

Banking Services Handbook

Department of State Treasurer State of North Carolina

Revised June 2014

This document may be accessed at the N.C. Department of State Treasurer's website:
www.nctreasurer.com.

TABLE OF CONTENTS

INTRODUCTION	5
I. BANKING SERVICES OVERVIEW	6
Receiving Moneys	6
Disbursing Moneys	6
Specialized Services	7
Collateralization Requirements	7
Flow of State Funds	8
Routing of State Warrants	8
II. TYPES OF ACCOUNTS AVAILABLE THROUGH THE STATE TREASURER	9
Budget Code Accounts	10
Disbursing Accounts	10
Depository Bank Accounts	10
Short Term Investment Accounts (“STIF”)	11
III. DAILY DEPOSIT AND REPORTING REQUIREMENTS	15
Daily Deposit Requirement	15
Daily Deposit Exemption	15
Daily Reporting Requirement	15
Deposit Reconciliation	16
Daily Deposit and Reporting Noncompliance	16
IV. GUIDELINES FOR OFFICIAL DEPOSITORIES OF STATE FUNDS	17
Depository Designation and Definition	17
Types of Depositories	18
Account Name and Tax ID Number	18
Customer Identification Program / Patriot Act	18
Bank Deposit Slips	18
Endorsements	19
Currency and Coin Deposits	19
Check Deposits	20
Foreign Checks	20
EFT Deposits	21
Credit Card Services	21
Errors in Deposits	22
Moneys Deposited in Error	22
Return Items (Bad Checks)	22
Night Depository Services	23
Official Checks	23
Currency Transaction Exemption	23
Wire Transfer Disbursements / Foreign Wires	23
Bank Fees	23

Common Payments Service (“CPS”)	24
Lockbox Services	24
V. STATE WARRANTS (CHECKS)	24
Specifications for State Warrant (Check)	24
Ultimate Payee	26
Escheating of Stale Dated Items	27
Preventing the Counterfeiting of State Warrants	27
Counterfeit Warrants	28
Reporting of Attempted Fraud to SBI	28
VI. FEDERAL RESERVE BANK WARRANT IMAGE TRUNCATION	29
VII. MONTHLY ACCOUNT STATEMENT	30
Statement Download through CB\$	30
Account Adjustments	30
Cleared Warrant Data Formats	31
VIII. ACCOUNT MAINTENANCE	32
Disbursing Account Deposits	32
Stop Payments	32
Photo-in-lieu	33
Paid Warrant Inquiry	33
Alleged Forgeries	33
Altered Warrants	34
Counterfeit Warrants	34
Affidavits and Indemnity Bonds	35
Signature Cards	35
Credit References	35
IX. POSITIVE PAY PROGRAM	36
Overview of Positive Pay Program	36
Transmission of Positive Pay Files	36
Positive Pay and Stop Pay Functions	37
Positive Pay Impact on Escheated Warrants	37
View of Active Warrants on Positive Pay	37
Edits Performed on Each Warrant	37
Positive Pay File Format	39
X. POLICY ON OVERDRAWN DISBURSING ACCOUNTS	40
XI. DIRECT DEPOSIT GUIDELINES FOR COMMUNITY COLLEGES & LOCAL EDUCATION AGENCIES	42
Purpose	42
Services Provided by a Bank of Entry	42

Compensation for Bank of Entry	42
Selecting a Bank of Entry	43
Bank of Entry Agreement	43
Establishing a Settlement Account	43
Employee Authorizations	43
Returns	44
XII. PAYROLL CENTER SERVICES	44
Direct Deposit Services	44
Federal Withholding Taxes	44
Payroll Deductions	45
Holidays	45
Vendor ACH Services	45
XIII. SECURITIES SAFEKEEPING SERVICES	45
Good Faith Deposits	45
Securities Sales	46
XIV. CMCS ONLINE DEPOSIT REPORTING	46
XV. FUNDS TRANSFERS	46
Description of Use	47
Payment Preauthorization	47
Templates	47
Funds Transfer Roles	47
Funds Transfer Functions	48
Security Access Maintenance	48
Funds Transfer Initiation Elements	48
Authorizing Transactions	48
Status Levels	49
Effective Date	49
Hold vs. Straight through Posting (“STP”)	49
Reference Numbers	50
Corrections	50
Important Deadline	50
STIF Account Transfers	50
XVI. GLOSSARY	51
XVII. ATTACHMENTS	65
A—Affidavit and Indemnity Bond - Individual	65
B—Affidavit and Indemnity Bond – Business	66
C—Affidavit for Altered State Warrant	67
D—Affidavit for Counterfeit State Warrant	68

INTRODUCTION

The General Assembly of North Carolina has provided a centralized system for managing the flow of moneys collected and disbursed by all State departments, institutions, universities, community colleges, and agencies (collectively referred to as “agencies”). Additionally, local school systems disburse moneys as allocated by the North Carolina Department of Public Instruction. Rather than agencies banking with a commercial bank, the accounts are maintained with the North Carolina Department of State Treasurer (“DST”). DST in turn provides each agency the same services that a commercial bank would normally provide. This system ensures that the State is the primary beneficiary of the flow of its funds through the commercial banking system in the course of conducting State business. The Banking Operations function of DST is performed pursuant to G.S. 147-68 and 147-68.1, as well as 147-74.

This Handbook has been prepared to provide guidelines to be followed by those agencies who secure banking services through DST. Employees of each agency should familiarize themselves with the information contained herein and use this Handbook as a future reference.

