



**ADMINISTRATIVE COMMUNICATIONS SYSTEM
U.S. DEPARTMENT OF EDUCATION**

DEPARTMENTAL HANDBOOK

Handbook OCFO-03

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Distribution:
All Department of Education Employees

Approved by: _____/s/_____
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**Handbook for
Cash Management Requirements**

Revised By:

Financial Management Operations
Office of the Chief Financial Officer

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Supersedes ACS Handbook Number 13, Department Cash Management Requirements dated 04/25/1994.

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I. Purpose

This handbook describes practices to be followed by the U.S. Department of Education (Department) personnel to ensure effective, efficient, and equitable cash management of Federal funds.

II. Policy

The Department's policy for cash management is to:

- A. Speed collections;
- B. Ensure timely deposits of collections into the Department of Treasury (Treasury);
- C. Maximize interest earned or minimize interest cost to Treasury;
- D. Minimize risk of asset misappropriation;
- E. Ensure bills are paid on time;
- F. Ensure cash discounts are taken when possible, but only when appropriate;
- G. Pay interest penalties, if incurred, without demands from payee;
- H. Ensure accurate processing of collection and disbursement transactions; and
- I. Maximize the use of Electronic Funds Transfer (EFT) for both collections and disbursements.

III. Authority

This handbook incorporates legislative requirements that affect the Department's cash management operations. Congress has enacted legislation, resulting in important changes to collection, deposit and disbursement procedures. The most significant laws and regulations affecting cash management are listed below.

- A. U.S. Code, Part I Chapter 3 Section 301, Departmental Regulations
- B. [I TFM Part 2-2000, Nonexpenditure Transactions](#)
- C. [I TFM Part 2-3100, Instructions for Disbursing Officers' Reports](#)
- D. [I TFM Part 2-3300, Reports of Agencies for Which the Treasury Disburses](#)

- E. [I TFM Part 2-3400, Accounting and Reporting on Cash and Investments Held Outside of the U.S. Treasury](#)
- F. [I TFM Part 2-4600, Treasury Reporting Instructions for Credit Reform Legislation](#)
- G. [I TFM Part 2-5100, Reconciling Fund Balance with Treasury Accounts](#)
- H. [I TFM Part 4-1100, Delegations and Designations of Authority for Disbursing Functions](#)
- I. [I TFM Part 4-2000, Payment Issue Disbursing Procedures](#)
- J. [I TFM Part 4-4500, Government Purchase Cards](#)
- K. [I TFM Part 4-7000, Cancellations, Deposits and Claims for Checks Drawn on the United States Treasury](#)
- L. [I TFM Part 4-10000, Delegation of Disbursing Authority](#)
- M. [I TFM Part 5-1000, Deposits \(Introduction\)](#)
- N. [I TFM Part 5-2000, Cash and Checks Received in Collections](#)
- O. [I TFM Part 5-4000, Making Deposits](#)
- P. [I TFM Part 5-4500, Deposits to Treasury Through the FEDWIRE Deposit System](#)
- Q. [I TFM Part 5-4600, Treasury Automated Lockbox Network](#)
- R. [I TFM Part 5-5000, Uncollected and Lost Checks](#)
- S. [I TFM Part 6-2000, Cash Advances Under Federal Grant and Other Programs](#)
- T. [I TFM Part 6-3000, Payment of Unclaimed Moneys and Refund of Moneys Erroneously Received and Covered](#)
- U. [I TFM Part 6-5100, Recovering Unclaimed Federal Financial Assets](#)
- V. [I TFM Part 6-6000, Payment Procedures Upon Expiration of an Appropriation or a Continuing Resolution](#)
- W. [I TFM Part 6-7000, Reporting Integrated Funding Transactions of Federal Assistance Programs](#)
- X. [I TFM Part 6-8000, Cash Management](#)

- Y. [I TFM Part 6-9000, Securing Government Deposits in Federal Agency Accounts](#)
- Z. [V TFM Part 1-2000, Deposits for Credit to Treasury's General Account](#)
- AA. Regulations Governing Cash Management Practices Within the Federal Government. Treasury Department Circular (TDC) 1084, (December 20, 1976)
- BB. Cash Management Made Easy, TFM Supplement, (June 1991)
- CC. Managing Government Credit, TFM Supplement, (January 1989)
- DD. The Government-wide Task Force Final Report on Write-Off, TFM Supplement, (June 1990)
- EE. [5 CFR Chapter III Part 1315, Prompt Payment](#)
- FF. [31 CFR Chapter II Part 205, Rules and Procedures for Efficient Federal-State Funds Transfers](#)
- GG. [31 CFR Chapter II Part 206, Management of Federal Agency Receipts, Disbursements, and Operation of the Cash Management Improvements Fund](#)
- HH. [31 CFR Chapter II Part 210, Federal Government Participation in the Automated Clearing House](#)
- II. 31 CFR Chapter IX Parts 900-904, Federal Claims Collection Standards
- JJ. [34 CFR Part 30, Debt Collection](#)
- KK. [34 CFR Part 32, Education, Salary Offset to Recover Overpayments of Pay or Allowances from Department of Education Employees](#)
- LL. [34 CFR Part 74, Administration of Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations](#)
- MM. [34 CFR Part 80, Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments](#)
- NN. [OMB Circular A-11 Part 4, Instructions on Budget Execution \(June 2002\)](#)
- OO. [OMB Circular A-102 \(Rev.\), Grants and Cooperative Agreements With State and Local Governments \(Revised October 7, 1974, and Amended August 29, 1979\)](#)
- PP. [OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-](#)

- [Profit Organizations \(Revised November 19, 1993, and Amended September 30, 1999\)](#)
- QQ. [OMB Circular A-123, Management Accountability and Control \(Revised June 21, 1995\)](#)
- RR. [OMB Circular A-127, Financial Management Systems \(Revised July 23, 1993\)](#)
- SS. [OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables \(Revised November 2000\)](#)
- TT. Cash Management Improvement Act of 1990, P.L. 101-453, (October 24, 1990)
- UU. Cash Management Improvement Act Amendments of 1992, P.L. 102-589 (November 10, 1992)
- VV. [Chief Financial Officers Act of 1990, P.L. No. 101-576, \(January 23, 1990\)](#)
- WW. Improper Payments Information Act of 2002, P.L. 107-300, (November 26, 2002)
- XX. Debt Collection Act of 1982, P.L. 97-365, (October 25, 1982)
- YY. Debt Collection Improvement Act of 1996, P.L. No. 104-134, (April 26, 1996)
- ZZ. Deficit Reduction Act of 1984, P.L. No. 98-369, (July 18, 1984), Collection and Deposit Legislation
- AAA. Federal Claims Collection Act of 1966, P.L. No. 97-258, (July 19, 1966)
- BBB. Higher Education Act of 1965, P.L. No. 89-329, as amended, (November 8, 1965)
- CCC. Prompt Payment Act, P.L. No. 97-177, (May 21, 1982), amended by P.L. 100-496 (October 17, 1988)
- DDD. Single Audit Act of 1984, P.L. 98-502, (October 19, 1984)
- EEE. Title XXXVI – Federal Debt Collection, P.L. 101-347 (November 29, 1990)

IV. Applicability

This handbook is applicable to all Principal Offices and personnel in the Department.

