconcile their fund balance with Treasury accounts on a daily basis, close their books earlier to meet accelerated reporting deadlines, and eliminate the need for monthly reporting.

In order to realize the full benefits of the account statement, agencies must begin classifying transactions to the TAS and BETC when transactions occur. The rollout of transaction reporting has already begun, with several agencies participating in a pilot where they are reporting their own and their agency trading partners' TAS/BETC for Intragovernmental Payments and Collections (IPAC) transactions. FMS is looking for all agencies to provide valid TAS/BETCs with all IPAC transactions by the first quarter of 2008.

FMS is also working to ensure that agency payments and collections include valid TAS/BETCs by 2008. Modifications will be made to the Secure Payment System (SPS) and incorporated into the Payment Application Modernization (PAM) project over the next year to allow agencies to include TAS/BETCs in their payment files. Additionally, FMS developed the Shared Accounting Module (SAM) to assist agencies with the classification of transactions by TAS/BETC. Specifically, SAM is a utility that allows agencies to select and/or verify the appropriate TAS/BETC for each transaction.

For more information on GWAMP, please visit the GWA website at www.fms.treas.gov/gwa. For more information on SAM, please visit the SAM website at www.fms.treas.gov/sam.

Changes to Payment Formats to Expand Offset Capabilities

The Treasury Offset Program (TOP) was established by the Department of Treasury's Financial Management Service (FMS) to collect Federal debt from delinquent debtors. TOP is a computer matching program that uses a taxpayer identification number (TIN), which can either be an Employer Identification Number (EIN) or a Social Security Number (SSN), to compare the TINs of delinquent debtors with the names and TINs of recipients of Federal payments. If a match is found between the TIN and other payment data (such as the payee name), the Federal payment is reduced to satisfy the delinquent debt owed to the Federal Government.

Federal agencies use Electronic Data Interchange (EDI) payment formats to pass payment related data to vendors, such as an invoice number or Prompt Payment interest. Vendors use this information to reconcile Federal payments to outstanding invoices. These EDI formats include Cash Concentration or Disbursement (CCD+), Corporate Trade Exchange (CTX), or Prearranged Payment and Deposit Plus Addenda (PPD+) payments. The CCD+ format includes an addendum record where Federal agencies can include information that vendors can use to reconcile a specific payment to an outstanding invoice. CTX is a corporate ACH format which allows for up to 9,999 addenda records with approximately 800,000 characters. Consequently, the CTX format can be used by Federal agencies that owe multiple payments to one vendor. PPD+ is a format used to convey additional information for consumer EFT payments, such as reimbursements for travel payments. Pursuant to 31 CFR 285.5, agencies must identify and certify payments as either legally eligible or legally ineligible for offset. In the past, agencies using CCD+, CTX, or PPD+ as their payment format were unable to identify payments eligible for offset because of operational impediments.

However, EDI payment formats have recently been changed to allow agencies to correctly classify these payments as vendor or miscellaneous and therefore indicate if the payments are legally eligible or ineligible for offset. As a result, all agencies must ensure that EDI payments are classified correctly using the Federal Agency Guidance for Classifying Payments. These guidelines are available at the FMS website which is www.fms.treas.gov/eft/regulations/FPAPaymentClassificationGuidance.pdf.

Agencies are required to make applicable programming changes and complete testing of these changes with their servicing RFC by November 1, 2007 to provide for the offset of eligible EDI payments. FMS will begin offsetting EDI payments on December 1, 2007. FMS will monitor agency compliance with this requirement and provide assistance to agencies not in compliance or that request such assistance. If you need information about payment file formats for all EDI payment types, they are available on the FMS website at www.fms.treas.gov/ctx/formats.html.

Opening the Doors to Change: Automated Check Inventory

The Financial Management Service (FMS), a bureau of the Department of Treasury, is responsible for printing checks for the US government. In fiscal year 2006, the Philadelphia Financial Center (PFC) disbursed over 92 million checks.

In order to produce negotiable checks, PFC and the other regional centers receive rolls of blank checks called web-stock on which check data is printed. The regional centers safeguard and keep account of each paper check from receipt of the stock until each check is used or destroyed. This is done to safeguard the checks and ensure that they do not fall into the hands of unauthorized users. Each check received by a regional center is marked with an internal control number (ICN) that help the center track and control the stock.