Because of the organization of State government, there are several State offices that have responsibility for and involvement in the State's financial affairs. These offices include, in addition to DST, the North Carolina Office of State Controller (“OSC”), the Office of State Budget and Management (“OSBM”), and the Office of the State Auditor (“OSA”). This Handbook is intended to complement any publications that these offices may publish, and the information contained herein should not be considered to be inclusive. The DST website may be referenced for the most current version of this publication (www.nctreasurer.com).

Questions relating to the subjects referred to in this Handbook may be addressed with the Banking Operations Section within the Financial Operations Division.

FOR ADDITIONAL INFORMATION, CONTACT:

North Carolina Department of State Treasurer
Banking Operations Section
325 North Salisbury Street
Raleigh, NC 27603-1385
Telephone: (919) 508-5976
Website: www.nctreasurer.com
CoreBanking Email: CBS.help@nctreasurer.com

I. BANKING SERVICES OVERVIEW

Banking services are provided to agencies by the Banking Operations Section within the Financial Operations Division of DST. The three primary categories of functions accommodated are "receiving moneys," "disbursing moneys," and "specialized services."

RECEIVING MONEYS

All revenues collected by a State agency are deposited with DST for credit to the agency's appropriate budget code and account. For all State agencies, DST has established depository relationships with various banks and savings institutions in order for agencies to have a convenient location to make their deposits.

Many agencies deposit into a single account maintained with one of the major banking institutions that has a statewide branch network and provides deposit concentration services (designated as a "Main Bank"). This minimizes the number of bank accounts needed and allows the funds deposited to be concentrated for investment purposes, as the funds deposited are automatically swept each night into a central account.

DST also establishes accounts with "Non-Main" banks at a state agency's request. Once notified of the deposit of funds into one of the Non-Main depository accounts, the Banking Operations Section initiates an Automated Clearing House ("ACH") debit to collect balances over a determined target balance in order to consolidate the funds into a Main bank account for investment purposes and to maximize returns on the General Fund.

DISBURSING MONEYS

Except for funds disbursed electronically, North Carolina utilizes a warrant system to disburse funds. In order for a State agency to disburse funds, it issues warrants (State checks) against an account maintained with DST. The warrants bear DST's unique ABA transit-routing number and are payable at par through the Federal Reserve System. Warrants issued by the various agencies are deposited by recipients into the commercial banking system and are presented by the depository institutions to the Federal Reserve Bank ("FRB"), which is DST's designated "point of presentment." DST interacts daily with the FRB to accommodate the transfer of warrant data and images. DST can provide to agencies both Disbursing and Short-Term Investment Fund ("STIF") accounts. These services are similar to the commercial checking account services provided by the banking community for its customers. All Disbursing accounts are established with the approval of OSC, which is responsible for ensuring that all disbursements and payments are properly controlled and approved, including the issuance of all State warrants. Based on the warrant data provided by the FRB daily, the Banking Operations Section verifies the validity of each presented warrant through the Positive Pay system before charging the agency's account, dishonoring any deemed invalid or having a Stop Payment in place. Monthly statements and images of paid warrants are available to the agencies for viewing and downloading via the Internet, through the Core Banking System ("CB\$").

SPECIALIZED SERVICES

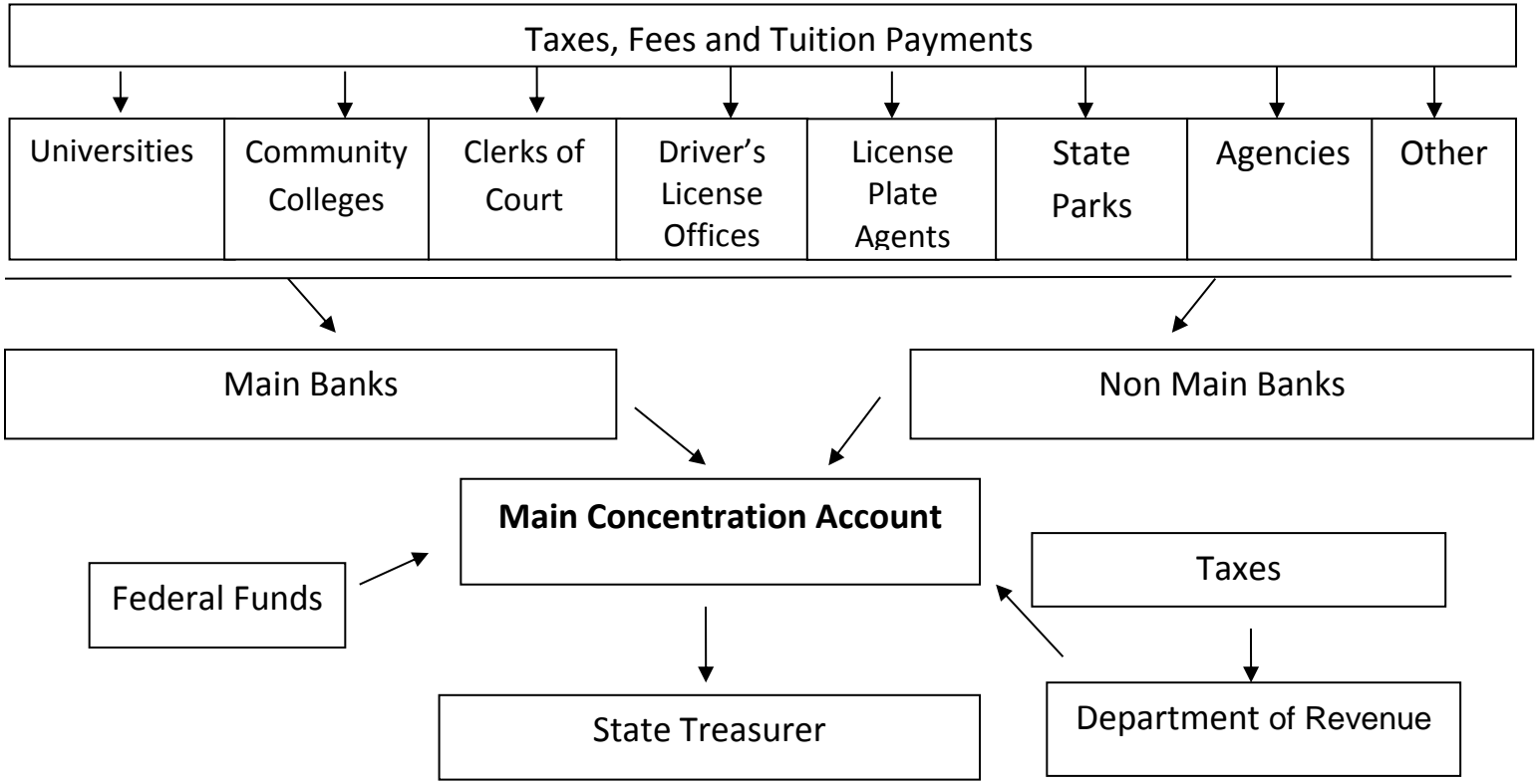
One of the services provided by the Banking Operations Section categorized as "specialized services" is Electronic Funds Transfer ("EFT"). EFT is utilized in both the disbursing and receiving of funds. Disbursing functions include the funding of direct deposit and federal withholding payments for payroll centers, and the processing of large-dollar, time-sensitive wire transfers for agencies. Receipting functions include the identification of wire transfers and ACH receipts on behalf of various agencies. Banking Operations reviews the online banking systems provided by the depository banks and notifies the agencies of the deposits via approval of certifications on the Cash Management Control System ("CMCS"). Other EFT programs for agencies are provided through OSC's Common Payments Service ("CPS"). Processing of investment transactions and wire transfers on behalf of the Investment Management Division ("IMD") is also considered a specialized banking service provided by the Banking Operations Section.