V. Definitions

Acceptance	Acknowledgement by the Department that property and services received conform to contract requirements. Upon acceptance by an authorized contracting representative, the Department assumes ownership of the goods or services covered by the applicable contract.
Administrative Contracting Officer	An Administrative Contracting Officer is a Contracting Officer responsible for some or all post-award contract activities. The Administrative Contracting Officer is not necessarily the same individual who executed the contract. In the Department, Executive Officers and the Secretary's Regional Representatives may serve as Administrative Contracting Officers to accept goods and services under purchase orders for amounts for which they have been delegated that authority, in writing, by a Contracting Officer with that authority.
Administrative Offset	The act of withholding money payable by the government to, or held by the government for, a person or entity to satisfy a debt that the person or entity owes the government. (See offset regulations in 34 CFR Part 30, Part 31, and Part 32.)
Applicable Interest Rate	The "Renegotiation Board Interest Rate" published by the Secretary of Treasury every year is the rate used to calculate Prompt Payment Act penalty amounts.
Automated Clearing House	A processing and delivery facility for distribution and settlement of electronic financial transactions. It clears debits and credits electronically, rather than through the physical movement of checks. Applications include Preauthorized Debit and Customer-Initiated Entry for collections and Vendor Express for disbursements.
Average Clearance	One of the funding techniques identified by Treasury for use under CMIA requirements. A State will request funds for one business day prior to the dollar-weighted average number of days required for funds to be paid out after a disbursement, and a Federal agency will deposit funds in a State account the next business day after receiving a request for funds.
Awarding Contracting Officer	A Contracting Officer who signs awards.
Cash-Flow Process	Each process of collecting or disbursing monies for agency programs or operations, as well as balances held outside Treasury.
Cash-Flow Report	A document summarizing each unique cash-flow process and corresponding opportunities for new cash management improvements (mechanisms and/or processes). Information in the report may be obtained from a cash management review.

Cash Management	Practices and techniques designed to accelerate and control collections, ensure prompt deposit of receipts, improve control over disbursement methods, and eliminate idle cash balances. When intergovernmental transfers are involved, one major goal of cash management is to minimize the time elapsing between the transfer of Federal funds to states and the states' settlement of EFT or other types of payments for program purposes.
Cash Management Improvement Act of 1990 (CMIA)	Requires agencies to initiate systems and practices to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the agencies and the states. Includes requirement to enter into agreements with the states on transfers of funds.
Cash Management Improvements Fund	A revolving fund financed by assessments against an agency for noncompliance with collection and deposit improvement initiatives. Monies from this fund will be made available without fiscal year limitation for the payment of expenses incurred in developing and implementing selected projects that provide for improved methods of collection and deposit.
Cash Management Policy Official	An individual within an agency who is at a sufficiently high organizational level to make cash management policy decisions for the agency.
Cash Management Review	A process that includes periodic examinations of collection and disbursement cash flows and corresponding cash management processes or mechanisms to ensure the most effective mechanisms are used to identify opportunities for improvement in an agency's cash management practices.
Chief Financial Officer	Refers to the Department's Chief Financial Officer, except when reference is made to the Chief Financial Officers Act of 1990, in which case the term may refer to the Chief Financial Officers in general. The Chief Financial Officer reports directly to the Secretary of Education regarding financial matters, oversees all financial management activities relating to Departmental programs and operations, and is responsible for financial management system development, including systems for cash management. The Chief Financial Officer establishes/issues policy guidance, and directs/manages Department financial management personnel, activities and operations. The Chief Financial Officers Act of 1990 assigns other specific responsibilities to the Chief Financial Officer.

CMIA Interest Rate	Interest payable to Treasury from a State, or to a State from Treasury, under CMIA provisions, will be calculated at a rate equal to the average bond equivalent rates of 13-week Treasury bills auctioned during the period for which interest is calculated, as determined by the Secretary of Treasury.
Constructive Acceptance	Constructive acceptance is the requirement to consider goods and services as formally accepted by the Department, seven business days after delivery, even though no acceptance was in fact made. This requirement is solely for the purpose of computing interest; it does not relieve the Administrative Contracting Officer and the Contracting Officer of the duty to ensure that the delivery conforms to purchase order requirements and to make a formal acceptance.
Contracting Officer	A Contracting Officer is an official who has been issued a Certificate of Appointment that authorizes the named individual to obligate funds to obtain goods or services for the benefit or use of the Department.
Contracting Officer Representative (COR)	The COR is the Contracting Officer's official liaison, which performs specified duties and keeps the Contracting Officer informed of any events that affect the status of work on the contract.
Credit Card Collection Network	A government-wide network that allows Federal agencies to accept VISA and MasterCard in payment for goods and services. Credit cards can be used to collect travel reimbursements and salary overpayments from employees.
Current Value of Funds Rate	The average investment rate for the Treasury Tax and Loans accounts expressed as an annual rate. Published by Treasury in the <u>Federal Register</u> each year by October 31, to be effective the following January 1. Current Value and Funds Rate reflects the government's rate of return on funds temporarily invested and is used for charging interest on delinquent debts owed to the government from the private sector and for determining the cost effectiveness of taking trade discounts. The rate is reviewed quarterly. If it changes by two percentage points or more, the revised rate is published in Treasury Financial Manual (TFM) bulletins and in the <u>Federal Register</u> and is effective for succeeding calendar quarters.
Cutoff Time	A time designated by a financial institution beyond which transactions presented or actions requested will be deferred to the next banking day's business.
Day	A calendar day, including weekends and holidays, unless otherwise noted.

Deposit (Same Day)	A deposit made before the cutoff time on the day on which the funds were received by the agency. For example, if funds are received at 10 a.m. on Monday and the deposit is transmitted by 2 p.m. on Monday (the depository's cutoff time), then same day deposit has been achieved.
Deposit (Next Day)	A deposit made before the cutoff time on the day following the day on which funds were received. For example, if funds are received for deposit at 3 p.m. on Monday, and deposit is transmitted to the bank by 2 p.m. on Tuesday (the depository's next cutoff time) then next day deposit requirements are met.
Depository	A bank or other financial institution designated to receive monies for credit to Treasury.
Deputy Chief Financial Officer	The Department's Deputy Chief Financial Officer formulates, issues, and implements policy and provides guidance and overall leadership for all financial management operations, including cash management.
Designated Billing Office	The office designated in the contract or purchase order to first receive invoices.
Designated Payment Office	The office responsible for scheduling invoices for payment. Some payments are made from the Department's Office of the Chief Financial Officer (OCFO)/Financial Management Operations (FMO).
Disallowance	A decision by a Federal agency that a recipient was not entitled, in whole or part, to funds awarded for a particular claim.
Discount Date	The date by which, if payment is made, a specified invoice payment reduction or discount can be taken.
Due Date	<p>Payment is normally due 30 days after the later of the date that: (1) the designated billing office received a proper invoice, or (2) the Contracting Officer accepted supplies or services furnished by the contractor. If the purchase order does not require submission of an invoice for payment—e.g., periodic lease payments—the due date will be as specified in the purchase order. Due dates vary with the situation.</p> <ul style="list-style-type: none">• If the delivery is not acceptable, the prompt payment due date clock does not start.• If a proper invoice and an acceptable delivery are presented to the Department on Day 1, the due date is Day 31.

- If the invoice is not “proper” and the Department notifies the vendor of the deficiencies within seven days, the due date is 30 days after the Department receives a corrected invoice – assuming delivery is acceptable.
- If an improper invoice and an acceptable delivery are presented to the Department, and if the Department does not notify the vendor of invoice deficiencies within seven days, then all days after the seventh day that the Department delays before notifying the vendor of invoice deficiencies are subtracted from the normal 30-day-to-due-date period that begins when the vendor submits a corrected invoice.
- If an acceptable delivery is received later than the day of receipt of a proper invoice, the due date is five business days plus 30 calendar days after delivery, or the actual acceptance date plus 30 days if acceptance occurs sooner than five business days after delivery.

EFT	Any transfer of funds, other than a transaction originated by check or similar paper instrument, that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account. Includes the Treasury’s Payment System, FEDWIRE Deposit System, Automated Clearing House and transfers made at automated teller machines and Point-of-Sale terminals. Automated Clearing House transactions include Direct Deposit, Vendor Express, and preauthorized debits.
Estimated Clearance	One of the funding techniques identified by Treasury for use under CMIA requirements. A State will request funds one business day prior to the day it expects to pay out funds, in accordance with a clearance pattern, and a Federal agency will deposit funds in a State account the next business day after receiving a request for funds.
Excess Funds	Funds maintained at the recipient level in excess of immediate (3 days) needs. Funds determined to be excess by the periodic comparison of obligations and expenditures must be promptly returned to the Department.
Federal Agency	For purposes of this handbook, means an executive agency of the U.S. Government, except for the Tennessee Valley Authority. (Tennessee Valley Authority is statutorily excluded from CMIA provisions.)