In addition to printed checks released in the mail stream, there are three unique conditions in which check stock must be carefully accounted for:

- **VOIDS:** Blank check paper that does not have data printed on it for a variety of reasons, such as web-stock that is identified with flaws or excess stock after a print job is completed.
- **Post Print Verification (PPV) Spoils:** Checks that cannot be recognized by Videk, an advanced system used to read and verify the print data on each check.
- **NON-PPV Spoils:** Checks that are mutilated during the printing or enclosing operations

Before the check inventory system was automated, PFC employees recorded and tracked its web-stock ICNs manually on paper forms in order to account for VOIDS, PPV and Non-PPV spoils, and to record the completion of the printing process for each web-stock. This paper-intensive process was time-consuming and did not provide an efficient solution for the reconciliation, research, and statistical analysis of web-stock consumption and the printing process.

In order to address these concerns, PFC developed and implemented the Automated Check Inventory (ACI) system in 2004. The ACI system is an efficient alternative to the paper process by providing for accurate and automated record keeping of web-stock. Instead of writing web-stock ICN information on paper sheets, operators can enter the data directly into the ACI system as checks proceed through different stages of the regional center payment process.

Once data is entered into the system, ACI has the functionality to automatically reconcile print jobs, identify operator input errors, provide for an automated audit trail of each web-stock, and produce reports for management on current web-stock inventory, web-stock consumption and destruction, and statistics on printed checks and voids, PPV and non-PPV spoils. These reports are currently being used by PFC to identify issues in the quality of web-stock it receives, operator production levels, and operational impediments associated with its check print systems. The ACI system is windows-based and convenient for various center employees to use; many of whom have different roles and responsibilities on the application. Most ACI fields utilize drop down menus to minimize data entry and prevent users from committing errors.

If you have any questions about the ACI system, please contact Michael Dean at 215-516-8063 or Michael.Dean@fms.treas.gov.

New Software Product to Provide for Secure E-Mail

The Philadelphia Financial Center (PFC) is responsible for disbursing payments for over 90 Federal agencies. In certain circumstances, PFC must exchange sensitive-but-unclassified (SBU) information with its customer agencies to carry out its disbursing functions. SBU refers to information that, if obtained by unauthorized users, could be used to adversely impact individuals or businesses. Examples of SBU information include social security numbers and bank account numbers. Since external e-mail to other systems is not secure, this is not an acceptable medium to exchange SBU information with our customer agencies.

Over the fall of 2006, PFC evaluated e-mail encryption software named Entrust and determined it was a suitable tool to allow for the secure exchange of information via e-mail with its customer agencies. The particular Entrust software product that PFC evaluated provides for the encryption of e-mail attachments. The software must be utilized by both the sender and receiver of the e-mail to open the attachment effectively. The software can be downloaded from the Internet for free.

PFC realizes the efficiency and convenience associated with sharing information by e-mail, and therefore wants to offer the capability to its customer agencies to allow for the encryption of e-mail attachments. In order to comply with agency security policies, PFC will not send e-mail attachments with SBU data to agencies that do not utilize this Entrust software.

If your agency is interested in using Entrust in order to correspond with PFC electronically, please contact Matthew Helfrich at (215) 516-8022 or Matthew.Helfrich@fms.treas.gov.

PFC Reaches \$1 Million in Daily Presort Savings

On March 8, 2007, the Philadelphia Financial Center (PFC) achieved a significant milestone by reaching the \$1 million plateau in daily presort savings using its Pitney Bowes Olympus II Sorter. PFC, as well as the regional centers in Austin and Kansas City, purchased the Olympus II Sorter in December 2004 to presort its daily checks and letters to obtain significant postage savings from the Post Office. PFC began using the Olympus II to presort its daily mail in April 2005, with the other centers implementing the equipment shortly thereafter. Even after considering the costs associated with purchasing the equipment, monthly service, and labor, PFC has still netted over \$130,000 in postage savings since project inception.

The incorporation of presort equipment into daily operations at PFC has been a challenging undertaking. However, PFC employees and employees from various regional centers and divisional areas exhibited teamwork, vigilance, and creativity to implement a new business line that will provide for significant taxpayer savings and improved check payment controls for years to come. Congratulations to all those who contributed to this significant achievement.



The Philadelphia Financial Center Newsletter entitled PFC Journal is presented by the Customer Assistance Staff and addresses a variety of topics of interest to individuals in the Federal financial community.

The PFC Journal is available exclusively on our website.

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