COLLATERALIZATION REQUIREMENTS

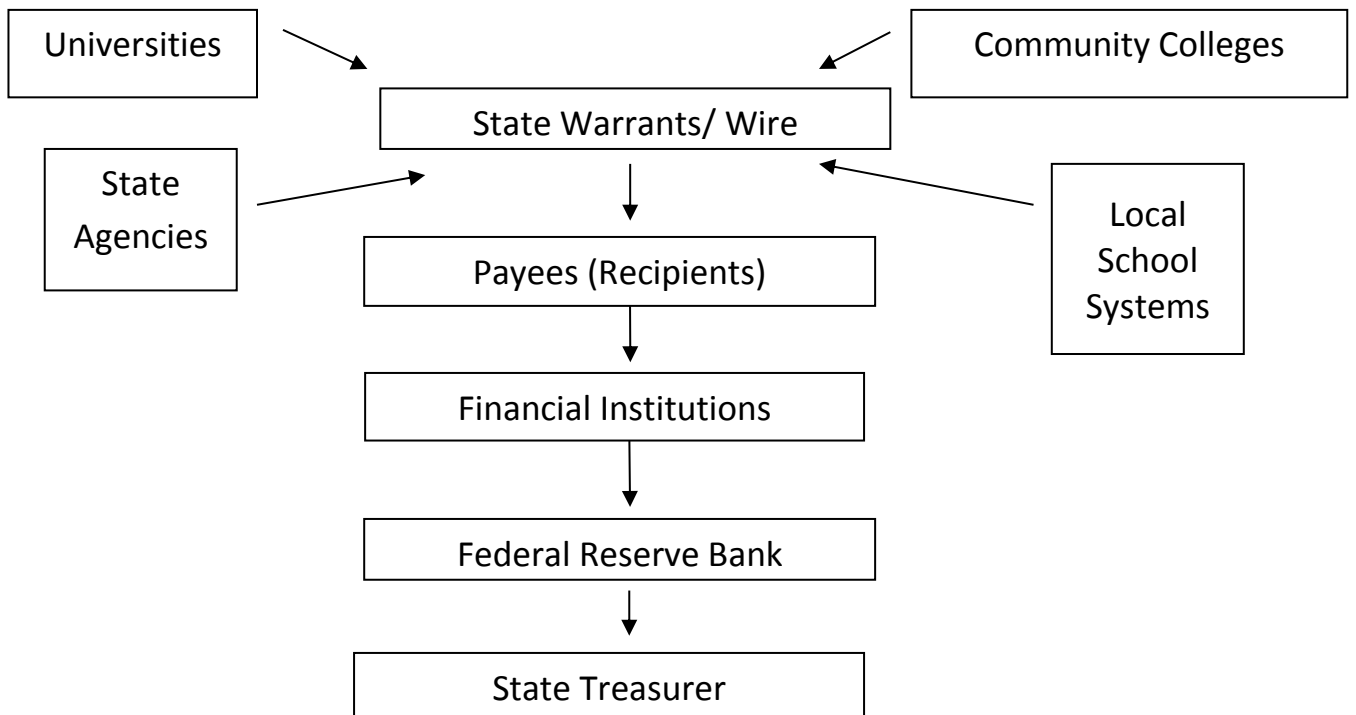
The Banking Operations Section performs the verification and monitoring functions associated with the Collateralization of Public Deposits program, which provides for additional security for funds exceeding applicable FDIC insurance coverage at depositories receiving public deposits on behalf of both the State of North Carolina and public units. For more detailed information, please reference the *Collateralization of Public Deposits* publication located on the DST website.