Federal Salary Offset	A mechanism for collecting obligations from Federal employees. Agencies may match delinquent debtor files with the current and retired employee files of the Office of Personnel Management, Department of Defense, Postal Service, or other control sources. If an employee identified as a debtor fails to respond to a voluntary request for repayment, a salary offset may be arranged with the employing agency.
Fedwire Deposit System	Any information link for processing wire transfer collections sent to Treasury's Financial Management Service. The Fedwire Deposit System is used for collections when receipt of funds acknowledged is needed immediately. The Department's Fedwire Deposit System transactions are processed through the Federal Reserve Bank in Richmond, Virginia.
Financial Management Service	Refers to Treasury's Financial Management Service, an agency of Treasury, and the U.S. Government's central financial manager, responsible for effecting sound cash and credit management practices within the government.
Grant	An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal government to an eligible grantee. The term does not include technical assistance which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, which the grantee is not required to account for.
Immediate Needs	Refers to the length of time recipients may hold transferred government funds in their accounts before disbursement. The timeframe indicated by the term "immediate needs" is usually considered to be not longer than three days, unless recipients can demonstrate a valid need to have funds on hand prior to expenditure for a longer period.
Inspecting Official	An inspecting official is any individual in a Principal Office authorized by the Executive Office of that office to inspect deliveries, process purchase order invoices, and prepare receiving reports for the Executive Officer's signature.
Inspection	Inspection is the act of examining and testing supplies or services to determine whether they conform to contract requirements. Inspection under the clause provided in an unmodified Form AD-838, Purchase Order, is limited to type and kind, quantity, damage,

operability (if readily determinable), and, if applicable, preservation, packaging, and marking.

Interest
Penalty

An interest penalty is an additional payment the Department makes under the following conditions:

- A proper invoice has been received by the designating billing office,
- A receiving report or other authorizing document has been processed, and there is no disagreement over vendor compliance with the purchase order, and
- The designated payment office paid the vendor after the due date.

Interest accrues daily on the invoice amount approved by the government. The interest is compounded every 30 days from the first day after the due date through the payment date. The penalty stops after one year, or after the contractor files a claim for the interest under the Disputes clause of the purchase order.

Invoice

A bill or other written request for payment.

Invoice
Payment

Invoice payments as used in this handbook are disbursements to vendors under purchase orders or other authorizations for supplies or services accepted by the Department. Payments for accepted, partial deliveries are included. Invoice payments do not include contract-financing payments, such as vouchers submitted under cost reimbursement contracts.

Lockbox

A post office box established at a financial institution by the Department for receipt of payments. Use of the lockbox accelerates the deposit of payments mailed by debtors.

Obligation

An order placed, contract, grant or cooperative agreement awarded, service received, and similar transactions between an agency and other parties for a purpose authorized by law, which will ultimately result in an appropriation being expended in the same or future period. Obligations also include outlays for which obligations had not previously been recorded and reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations. An obligation may be:

- A binding agreement in writing between parties, including other government agencies;

- An order issued pursuant to law;
- A grant or subsidy;
- Employment or services of personnel or travel expenses;
- A contingent liability resulting from pending litigation;
- Estimated subsidy costs of guaranteed or direct loans under provisions of the Credit Reform Act; or
- Any other legal liability of the U.S. Government.

Payment Date	The date on which a check for payment is dated or a wire transfer is made.
Preissuance Funding Method	One of the funding techniques identified by Treasury for use under CMIA requirements. A State will request funds not more than 3 business days prior to the day on which it makes a disbursement, and a Federal agency will deposit funds in a State account the next business day after receiving a request for funds. Because Federal funds are on deposit in the State's account in advance of issuing EFT payments or checks/warrants, interest may be owed by the State to the Department if this method is used. Interest is calculated separately by program and/or account when Federal funds are held in the State's bank account prior to the settlement of EFT payments or the issuance of checks/warrants.
Prompt Payment Act	Legislation requiring executive Departments and agencies to make payments on time, to pay interest penalties when payments are late, and to take discounts when payments are made on or before the discount date.
Proper Invoice	A proper invoice is an invoice that contains the following information. <ul style="list-style-type: none"> • Name and address of the contractor; • Invoice date; • The Department purchase order number for supplies delivered or services performed – including order and contract line item numbers; • Description, quantity, unit of measure, unit price and extended period of supplies delivered or services rendered;

- Shipping and payment terms—e.g., shipment number and date of shipment, prompt payment discount terms;
- Name, address, title, telephone number, and complete mailing address of the responsible vendor/official to whom payment is to be sent. The information must be the same as that in the purchase order or on a proper notice of assignment; and
- Any other information or documentation required by the purchase order, such as evidence of shipment.

Ratification Ratification is the act of approving an unauthorized commitment by an official who has the authority to do so. An unauthorized commitment is an agreement that is not binding solely because the Department representative who made it lacked the authority to enter into that agreement on behalf of the Department.

Receiver A receiver is any person who takes goods or services for the Department.

Receiving Report At a minimum, the receiving report must include the following:

- Department purchase order number for supplies delivered or services performed;
- Description of supplies delivered or services performed;
- Quantities of supplies received and accepted, if applicable;
- Date supplies received and accepted, if applicable;
- Date supplies or services were accepted by the designated official;
- Signature, printed name, title, mailing address and phone number of the designated official responsible for acceptance or approval functions; and
- If the purchase order provides for the use of certified invoices in lieu of a separate receiving report, the certified invoice must contain the information described in the preceding six requirements.

Recipient Organization An organization outside the Department (including any State and local government, educational institution, and any other public and private organization) receiving payment under Federal grant and other programs.

Reimbursable Grant Funding	A State will request funds only after it has paid out its own funds for program purposes, and a Federal agency will deposit funds in a State account the next business day after receiving a request for funds. A Federal agency may not require a State to use this method unless mandated by Federal law.
Renegotiation Board Rate (Prompt Payment Act Interest Rate)	The interest rate established by the Secretary of Treasury for interest payments under Section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 611) which is in effect on the day after the due date, except where the interest penalty is prescribed by other applicable authority (e.g., tariffs). This is the applicable rate for Prompt Payment Act payments. The most recent rate is published annually in the <u>Federal Register</u> .
Secretary	The Secretary of Education, unless specifically identified otherwise, such as Secretary of Treasury.
State	A State of the United States, the District of Columbia, a territory or possession of the United States. The five territories included are Northern Marianas, Guam, Puerto Rico, American Samoa, and the Virgin Islands.
Tax Refund Offset	A tool Treasury uses to collect a debt by withholding all or part of an income tax refund. Before this action is taken, other means of collection should be exhausted, including giving debtors 60 days to resolve or contest the debt. Agencies refer debts to the Internal Revenue Service for matching against income tax files of a given tax year. If a match occurs and a refund is available for offset, Internal Revenue Service returns the amount of the offset to the agency, less a servicing fee.
Write-Off	Removal of an account from the Department's receivables after a Federal agency official determines that a debt has a high probability of remaining uncollectible and all appropriate collection techniques have been exhausted.
Zero Balance Accounting	A State will request funds the same day it pays out funds (i.e., checks are presented for payment at their bank) for program purposes, and the Department will deposit funds in a State account the same day it receives a request for funds.

VI. Responsibilities

- A. The **Chief Financial Officer** is responsible for the effective, efficient and equitable operation of the entire financial management system/operations. The Chief Financial Officer establishes and issues Department financial/accounting policy and provides overall direction and leadership for Departmental financial management, including cash management.
- B. The **Deputy Chief Financial Officer** formulates, publishes, and implements Department financial/accounting policy and provides direction/leadership for all financial management operations, including cash management.
- C. The **OCFO Director, FMO**, has operational responsibilities for cash management operations, including, but not limited to:
 1. Monitoring the Department's cash management practices and establishing a methodology for performing reviews of receipts and disbursements. Reviews will:
 - a. Determine if financial transactions are performed in a timely manner in compliance with applicable legislative requirements;
 - b. Document the Department's cash flows to include all collections and disbursements; and
 - c. Determine whether opportunity exists to implement a better mechanism or process. Initiatives that are formalized and agreed on by the Department and Treasury's Financial Management Service are considered requirements. Subsequent failure by the Department to meet an implementation date within its control may result in assessment of charges for noncompliance.
 2. Performing any cash management reviews as directed by Treasury's Financial Management Service, observing the established due dates and guidelines prescribed by Treasury.
 3. Preparing any reports as required by Treasury, observing the established due dates and guidelines prescribed by Treasury.
 4. Maintaining written internal procedures specifying cash management practices. Copies of the Department procedures will be furnished to Treasury's Financial Management Service upon request.
 5. Evaluating and approving development and implementation of all new Department systems involving cash management matters, providing procedural guidance as required.

6. Developing plans and milestones for modifications of existing systems that affect cash management.
7. Planning, conducting and reporting upon the Department's Quality Control plan/performance measures in accordance with the Office of Management and Budget (OMB) requirements.

D. **Principal Officers** are responsible for the awareness of, and continuous improvement in sound cash management practices. Principal Officers will coordinate with the Deputy Chief Financial Officer on responses for program reviews concerning billings and collections, and all audit reports that may be primarily programmatic but contain cash management findings or recommendations.

The Office of Federal Student Aid (FSA) and the Office of Postsecondary Education (OPE) are responsible for administering student aid funds and implementing effective cash management regulations, policies and procedures in their respective grant/loan programs.

- E. **Supervisors** will ensure that personnel responsible for receipts and disbursements, and those who complete receiving reports, are aware of, and comply with, effective cash management practices.
- F. **Administrative Contracting Officers, which may comprise Executive Officers**, ensure prompt review and processing of prepared receiving reports and is responsible for accepting goods and services furnished to the Department and for notifying vendors of rejected deliveries.
- G. **Contracting Officers** ensure prompt review and processing of prepared receiving reports, accept goods and services furnished to the Department, and notify vendors of rejected deliveries.
- H. **CORs, under a formal designation letter**, monitor the contractor's performance, review progress and financial reports, invoices and vouchers, and recommend approval or disapproval by the Contracting Officer. CORs recommend final acceptance or rejection of the contractor's performance, but do not have the authority to modify or change terms of the contract.
- I. **Inspecting officials** inspect deliveries and prepare receiving reports promptly and correctly for all goods and services delivered within their area of authorization in conformance with applicable legislation and regulation, this handbook, and Executive Office instructions.
- J. **Principal Office managers** ensure that their staffs follow the instructions of the Executive Office and Contracting Officer in performing their duties as inspecting

officials: process invoices and prepare receiving reports correctly, recommend acceptance or rejection of deliveries, and complete all required actions within two business days of receiving the document or delivery.

- K. The OCFO **Director of Contracts and Purchasing Operations** ensures that acquisition policies and procedures in the Department conform to applicable legislation and regulation.
- L. **Receivers** take goods or services into the Department and promptly notify the inspecting official.

VII. Billings and Collections

A. Timeliness

Principal Offices responsible for the preparation of invoices to individuals or organizations outside the U.S. Government will observe the following practices:

1. Ensure that an invoice or other notice is prepared and mailed within five business days after the day that goods have been shipped or released, services have been rendered, or payment is otherwise due. Principal Offices may prepare and mail an invoice later than the five-day timeframe if they can demonstrate it is cost effective to do so.
2. Include a payment due date on the invoice or notice that is not more than 30 days from the date of the invoice, unless otherwise provided by law.
3. If the value of the goods or services cannot be specifically determined, a bill equal to *at least* 75 percent of the estimated value will be prepared and mailed within five business days. Identify the estimated invoice as being a partial invoice and note that a final invoice will be completed/forwarded when the value is determined.
4. Prepare and mail a final invoice or notice within 30 days of the submission of an estimated partial invoice.
5. Collections by EFT must be arranged by the Financial Management Service – if determined to be a viable and cost-effective method of collection, and another specific collection method is not required. A statement will be included on the invoice offering this option and providing the necessary information for EFT payment by the remitter.

B. Contract Payment Terms

1. New Department contracts for goods or services provided by the Department to organizations outside the U.S. Government must include the following payment terms and provisions:
 - a. Date payment is due;
 - b. Statement that payment must be received no later than the due date;
 - c. Notification that, unless prohibited by statute or regulation, the full amount of an obligation that involves multiple payments (such as loan repayments or compromised installment payments) will become due and payable in the event of delinquency or default;
 - d. Notification that additional charges, identified as interest, administrative charges, and penalties will be assessed on payments received after the due date. Rates for such charges should be quoted when available; and
 - e. Specifications of the payment mechanism to be used and the related payment terms outlined below.

Existing Department contracts that do not comply with these requirements will be modified to include these terms and provisions.

2. All invoices or other requests for payment will include a remittance advice or other appropriate instructions. The remittance advice or instructions will ensure that the following information accompanies each payment:
 - a. Appropriation;
 - b. Document Number;
 - c. Fiscal Year (contract/obligation of funds);
 - d. Object Class;
 - e. Entity Identification Number;
 - f. Type/Description of Payment;
 - g. Amount;
 - h. Social Security Number (if an individual); and

- i. Contact Person and Phone Number.

Principal Offices will include mailing labels or instructions with invoices to ensure that payments are mailed to the proper location. Additionally, the invoice will state that the failure to provide the necessary information requested will result in a delay in posting payment to the debtor's account. Penalty, interest, and administrative charges will continue to be accrued until the information is received.

C. Payment Terms Not Covered by Contract

In the absence of a formal contract, a debtor of the U.S. Government will be advised in writing of the basis for the indebtedness, the amount due, and the same information listed in Section VII.B.1.a. through e., above.

D. Charges for Late Payments

When payment is not received by the due date, Principal Offices shall pursue collection of debts using all appropriate available methods. Application of late charges does not relieve the debtor of the obligation to pay when due, nor does it relieve Principal Offices of their responsibilities to collect debts.

1. Interest, administrative charges, and penalties on past due amounts will be assessed, unless otherwise prohibited, and will continue to accrue until final payment is received. The Department assesses a one-time late charge of \$200.00 on delinquent receivables, except for accounts receivable from State and local governments, Indian Governments, Department employees and from individuals who are indebted for student loans or grant overpayments, regardless of the amount of the delinquency or how it originated.
2. Interest charges will be computed using the Current Value of Funds Rate. Once assessed, the interest rate will remain fixed for the term of indebtedness, unless otherwise prescribed. Charges will be applied to each 30-day period and will not be prorated for payments received during the month. (The preceding information does not apply to student aid receivables. Interest rates for these receivables are specified in the terms of individual notes.)
3. Administrative charges will be designed to cover the additional costs incurred in processing and handling a debt because it is delinquent. (The preceding information does not apply to student aid receivables.)
4. Penalty charges will be assessed on all accounts that have not been paid within 90 days of the bill aging date, and for which there has been no

collection activity within the past 30 or 45 days as appropriate. The penalty will be computed monthly from the original due date of the billing. (The preceding information does not necessarily apply to student aid receivables.)

5. Payments received from the debtor will be applied first to those administrative costs (based on/referred to as “contingency fees” incurred to collect), second to penalties, third to other administrative costs, fourth to interest, and last to principal.
6. Collections of additional charges on debts other than student loans will be deposited into one of the following accounts, unless statutory authority requires otherwise:
 - a. Interest into (the Department’s agency code) 1435 “General Fund Proprietary Interest, Not Otherwise Classified”;
 - b. Penalties into (the Department’s agency code) 1099 “Fines, Penalties, and Forfeitures, Not Otherwise Classified”; or
 - c. Administrative charges into (Department’s agency code) X3220 “Miscellaneous Receipts”.
7. **Waiver of Late Charges** – If Principal Offices determine that the administrative cost of collecting late charges exceeds the amount of the charges, the Department may waive such charges. The waiver will be made a part of the official collection documentation.