Official depositories are required to provide collateral for all deposits of DST and public units exceeding available FDIC insurance coverage. Collateral securities are to be pledged to DST at the Federal Reserve Bank, the Federal Home Loan Bank, or an eligible bank authorized to conduct a trust business. Additionally, the pledging is to be pursuant to the appropriate executed security agreement, which must be approved by the depository's board of directors or loan committee. The security agreement to be executed depends upon the method of collateralization the depository has chosen to collateralize public deposits. A depository using the "Dedicated Method" secures uninsured deposits of various public depositors independently from other public depositors. A depository using the "Pooling Method" secures uninsured deposits of all public depositors through a pool of collateral established with DST. The rules governing the collateralization of public deposits are found in the North Carolina Administrative Code, Title 20, Chapter 7.

FLOW OF STATE FUNDS
Deposit of State Funds

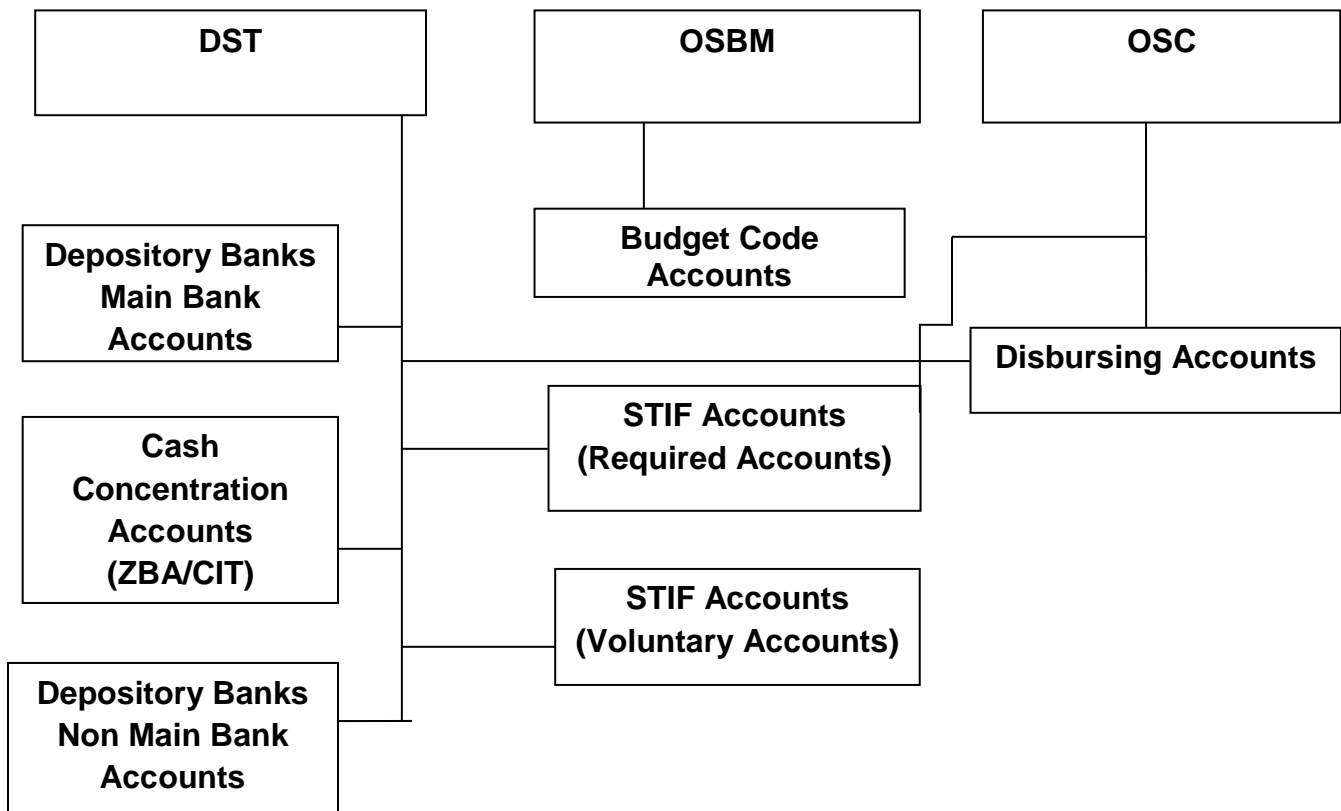


Routing of State Warrants (Checks for Payments)



II. TYPES OF ACCOUNTS AVAILABLE THROUGH THE STATE TREASURER

There are four basic types of accounts available to agencies: depository bank accounts, budget code accounts, STIF accounts, and disbursing accounts. The type utilized by the agency depends upon the nature of the funds. Oversight of these accounts is provided by DST, OSBM, or OSC. While agencies seek approval for these accounts through the designated office shown, there is normally some reporting responsibility through multiple channels. OSA may perform an audit on any of the listed types of accounts. The chart below shows how the accounts intersect the oversight of DST, OSBM, and OSC.



BUDGET CODE ACCOUNTS

Budget code accounts are for State funds collected by State departments, agencies, institutions, universities, and community colleges subject to the State Budget Act. These accounts are established with the approval of OSBM and monitored by OSC. Requests for the establishment of new budget codes are made by completing a special request form, found on the OSC website (www.osc.nc.gov). Deposits are made with the agency's designated official depository (financial institution), with the appropriate budget code being credited on DST's records when reported by the agency. Disbursements are made from budget code accounts either by the issuance of a warrant drawn by OSC (through their disbursing account), or by the transfer to the agency's assigned disbursing account through the requisition process, allowing for decentralized disbursing. There is a monthly reconciliation of budget code balances between DST and OSC. Classification of budget codes is as follows:

- 1XXXX - The General Fund
- 2XXXX - Special Revenue Funds
- 3XXXX - Federal Funds
- 4XXXX - Capital Project Funds
- 5XXXX - Enterprise Funds
- 6XXXX - Trust and Agency Funds
- 7XXXX - Internal Service Funds
- 8XXXX - Highway Funds

For additional information on the steps necessary to establish a new budget code, refer to the OSC State Cash Management Manual.

DISBURSING ACCOUNTS

OSC is authorized under the State Budget Act to allow agencies to establish disbursing accounts with DST for the purpose of decentralized disbursing (G.S. 143B-426.40G). An agency funds a disbursing account by submitting a requisition to OSC to transfer funds from the agency's budget code account into its disbursing account. Withdrawals from disbursing accounts are made through the issuance of warrants or funds transfers by the agency's Chief Fiscal Officer. Reference should be made to Section IV of the OSC State Cash Management Manual for procedures on establishing a new disbursing account, which involves the State Controller issuing a "Delegation of Disbursing Authority."

DEPOSITORY BANK ACCOUNTS

There are two types of depository banks: 1) Main banks, which have a branch network that provides a cash concentration service; and 2) Non-Main banks. In both cases, these accounts are not in any agency's name, but rather in the name of DST. These accounts provide agencies an account where receipts should be deposited before being credited to either a budget code or Short Term Investment Fund ("STIF") account, as normally reported through the Cash Management Control System ("CMCS"). Associated with the Main Banks are certifications-in-transit ("CIT") accounts, which are established on CMCS to accommodate the reporting of deposits by agency.

SHORT-TERM INVESTMENT FUND (STIF) ACCOUNTS

STIF accounts are interest-bearing accounts established directly with DST. Funds eligible for STIF accounts are not subject to the State Budget Act, but are deposited pursuant to either G.S. 147-86.11 (certain agency trust funds); or G.S. 147-69.3(b) (voluntary deposits of State-related entities). Funds earn interest at the rate earned by the STIF, with earnings being credited to the account on a monthly basis. Disbursements are through the issuance of warrants and funds transfers by the agency's Chief Fiscal Officer. Some STIF accounts representing university institutional trust funds are reported through CMCS with an assigned five-digit budget code number beginning with zero.

CATEGORIES OF STIF ACCOUNTS

There are two categories of STIF accounts that can be established with DST. The first category includes those that are required by G.S. 147-86.11(e)(1a). The second category includes those that are voluntary as described in G.S. 147-69.3(b).

REQUIRED STIF PARTICIPANTS

Based upon G.S. 147-86.11(e)(1a), employees of State agencies, who in the normal course of their employment receive moneys in trust for specific beneficiaries for which the employee-custodian has a duty to invest, are required to deposit those moneys with DST under the provisions of G.S. 147-69.3.

VOLUNTARY STIF PARTICIPANTS

G.S. 147-69.3(b) and the North Carolina Administrative Code (20 NCAC 1G. 0207) allow for certain entities having funds not required to be deposited with DST, to voluntarily deposit them with DST for investment purposes. Those entities include:

Officials of State Agencies	State Universities
Boards	School Administrative Units
Commissions	Community Colleges

Note that nonprofit organizations (e.g., associations and foundations) are generally not eligible participants. However, any such organization whose custodian of its funds is a State employee (acting in the capacity as an "official" of the State agency/college) is eligible. It is the responsibility of the Chief Fiscal Officer of the related State agency/college to ensure that proper controls are in place relating to the Cash Management Law and the preparation of the State's Comprehensive Annual Financial Report ("CAFR").

TYPES OF INVESTMENTS

Investments of STIF are limited to those authorized for the State's General Fund, pursuant to G.S. 147-69.1. The investments are generally characterized by high quality money market investments and U.S. Government/agency securities. For accounting purposes these accounts are normally categorized as investment accounts, similar to mutual fund investments. Therefore, FDIC insurance coverage and deposit collateralization issues do not apply. A more detailed description of the STIF investments and performance can be found in the Investment Management Division section of DST's website, as well as in the DST Annual Report.

APPLICATION

Each agency desiring to establish a STIF account must first submit an application to DST describing the nature of the funds to be deposited and specifying which category above applies to the agency. It should also specify the name and title of the individual who will be the custodian of the funds. In the case of an association or foundation, the application must be accompanied by a letter from the Chief Fiscal Officer of the State related entity, verifying the relationship and authorizing the account. In the case of a trustee arrangement for bond proceeds, the university may delegate the custodian responsibility to the trustee, subject to the bond indenture's restrictions/requirements. The application form is found on DST's website.

ESTABLISHING THE ACCOUNT

Once an application is received and approved, Banking Operations will assign and notify the agency of its account number, providing a signature card to be executed. Each agency generally maintains only one STIF account with DST, but where appropriate, additional STIF accounts may be opened. The pro-rata distribution of earnings, in case of multiple funds, is the responsibility of the participating agency.

SIGNATURE CARDS

Signature cards are provided to the participant when the account number is assigned. The signature card is an agreement and acceptance of the provisions of the account and must be signed and filed with Banking Operations immediately after the account number is assigned. Current signatures must be kept with the Banking Operations Section. The required signature card may be found on DST's website.