E. Administrative Offset

Where timely payment of indebtedness is not made, or is not possible, administrative offset will be used for debtors who are presently receiving funds from the Department. The amount of each offset will be determined by present financial status.

The existence of a receivable due to the Department constitutes adequate rationale to justify changing the status of a grant recipient from advance method to reimbursement method provided that no other policy guidance overrides this change.

F. Settlement Agreements

Settlement Agreements are to be arranged only if the debtor is unable to pay in one lump sum. Payments will be structured so as to repay the debt within three years, and the agreement will contain a specific interest rate to be assessed on the receivable. If payments are made in accordance with the agreement, penalties

will no longer accrue. FSA may negotiate alternative arrangements for collection appropriate to the situation.

G. Selection of Collection Mechanisms

Mechanisms and procedures for crediting all funds collected to the account of Treasury will be selected from options currently available. Final determinations will be made jointly by Principal Offices, the Deputy Chief Financial Officer, and Treasury. Consultation with and approval by Treasury and the Department is required before making major changes in collection systems or procedures, entering into new contractual agreements, or renewing current contracts that affect the receivables management process. Factors to be considered when selecting collection mechanisms are minimization of total cost, including direct costs; cost of purchased services; and interest cost on money involved in the collection system.

H. Available Mechanisms

Groups from whom collections are made and available mechanisms:

1. **Contractors and corporations:**
 - a. Lockbox
 - b. Automated Clearing House/Preauthorized Debit and Automated Clearing House/Customer-Initiated Entry
 - c. Federal Deposit System
 - d. Treasury Offset
2. **The general public:**
 - a. Lockbox
 - b. Automated Clearing House/Preauthorized Debit and Automated Clearing House/Customer-Initiated Entry
 - c. Fedwire Deposit System
 - d. Credit Card Collection
 - e. Treasury Offset

3. **Employees and Former Employees:**
 - a. Credit Card Collection
 - b. Federal Salary Offset
 - c. Pension Offset
 - d. Treasury Offset
 - e. Administrative Wage Garnishment
 - f. Lockbox
4. **Grantees and Participating Institutions:**
 - a. Administrative Offset
 - b. GAPS Drawdown Adjustments
 - c. Electronic Refunds
 - d. Lockbox
 - e. Federal Deposit System

Note: Lockbox/credit card mechanism may not apply to student aid receivables.

I. Miscellaneous Collections Processing

The Office of the General Counsel (OGC) Ethics Division is responsible for collecting a \$200 late filing fee, payable to the U.S. Treasury, for public financial disclosure reports that are not filed within 30 days of the due date, or extension due date, pursuant to section 104(d) of the Ethics in Government Act (5 CFR 2634.704). Upon receipt of the late filing fee, OGC shall expeditiously forward it to OCFO for recording/reporting as a miscellaneous receipt to the U.S. Treasury Department. If the late filing fee is not paid in a timely manner, the OGC shall contact/notify the appropriate processing office for current/separated employees to initiate collection proceedings.

Any miscellaneous checks received by the Principal Offices will be forwarded the same day received, to the location designated to process the deposit. If local, checks will be hand carried; otherwise the checks will be mailed via certified or federal express mail the same day received. (These checks are usually for unsolicited amounts.) The Principal Office will attach a memo to each check

forwarded and include all of the information listed under Section VII.B.2. Principal Offices will keep a log of all checks received, which includes the date and time received and disposed, as well as the method of disposition.

J. Regional Office Collections

1. **General** – Offices should instruct recipients to mail remittance checks to a lockbox (may not apply to FSA loans) or directly to OCFO FMO. The Recipient's Handbook provides information on situations where return of funds may be required. Regional offices will also instruct payees to include the necessary accounting information as listed under Section VII.B.2. above, which will be needed to process the collections.
2. **Exceptions** – In cases where the regional offices continue to receive checks, regional offices will deposit checks received, on the same day, in the designated Treasury General Account.

VIII. Deposits

A. Timeliness

In addition to making timely collections, the Department will ensure that deposits are made promptly. A separate lockbox established with a financial institution is the preferred method to process any deposits that are not handled by the National Payments Center's and other dedicated lockboxes. Provided the Departmental lockbox proves to be cost effective and is established, the following will apply:

1. Collections via the lockbox will be deposited the same day received.
2. Total deposits will be electronically transferred to Treasury each night.
3. Necessary accounting information will be electronically transferred or sent by overnight delivery to the Department each day in order for the Department to update its records.

B. Frequency

The deposit of collections/receipts (checks/cash/money orders) must be made expeditiously and in a timely manner (within 24 hours of receipt), and should be limited to one per day where possible.

1. Principal Offices will establish an internal cutoff time for assembling deposits. The time selected will allow the maximum time possible to accept collections, but enable completion of the deposit by the

depository's daily cutoff time. Funds received after the cutoff should be included in the next day's deposit.

2. Deposits will be made on a daily basis, regardless of the monetary amount collected. Principal Offices that have no means of making deposits should ensure checks are forwarded to OCFO FMO before the daily cutoff time each day. If, in unusual circumstances, checks must be retained overnight, they must be stored in a secure, locked location that is not accessible except to authorized persons.
3. After the initial deposit, any other collections will be conditionally endorsed and locked in a safe for next day deposit.
4. Deposits may be mailed to the Federal Reserve Bank or commercial banks only when specifically authorized by Treasury.
5. The Intra-governmental Payment and Collection System (IPAC) will be used for transfer of funds between agencies when operationally possible. If not possible then use the SF 1081: Voucher and Schedule of Withdrawals and Credits. When Treasury checks are received, those checks will be deposited on the same day received at the nearest Federal Reserve Bank rather than a commercial designated depository (except outside the United States).

C. Exceptions

1. Any checks received by the Department's identified deposit points without proper information will be deposited immediately and accounted for in a suspense account. Copies of the checks are to be mailed to the payee, noting the Department cannot process without further information, and the Department has the right to accrue interest or charge a processing fee until adequate information is received (when allowed by law).
2. Suspense accounts are to be regularly monitored by selected Department personnel. To minimize these account balances, aggressive follow-up is critical. Items remaining in suspense more than 60 days will be identified for immediate investigation.
3. Checks sent by payees to incorrect locations will delay prompt crediting of the payees' account. Until payment reaches the proper processing location, interest will continue to accrue.

IX. Deposit of Conditionally Endorsed Checks

A conditionally endorsed check is a check that contains restrictive or conditional language or is tendered with correspondence containing such language. An example is a

check that states, "Payment in Full." Those persons within the Department and contractors who are responsible for accepting and depositing checks shall observe the following policies and procedures governing the deposit of conditionally endorsed checks:

- A. Examine each check and accompanying correspondence to determine if it is conditionally endorsed;
- B. Verify the amount of the check against the remitter's receivable;
- C. Have the branch chief or equivalent supervisor determine whether the Department should take exception to the conditional endorsement;
- D. Deposit conditionally endorsed checks to which no exception will be taken; and
- E. Return conditionally endorsed checks with which the Department takes exception to the remitter along with the reason(s) for the exception.

X. Purchases

General – Procurement transactions are executed using either purchase orders or the Federal government's credit/purchase card. However, if the purchase can be executed with the government's credit/purchase card, this alternative must be chosen, given that the use of these cards helps simplify the procurement process, provides volume discounts, reduces administrative cost, and pays vendors within the limits established by the Prompt Payment Act.

XI. Prompt Payment

A. General

The usual procedure for reimbursing a vendor begins when the vendor, following the clauses in the purchase order, submits a *proper invoice* to the billing office. When the proper invoice is received in the proper billing office it will be dated and time stamped to begin the prompt payment clock. Appropriate government personnel must inspect and accept the goods and/or services and ensure that the designated payment office receives an adequate *receiving report* in time to make the payment date as close as possible to the *due date*. If the payment date is later than the due date, an *interest penalty* may be due.

1. Rejecting Invoices

If the invoice is deficient, the Executive Office notifies the vendor within seven days; time in excess of seven days counts in computing penalty interest.