DEPOSIT OF FUNDS

Unless otherwise authorized, all deposits to a voluntary STIF account are to be made directly with the Banking Operations Section and must be accompanied by the appropriate deposit ticket, either:

- FORM INV-157, "NCDST's Deposit Ticket" (for deposits reported through CMCS); or
- FORM INV-24, "Deposit to STIF Account" (for deposits not reported through CMCS).

Voluntary STIF account deposits may be in the form of:

- A check drawn on the entity's depository, and made payable to itself; or
- A warrant drawn on DST, and made payable to itself.

Voluntary STIF account deposits may either be mailed to the Banking Operations Section, 325 North Salisbury Street, Raleigh, NC 27603-1385 or be deposited at a commercial bank into an account in the name of DST for certification through CMCS to the agency's STIF account. An initial supply of deposit forms will be supplied upon the opening of an account. It is suggested that future forms be pre-printed with the agency's name and account number.

Authorized State agencies are permitted to make STIF deposits with their designated official depository in the same manner that State funds are deposited, with the deposit being reported through CMCS. In such cases, bank deposit tickets ordered through DST must be utilized, unless

the deposit is an EFT deposit. For accounts maintained on CMCS, deposits may also be made through the “agency transfer” feature.

WIRE TRANSFER DEPOSITS

Wire transfer deposits are to be made to: Wells Fargo Bank, Charlotte, NC; ABA# 121000248; Beneficiary – North Carolina Department of State Treasurer; Acct# _____; OBI- (Name of agency and STIF account #). (The bank account number is not published and must be obtained from the Banking Operations Section). A special form is provided for use by the agency to notify the Banking Operations Section of a pending wire transfer deposit. After submission, a telephone call should be made to confirm the receipt of the form by Banking Operations. In addition, the agency is responsible for submitting a certification on CMCS indicating an incoming/pending wire. When the wire is received, Banking Operations will approve the certification, which will accomplish two goals: 1) indicating the funds have arrived and are available for use by the agency; and 2) providing additional funds for investment in the daily Cash Flow calculation. It is critical that the notification of any wire transfer deposits be made prior to 10 a.m. Failure to make a timely notification may result in a delay as to when the deposit begins to accrue interest. The form may be requested from the Banking Operations Section at 919-508-5911.

For STIF accounts whose deposits are reported through CMCS (normally State agencies and universities), wire transfer deposits should be made to the agency’s designated official depository bank account, with the deposits being reported through a certification to a Main bank. This should result in the certification being approved, and therefore available for use, on the day the funds arrive.

WITHDRAWALS

Withdrawals are generally initiated by the participant agency issuing a State warrant against the STIF account. The warrants must be in accordance with the "Specifications for State Warrant" provided by Banking Operations. Following are the rules that govern warrants drawn by participants:

- In the case of State agencies, institutions, universities, school administrative units, community colleges and certain licensing boards, warrants may be drawn under the same terms and conditions under which they generally draw warrants on DST. Third party warrants are permissible. For accounts maintained on CMCS, withdrawals may be made by an "agency transfer."
- For all other participants, warrants may be drawn payable to itself for deposit to an account maintained at its local depository, for subsequent disbursement to third parties. A voluntary STIF account may not be used as a substitute for official depository accounts in regards to making disbursements.
- For each warrant issued against the account, a Positive Pay issuance record must be submitted through CB\$.
- Wire transfers may be utilized with prior approval of DST. (See discussion of withdrawals by wire transfer on the following page.)

INTEREST INCOME

The rate of return for each month is published in a bulletin that may be viewed on CB\$. Interest income is calculated on the average daily balance and credited on the last day of the month, with the value date being the first business day of the following month. The interest rate is calculated on an actual-day over 365-day basis. Interest statements indicating the interest amount credited are generated and provided by the Investment Accounting Section at the beginning of each month. Any questions pertaining to interest calculations should be addressed to the Investment Accounting Section at (919) 508-5960.

The interest rate and amount of interest credited is net of fees which comprise the fund's actual costs.

MONTH-END STATEMENT

A monthly account statement reflecting the account activity is generated and made available to each participant for reconciliation. The statement can be downloaded through CB\$. Account balances and activity can be viewed anytime through CB\$, without waiting for the month-end statement to be made available. Discrepancies found on the statement must be reported to the Banking Operations Section within 15 days of the issuance of the statement. CB\$ provides a function for reporting the discrepancies online. Utilizing this feature allows for quicker action on the request, and also provides an audit trail of the request.

WITHDRAWALS FROM STIF BY WIRE TRANSFER

Some STIF account participants may desire to withdraw funds from their account maintained with DST by wire transfer, as opposed to writing a warrant and depositing it into its local bank account. A wire transfer provides for the transfer of immediately available funds and eliminates any float involved.

Withdrawals generally must be at least \$50.00 to be eligible for wire transfer, due to the transaction cost associated with initiating wire transfers. However, any exceptions will be reviewed and discussed with the initiating agency. Wire transfer requests must be received by DST prior to 10 a.m. of the day the funds are desired to be wired (withdrawn).

CB\$ FUNDS TRANSFER FEATURE

Wire requests are initiated through the CB\$ Funds Transfer feature, which provides for the generation of a "Funds Transfer" against the entity's STIF account. The online transaction requests DST to wire funds according to a preauthorized set of wiring instructions. All preauthorized payments are established by the completion of a Preauthorized Payment Form. For each repetitive payment, a template number is assigned and established on CB\$. Wire requests can only be initiated by users established on CB\$ who have been granted the Funds Transfer role.