2. **Constructive Acceptance**

If the vendor delivers the goods or performs the service, the government is said to accept the delivery seven days after receipt of the goods or performance. (Acceptance is considered to have been made at the conclusion of a longer period [i.e., longer than seven days] if specified in the solicitation and included in the contract.) This constructive acceptance for interest computation purposes does not relieve the Executive Officer or the Administrative Contracting Officer of the duty to ascertain conformance of the delivery with contract requirements and to make an actual acceptance before authorizing payment. Within five business days after actual acceptance, the receiving report must be in the designated payment office.

B. Requirements

1. All personnel whose duties include handling, receiving, and processing purchase orders; purchase order documentation; and deliveries under purchase orders must familiarize themselves with the [Administrative Communications System directive OCFO:3-104, Government-wide Commercial Purchase Card Program](#), and this handbook.
2. Personnel who are required to take specific actions in conformance with this handbook will complete those actions in two business days or less unless a longer execution time is specified.
3. Executive Offices will send Purchase Order information to the inspecting official as close to the requesting delivery date as is practicable, accept or reject deliveries as appropriate, train inspecting officials, and do whatever is necessary to ensure that purchase orders for which they are responsible are paid on time.
4. Inspecting officials will show their coworkers examples of purchase order invoices and receiving reports, and request the cooperation of all to direct the documents that are received in the office to the inspecting official immediately upon receipt.

C. Procedures

1. **Requesting Documentation**

Principal Offices will utilize the Department's standardized request forms to ensure consistency and completeness in terms of the necessary procurement information required by the Executive Officer or the Contracting Officer.

2. Purchase Orders/Cards

- a. Upon award of a purchase order the Contracting Office, Administrative Contracting Officer or Executive Office will establish a tickler file or other mechanism to ensure that the inspecting official is notified about the expected delivery date.
- b. Where the capability to do so exists, procurements via purchase cards within the Principal Offices under the approval of the Executive Office will be executed.

3. Invoices

- a. Any Department employee receiving an invoice will send it immediately to the proper official, if known, or to the Executive Officer within their Principal Office. Upon receipt of an invoice, the Contracting Office or the Executive Office will date stamp the invoice. The date of the receipt of an invoice must be the date on which the invoice is first received by the place or person designated in the contract or purchase order.
- b. The Contracting Office, Administrative Contracting Officer, or the Executive Office will review the invoice to determine:
 - (i) If it has been delivered to the correct office; and
 - (ii) If it contains the information required of proper invoices.
- c. If it is determined that an invoice is not a proper invoice, it will be returned to the vendor with the standard checklist indicating the deficiency. The invoice and checklist must be returned to the vendor as soon as practicable, but not later than seven days after receipt, specifying reasons why the invoice is not proper.
- d. If a proper invoice is sent to the wrong office, it should be forwarded to the proper destination/person provided it could be delivered within one business day, otherwise it should be returned to the vendor with an indication of the problem. Additionally, the person returning the invoice will delete the date stamp on said invoice.
- e. If a proper invoice is sent to the correct office, the Executive Office, after date stamping the invoice, sends the invoice, a copy of the purchase order, and, if appropriate, a receiving report form, to the inspecting official. If the supporting papers already have been

sent to the inspecting official, the Executive Office sends the invoice to the inspecting official.

- f. Upon receipt of a proper invoice, the Contracting Office, Administrative Contracting Officer, or Executive Office will establish a tickler file or other mechanism by which all invoices are logged in, to monitor invoice receipt as compared to date submitted to payment office and ultimately payment date, to ensure all invoice payments are paid in a timely manner within prompt payment guidelines.
- g. If the service has not been performed or the delivery has not yet arrived, the inspecting official checks the purchase order copy for the required service/delivery date. If the invoice has arrived early, the inspecting official marks the daily calendar and waits. If the service/delivery is past due, the inspecting official notifies the Executive Office.
- h. The inspecting official inspects the service/delivery, notes any overages or shortages, recommends acceptance or rejection, prepares a receiving report as indicated in (4) below, and returns the papers to the Executive Office.
- i. Contract invoices received properly by the Contracting Office will be logged in and tracked according to requirements covered in c. above. Procedures that are required to be performed by both a COR and by the contracting specialist will be performed concurrently to reduce total approval cycle time.

4. **Receiving Reports**

- a. The Executive Office transmits instructions to the inspecting official with a copy of the purchase order and a receiving report form.
- b. The Administrative Contracting Officer or the Executive Office reviews/approves so the constructive acceptance date can be determined. The inspecting official enters the actual delivery date. This information will then be returned to the Executive Office.
- c. If the invoice is within the Executive Officer's approving limits, the Executive Office reports electronically to reduce the possibility of interest penalties due to payment delays.

5. **Acceptance or Rejection**

- a. If the delivery is acceptable, upon receiving the receiving report from the inspecting official, the Administrative Contracting Officer enters the appropriate acceptance date blocks. The Administrative Contracting Officer must use the earlier of the constructive acceptance date or the date of actual acceptance, i.e., the date the Administrative Contracting Officer signs the receiving report.
- b. If the delivery is unacceptable, the Administrative Contracting Officer notifies the vendor and gives disposition instructions to the inspecting official to withhold payment.

6. Disbursements

- a. **Timeliness of Disbursements** – Except as specifically noted here, the rules in this section apply to payments on invoices, bills, statements or any other documents which are authorized for payment on procurement contracts and under purchase orders subject to the Prompt Payment Act (P.L. 97-177), General Services Administration's Federal Procurement Regulations, and OMB Circular A-125. These authorities require Federal agencies to pay bills on time, to pay interest penalties when payments are late, and to take discounts only when payments are made within the discount period.

Each Principal Office is responsible for ensuring that its payment system provides for the following:

- (i) Payments are to be made as close as possible to, but not later than, the due date or if appropriate, the discount date whenever performance satisfies the provisions of the contract and a proper invoice is received; and
 - (ii) The payment due date will be (1) the date on which the payment is due or (2) 30 days after receipt of a proper invoice for the amount of the payment due, if a specific date on which payment is due is not established by contract.
- b. **Cash Discounts** – Principal Offices will adhere to the following procedures to achieve cash discounts for goods or services received except as specifically provided by contract or other agreement executed pursuant to law:
 - (i) Modify payment systems to take advantage of cash discounts as a matter of routine and to eliminate any need for special handling.

- (ii) Take the offered discount when the discount terms, converted to an effective annual interest rate, are equivalent to or greater than the percentage rate based upon the current value of funds to Treasury. The percentage rate is published in the Federal Register. Refer to TFM 6-8020.
 - (iii) Base discount payment date upon the date of receipt of the invoice authorized for payment, unless otherwise provided on the contract or invoice.
 - (iv) Do not make payments to achieve cash discounts unless the related goods or services have been received except as specifically provided by contract or other agreement.
 - (v) Record purchases net of discount, whether taken or not.
 - (vi) Schedule all discounted payments for check issuance on the last day of the discount period.
 - (vii) Summarize lost economical discounts and report them to Treasury.
- c. **Late Payments** – Principal Offices will make every effort to pay their bills on time to avoid late payment interest penalties. Late payments must be reviewed and reported to Treasury.
- d. **Interest Penalty Requirements**
- (i) Interest penalties must be paid when late payments occur or discounts are taken after expiration of the discount period and paid when the following conditions are met:
 - (A) There is a contract or purchase order with a business concern. (A contract is defined as an enforceable agreement, including rental and lease agreements and purchase orders, between an agency and a business concern for the acquisition of property or services.);
 - (B) Federal acceptance of property or services has occurred and there is no disagreement over quantity, quality, or contract provisions;
 - (C) A *proper invoice* has been received (except when no invoice is required, e.g., some periodic lease

agreements) or the Department fails to give notice that the invoice is not proper within seven days of receipt of an invoice; and

- (D) Payment is made to the business concern after the due date.
- (ii) An interest penalty will also be paid when the discount is taken after the discount period has expired, and there is a failure to correct the underpayment within 15 days of the expiration of the discount period. Section 3902(f) of the Prompt Payment Act provides that an agency must pay a penalty out of amounts made available to carry out the program for which the penalty is incurred. The interest payment is charged to the fiscal year of the day after the invoice payment due date (which is the day the agency incurred the obligation to pay interest). Therefore if a payment due date falls in FY 2003 but payment is not made until FY 2004, interest should be paid from FY 2003 funds.
- (iii) An additional penalty is required when the agency owes a late payment interest penalty and fails to pay the penalty within 10 days after making the late payment and if the contractor makes a written request no later than 40 days after the date of the subsequent payment. (Nonapplicable to utility payments.)
- (iv) Procedures must be established to ensure that Federal Government acceptance occurs within a reasonable time. This period of time will allow for the processing of invoices within the due date established by the terms and conditions of the contract or purchase order or Departmental policy.