III. DAILY DEPOSIT AND REPORTING REQUIREMENTS

DAILY DEPOSIT REQUIREMENT

The Daily Deposit and Reporting Law (G.S. 147-77) requires each State agency to deposit and report all funds on a daily basis. The statute requires all agencies to: "daily deposit the same in some bank, or trust company, selected or designated by the State Treasurer, in the name of the State Treasurer at noon, or as near thereto as may be, and shall report the same daily to said Treasurer..."

The Cash Management Plan as managed by OSC requires each agency to use techniques to improve efficiencies in handling cash and deposits. One of the recommendations is "timing deposits in order to get current day's credit in accordance with schedules available from the State Treasurer." Some banks still adhere to a daily cut-off of 2 p.m., although many have moved to an All-Day Banking for same day credit. However, if an agency utilizes this cut-off time (the close of the banking day), an agency will be considered to be in compliance with the portion of the law which requires that deposits shall be made at "noon, or as near as may be," as well as allowing for current day's credit being given by the financial institution. In addition, this allows the agency the necessary time to submit a certification on CMCS before the 2 p.m. upload and interface with the FlexCube Banking Operating system which posts transactions to the agency accounts.

DAILY DEPOSIT EXEMPTION

Under certain circumstances, the Daily Deposit Law authorizes DST to exempt an agency from the provision that requires funds to be deposited on a daily basis. An exemption may be granted, provided the funds to be deposited do not exceed \$250.00 and that they are deposited at least once per week. Such exemption must be requested in writing to the Chief Financial Officer of DST explaining the reasons and justification for the request. The request will either be approved or denied and conveyed in writing back to the requesting agency.

DAILY REPORTING REQUIREMENT

While the daily deposit of funds is critical and is generally adhered to by most agencies, the failure to report daily is the most frequent violation of the statute. This failure includes not only the lack of timely reporting, but also failing to report the same amount that was deposited in the bank. This is due mainly to: 1) multiple deposits being made with the bank and recorded on a single CMCS certification; 2) multiple certifications in CMCS with a single deposit being made at the bank; or 3) a combination of both.

When the agency's reported deposit does not "match" the bank's reported deposit, or the reporting of the deposit is delayed, several actual or potential undesirable situations result: 1) Problems created for DST's automated reconciling (matching) process, resulting in staff research and manual keying to clear the items; 2) Audit trails not adequately established; 3) Delays in the "approving" of certain certifications of deposit on CMCS; 4) Delays in the accruing of interest to the proper budget code or STIF account; 5) Loss of actual interest earnings to the State; 6) Delays in the timely detection of any improprieties in handling deposits by the agency

or bank personnel, resulting in shortages or other similar problems and 7) Potentially overdrawing an account at a Non-Main bank.

DEPOSIT RECONCILIATION

DST, through the Bank Reconciliation Unit, performs an agency/bank deposit reconciliation process, reconciling the deposits reported by the agency to those reported by the depository bank. For those agencies utilizing a Main bank, this reconciliation process is automated and performed daily. These agencies certify their deposits to a CIT account, which is available for viewing through the CB\$. For agencies utilizing a Non-Main bank, this reconciliation process is normally only performed monthly, and those accounts are not available for viewing through CB\$. The reconciliation process allows for the detection of discrepancies and any improprieties in handling deposits by agency personnel or bank personnel. Agencies are requested to put a high priority on resolving discrepancies when notified by DST. Discrepancies not resolved by the agency within 30 days may be cleared by the Reconciliation Unit making adjusting CMCS entries to the agency's budget code or STIF account and notifying the agency of its action.

DAILY DEPOSIT AND REPORTING NONCOMPLIANCE

Most agencies and universities generally adhere to the requirements of the Daily Deposit and Reporting Law (G.S. 147-77), the State Cash Management Legislation (G.S. 147-86.11), and to the established procedures for reporting deposits to DST through CMCS. However, there are areas where some agencies and universities occasionally experience difficulty with compliance. The purpose of this section is to provide all agencies with a list of the common occurrences of noncompliance, to help ensure the avoidance of any violations.

Additionally, DST uses this list as a tool to help identify agencies that may be experiencing difficulty in any of these areas. Should DST identify areas of concern, the matter will be brought to the attention of the agency's Chief Fiscal Officer. Where there are repeated occurrences, the matter will be brought to the attention of OSC, which is responsible for the State Cash Management Plan, and OSA, which is responsible for compliance with the plan.

While the daily "depositing" requirement of G.S. 147-77 is a critical component of the law, the "reporting" component is equally critical in order to ensure proper audit trails are established. The list is as follows:

- Not making a deposit every day.
- Holding receipts longer than one banking day before making a deposit.
- Not reporting the deposit the same day the deposit is made – Premature or delayed reporting.
- Making multiple deposits daily, when one deposit would be more efficient.
- Making multiple deposits, but reporting them on CMCS as a single certification.
- Making a single deposit, but reporting it on CMCS as multiple certifications.
- Not reporting a deposit for the same amount that the bank credits DST's account.
- Not reporting credit card deposits for the same amounts credited by the bank.
- Not reporting EFT deposits on CMCS prior to the established 10 a.m. deadline.

- Making corrections to reported deposits by making “net” entries instead of reversing the incorrect entry and re-entering the correct amount.
- Using bank deposit tickets not encoded with the agency’s location number, where applicable.
- Not providing adding machine tapes with deposits containing multiple checks.
- Using multiple deposit tickets for purposes of listing checks, when only one deposit is being made.
- Not double-checking deposits for accuracy before depositing, resulting in frequent errors.
- Not promptly reimbursing bank for returned checks.
- Not responding in a timely manner to inquiries from staff of Bank Reconciliation or Banking Operations regarding discrepancies with deposits.