7. **Late Payment Interest Penalties**

- a. Interest will be calculated at the rate applicable on the day after the due date (the date the agency incurred the obligation to pay an interest penalty).
- b. Interest will be computed from the day after the due date through the payment date.
- c. Adjustments will be made for errors in calculating interest.

- d. If the penalty is not paid, interest will accrue on the unpaid amount until paid, except as described in paragraph e. below. Penalties that remain unpaid for any 30-day period will be added to the principal, and interest penalties, thereafter, will accrue monthly on the total of principal and previously accrued interest.
- e. Interest penalties under the Prompt Payment Act will not continue to accrue:
 - (i) After the filing of a claim for such penalties under the Contract Disputes Act of 1978, or
 - (ii) For more than one year.
- f. If an agency takes a discount after the discount date and does not repay it before the payment due date, the interest payment will be calculated on the amount of the discount taken for the period beginning the day after the specified discount date through the payment date.
- g. If an agency fails to provide notification of a defective invoice within seven days, the number of days allowed for payment of the corrected, proper invoice will be reduced by the number of days between the seventh day and the day notification was transmitted to the contractor. Calculation of interest penalties, if any, will be based on an adjusted due date reflecting the reduced number of days allowable for payment.
- h. Penalties of less than one dollar need not be paid.
- i. If an agency cannot complete transmission of payment to a contractor by EFT because of incorrect or incomplete account information provided by the contractor, the agency is exempted from payment of interest penalties for the period between the date of attempted transmission and the date on which the contractor supplies correct information to the agency. The contractor must be given notice of the defective account information within seven days after the agency is notified of the defective information.
- j. The applicable interest rate may be determined by calling the Finance and Funding Branch, Treasury.
- k. Interest calculations are to be based on a 360-day year.
- l. If an agency pays a penalty, it must be accompanied by a notice of the amount of the interest penalty included in the payment, the rate

used by the agency to compute the penalty, and the number of days used by the agency to compute the penalty. The contract and invoice numbers will also be included in the notice to assist the contractor in reconciling the payment.

- m. Penalties will be included as part of employee performance agreements and evaluations for personnel with responsibility for ensuring timely payment. These personnel are likely to include Executive Officers and grants and contracts personnel, among others.

D. Ratification of Purchase Orders

1. Ratification of an unauthorized commitment does not entitle a vendor to penalty interest based on the unauthorized transaction.
2. An otherwise proper invoice dated before the date of execution of the ratifying purchase order is not a proper invoice until the transaction is ratified.
3. Ratifications of unauthorized orders require special entries in the invoice received date block of the receiving report. If an invoice has been received prior to execution of a ratifying purchase order, the Executive Office enters the date of execution of the ratifying purchase order as the invoice received date.

E. Quality Control

1. Quality Control is a systematic performance measurement system in place throughout the Department that provides managers information about problems and assists in targeting corrective action. Quality Control data must be accurate to within established tolerances and will be used to fulfill the annual reporting requirements.
2. Data will be gathered as frequently as needed by managers to identify and correct errors. Rapidly changing situations may require frequent data collection.
3. Information must be collected through a process at least as thorough as the original payment decisions process. Quality Control reviewers must use original documents and repeat the original calculations.
4. Where the number of payment actions is too numerous to permit a total review, data will be gathered on the basis of a statistically valid sample sufficient to ensure the reliability of Quality Control reviews conducted, without unduly burdening agency resources.

5. Data must be collected by individuals who are independent from the original payment decision. Thus, supervisory reviews, while an excellent way to improve processing, are not Quality Control reviews.
6. Analysis of Quality Control data will result in remedial action targeted to correct objectively determined error causes.
7. The OCFO Director, FMO is responsible for planning, conducting and reporting upon the Department's Quality Control plan in accordance with OMB requirements. All Program Offices/Department personnel will cooperate and assist with these efforts.

XII. CMIA

- A. The Department's Chief Financial Officer will ensure implementation of practices for timely transfer of funds between the Federal government and the states, and for the exchange of interest where transfers are not made in a timely fashion. Treasury has identified in 31 CFR Part 205, Rules and Procedures for Fund Transfers, which State and Federal agencies will adhere to unless otherwise directed by a Treasury-State agreement. The following funding techniques have been approved for use:
 1. Zero balance accounting;
 2. Estimated clearance;
 3. Average clearance;
 4. Preissuance funding; and
 5. Reimbursable funding.
- B. The date on which a State disburses funds is defined as the date on which EFT payments are issued or when checks/warrants are presented for payment.
- C. Under most programs, states have the responsibility to calculate Federal interest liabilities and State interest liabilities and to ensure calculations are auditable, with some exceptions, e.g., Federal agencies will calculate interest liabilities for supplemental security income payments.
- D. Regardless of the funding technique selected, the Department's Chief Financial Officer will designate an official representative to coordinate all interaction with Treasury's Financial Management Service and the States, for compliance and oversight issues such as verifying the validity of interest calculations. The

Department will establish a plan to periodically audit the States' compliance with the requirements of the CMIA.

- E. The OCFO Director, FMO, will be responsible for implementing an annual plan for monitoring and periodically reviewing the States' compliance with the CMIA's requirements.

XIII. Miscellaneous Cash Management Topics

A. Cash Advances

1. General Policy

The OCFO Director, FMO, has responsibility for establishing and monitoring the cash management practices of the Department's recipients. Most grant recipients, or their duly authorized agent, use the Department's Grants Administration and Payment System (GAPS) to obtain funds. Cooperation among Principal Offices that authorize funding for grant awards and recipients receiving such funds is essential in meeting this responsibility. For awards that include advance funding, the OCFO FMO Director will provide guidance to recipients to ensure:

- a. Cash advances to recipients are limited to amounts necessary for immediate disbursement needs, and Federal cash is not maintained at the recipient level in excess of three days for Automated Clearing House transactions and one day for Fedwire transactions;
- b. Excess balances are promptly returned to the Department; and
- c. Interest earned on Federal cash, except where otherwise specifically authorized by law, is promptly paid to the Department for deposit to Treasury.

Noncompliance with these requirements (CFR 34 Part 74.74) may result in termination of advance funding authority.

2. Timeliness of Advances

Each awarding Principal Office will ensure that its procedures specify:

- a. Advance payments will be made only at times and in amounts necessary to meet immediate disbursing needs; and
- b. Recipient cash drawdowns should be made on the basis of cash disbursements and not on accrued expenditures.

3. **Interest Earned on Balances**

OCFO's Director, FMO, will require that all interest earned by recipients on advances of Federal funds, except where otherwise specifically authorized by law, such as authorized revolving funds, be remitted to the Department. Such interest will be promptly deposited in the General Account of Treasury using account symbol 911435. All Federal funds held in revolving funds will be invested for the purpose of earning interest income and promptly deposited to the benefit of the revolving fund, except where prohibited by law or regulation.

4. **Recoveries of Disallowed Expenditures**

The Principal Office will require that funds be returned upon a determination that a previous expenditure of funds is not allowable. The disallowance may have been made as a result of program review or other circumstances.

5. **Recoveries of Unused Cash Advances**

If recipients have Federal cash in excess of immediate needs in their possession, OCFO FMO is responsible for collecting that unused cash.

B. Cash Held Outside Treasury

1. **Cash Held at Personal Risk, Including Imprest Funds, by Disbursing Officers and Cashiers**

Quarterly reviews will be made on funds held by Accountable Officers to ensure that funds are commensurate with actual needs and do not exceed maximum limitations (See Volume I, TFM 4-3000).

2. **All Other Cash Held Outside Treasury**

Principal Offices authorized to maintain funds with depositories for specific purposes, or to control the maintenance of such funds, must establish procedures to monitor such accounts on a continuing basis. These procedures will, at a minimum, ensure that:

- a. Funds balances are maintained at the minimum amount required to meet immediate disbursement needs and are commensurate with the activity in the account;
- b. Funds in excess of the immediate needs for which the account was established are promptly withdrawn from the account and deposited with Treasury; and

- c. Where fund balances as authorized by Treasury or provided by law may bear interest, such interest is at the highest possible interest rate commensurate with the administration of the account.

C. Financial Transactions With Foreign Countries and Organizations

1. General

Restrictions are placed on procurement, co-production, grants, and other significant transactions with foreign countries and international organizations involved in bilateral programs that require:

- a. Outlay of U.S. dollars for foreign currencies;
- b. Inflow of funds from foreign countries; and
- c. Exchange of U.S. dollars and foreign currencies.

The restrictions are intended to reflect Treasury's policy with respect to funds, which have a potential impact on interest costs to Treasury and in the foreign exchange area.

2. Negotiating Financial Arrangements

Principal Offices will observe the following policies, except for arrangements that may be entered into solely for implementing U.S. international monetary policy:

- a. The U.S. Government will not permit the withdrawal of dollars from the account of Treasury for placement with any program management organization, prior to the time that the dollars are needed, as determined by the actual immediate funding requirements of the recipient organization to carry out the project.
- b. Arrangements, which require U.S. funding, will be negotiated to provide for dollar outlays as close to the need for current program expenditures as possible.
- c. Each program will be structured to the maximum practical extent so as to provide flexibility for the country or international organization to fund the program, conforming to its own fiscal needs and policy considerations.
- d. Program funds will not be derived from interest earned on U.S. contributions.

- e. Each request for the temporary deposit and safekeeping of dollars in trust in an account of Treasury will be decided on its own merit according to established reasons, the specific financial arrangements proposed, and U.S. Government political and general financial considerations.
- f. Unless otherwise required by law, the U.S. Government will not invest funds on behalf of a foreign country or international organization when receipt of such funds by the U.S. Government would serve as the basis for creating contract obligational authority for a Principal Office.
- g. Principal Offices will alter or revise current practice to achieve these funding policies, and the principles set forth will not be compromised by internal administrative practices.

3. **Exchange of U.S. Dollars for Foreign Currencies**

Principal Offices will not hold more foreign currency than immediately required, nor will any transaction give the appearance of currency speculation in the exchange markets. Accordingly, the following guidelines will be adhered to, except for those exchanges entered into solely for implementing U.S. international monetary policy.

- a. Conduct “spot” delivery for all exchange of dollars for foreign currency. Do not use forward funded contracts or exchange directly with foreign governments or private contractors at negotiated rates.
- b. Do not make an exchange prior to the time the foreign currency is needed for immediate funding requirements.
- c. Appearance of currency speculation must be avoided.
- d. U.S. and foreign program agencies involved in a program will be responsible for any change in program costs resulting from foreign currency denomination of the financial arrangements.
- e. To reduce exchange risks, Principal Offices may take steps to ensure that a large portion of program funds be expended in the U.S. or that additional financial arrangements be dollar denominated. If these steps are not feasible, applicable financial arrangements may be entered into using a multiple currency “unit of account” which includes the dollar as one of the currencies, as set forth in Section XIII.C.3.f. below.

- f. The U.S. dollar is the preferred currency for all international financial arrangements unless U.S. Government owned excess or near-excess currencies can be used. If the only alternative to the use of U.S. dollars is the use of a foreign currency, Principal Offices will consider the use of a “multiple currency unit account” which includes the dollar as one of its currencies. An example of such an account is the International Monetary Fund’s Special Drawing Right. The exchange value of the Special Drawing Right is determined by the International Monetary Fund on the basis of a basket of currencies, including the U.S. dollar, with each of the currencies assigned a weight in determining the Special Drawing Right exchange value.

4. **Policy Exceptions**

Exceptions to Treasury policies and guidelines will be made only when an exception would be advantageous to the U.S. Government. If a Principal Office anticipates such an exception, it will contact the OCFO who will review/analyze the exception.

5. **Requests for Waivers**

Requests for waivers will be forwarded to the OCFO for approval prior to submission to the Treasury’s Financial Management Service.

D. Foreign Currency

1. **General**

This section contains the Department’s cash management policy as it relates to the purchase, custody, deposit, transfer, sale, and utilization of foreign exchange. Procedural instructions regarding the receipt and disposition of foreign exchange owned by the U.S. Government are contained in Volume I of the TFM.

2. **Designation of Financial Institutions to Maintain U.S. Government Operating Accounts**

Preference will be given to American financial institutions, unless a local bank’s arrangement is clearly more advantageous to the U.S. Government. Treasury will consider three areas of service in determining the most beneficial banking arrangement: (a) Minimum required service; (b) Customary local banking practices; and (c) Other special services which may be deemed necessary in a particular country or circumstances. The minimum required services are:

- a. Capability to honor payments to payees in outlying areas;
- b. Processing of checks and deposits;
- c. Submission of a monthly bank statement;
- d. Acceptance of Treasury's minimum/maximum funding procedures whenever applicable;
- e. Any customary banking practices (such as payment of interest on the operating account, waiver of miscellaneous charges, preferential exchange rates on purchases with U.S. dollars, etc.) peculiar to a particular country; and
- f. Other special services such as telex cost, funds transfer, overdrafts, armored car service, etc. The operating account will not be used to subsidize banking services that would otherwise be funded through the appropriation process. The level of balance will be determined solely by disbursing requirements. Generally, the operating account will not be subject to transfer more frequently than every two years.

3. **Operating Account Balance Limitations**

All Program/Accountable Officers will ensure that the amount of foreign exchange purchased with U.S. dollars is commensurate with immediate disbursing requirements. This is essential to:

- a. Minimize local currency operating bank balances;
- b. Minimize losses due to rate devaluations; and
- c. Avoid premature drawdowns to the general account of Treasury.

Adherence to this policy will result in interest savings to the U.S. Government and have a favorable impact on the U.S. balance of payments.

4. **Acquisition of Foreign Exchange**

- a. **Commercial Purchase** – Program/Accountable Officers or their duly authorized agents will ensure that foreign exchange purchased commercially is purchased at the highest legal rate obtainable from a legally authorized exchange dealer whether purchasing for their own or another Accountable Officer's accounts. Bids will be

solicited from at least three sources, if available, when foreign exchange is purchased at non-fixed rates.

- b. **Collections** – Foreign exchange must be promptly delivered into the custody of Accountable Officers for credit maintained by Treasury. Only the Secretary of Treasury can authorize exceptions to this requirement. Collectors of foreign exchange will inform the Accountable Officer of the source of the collections and any restrictions on their use.
- c. **Interest on Deposits** – Accountable Officers will establish an interest-bearing account if the collection of foreign currency causes the non-interest-bearing local currency checking account to exceed a 30-day supply and all attempts to sell currencies to other Accountable Officers have been exhausted. All funds in excess of the operating account balance limitation must immediately be placed in a short-term interest bearing account provided such an account is available. The deposit must be in a bank that has been designated as a Depository of Public Monies by Treasury.
- d. **Disbursements** – Cash management policy applicable to domestic disbursement is applicable to foreign exchange disbursements.
- e. **Rate of Exchange** – Accountable Officers will make a concerted effort to preclude losses due to fluctuations in rates of exchange. The prevailing rate will be used in converting foreign currency expenditures to dollars, unless otherwise authorized by Treasury.