Any questions may be addressed to the staff of the Reconciliation Unit.

IV. GUIDELINES FOR OFFICIAL DEPOSITORIES OF STATE FUNDS

DEPOSITORY DESIGNATION AND DEFINITION

North Carolina General Statute 147-78 authorizes and empowers the State Treasurer to select and designate official depositories for the deposit of State funds. Such designations are generally the result of a request submitted by a State agency requiring the services of a depository bank. DST evaluates the agency’s request and makes a determination to approve or deny the request based upon certain factors, including the safety and convenience of the depositing State agency, as well as other factors that may be unique to the request. All designations are made in writing, either by the State Treasurer or the Deputy Treasurer for Financial Operations, through the issuance of an “Official Depository Designation Letter.” This designation letter should be accepted in lieu of a “corporate resolution,” which is normally required of corporate accounts at commercial banks.

An Official Depository is defined as either a North Carolina chartered financial institution, a federally chartered financial institution regulated by the Office of the Comptroller of the Currency, or an authorized branch in North Carolina of a non-resident state or federally chartered financial institution, to be designated as an official depository for a local government or public authority who provides full-service operations in the chosen market. These operations must consist of at least a “brick and mortar” presence, and be able to offer services to all citizens of the State, and not limit business to a specific line of business or clientele. Specifically, if the institution is headquartered outside of North Carolina, the breadth of the services offered must be the same as offered in the “home” market. Any institution designated as an Official Depository must also comply with all regulations and guidelines established to provide additional deposit insurance over and above what is provided by the FDIC.

TYPES OF DEPOSITORYIES

There are two basic types of depositories: Main banks and Non-Main banks. Main banks have a statewide branch network and provide DST a cash concentration service for funds deposited. A Main bank provides a single demand account that is utilized by all agencies depositing with the bank. Non-Main banks include the financial institutions (banks and savings institutions) that generally do not have a large branch network system and do not provide DST a cash concentration service. Those agencies using a Main bank must be provided a special deposit ticket that contains the agency's unique CIT agency ID number (location code). (See discussion on bank deposit slips below.) Credit unions are not eligible depositories under statute.

ACCOUNT NAME AND TAX ID NUMBER

All demand accounts are to be in the name: "North Carolina Department of State Treasurer." The Federal Tax ID number is 56-1545517. Under IRS regulations, DST is an "Exempt Recipient" and therefore is not subject to "Backup Withholding." It is preferred that demand deposit accounts are not used by more than one State agency.

CUSTOMER IDENTIFICATION PROGRAM/ PATRIOT ACT

The Customer Identification Program ("CIP") was implemented as a result of section 326 of the USA Patriot Act which requires additional personal identification when opening accounts and conducting financial transactions. DST, as an agency of the state of North Carolina, is exempt from providing personal information for accounts and certificates of deposit with financial institutions. The CIP rule applies to a "customer." A customer is a "person" (individual, corporation, partnership, or trust) who opens a new account, an individual who opens a new account for another individual who lacks legal capacity, and an individual who opens a new account for an entity that is not a legal person (e.g., a civic club). The definition of "customer" also does not include an existing customer as long as the bank has a reasonable belief that it knows the customer's true identity. In addition, excluded from the definition of "customer" are federally regulated financial institutions, banks regulated by a state bank regulator, governmental entities, and publicly traded companies (as described in 31 CFR 103.22(d)(2)(ii)-(iv)). In addition, an "exempt" person shall include a department or agency of the United States, of any State, or of any political subdivision of any State_(31 CFR 103.22(d)(2)(ii-iv).

BANK DEPOSIT SLIPS

Deposit slips (tickets) are to be provided by the depository at no charge to either the State agency or to DST. The deposit slip should be headed as follows:

North Carolina Department of State Treasurer
By (Name of Agency)

Banking Operations shall order the initial supply of deposit slips through the depository and provide them to the agency. This ensures that the proper information is included on the slips. If the depository is one of the Main banks that provides a deposit concentration service, the deposit slips must be pre-encoded (in the serial number field) with a "location code," which is assigned by DST and is specific to the depositing agency. All subsequent orders of deposit slips must be placed through Banking Operations, who in turn will place the order with the bank.

However, agencies using a bank not providing concentration services may place any subsequent orders directly with the depository. Deposit slips should be NCR paper, in triplicate, and include "North Carolina Department of State Treasurer - By: (Name of Agency)" in the heading (as shown above). Counter deposit slips may be used only prior to the receipt of the initial supply of pre-encoded slips, but this practice is discouraged.

All deposits accepted from an agency must be accompanied by a completed deposit slip, prepared in triplicate. The deposit slip should be receipted in accordance with the depository's receipting process, with the duplicate copy being returned to the agency as evidence of the deposit. Verification of cash deposits must be made at the time the deposit is receipted. Financial institutions normally receipt deposits containing checks subject to later verification. In the case of a detected discrepancy, the burden of proof of the contents of a deposit is with the depositing agency.

ENDORSEMENTS

The account of DST is restricted in that all checks, drafts, or money orders made payable to the agency are to be deposited to the DST account in the form in which received. No "less cash" deposits are permitted. All deposited items should be endorsed as follows:

For Deposit Only
North Carolina Department of State Treasurer
By (Name of Agency)
(Bank Acct#)
(Location Code in the case of a main bank)

Some agencies (universities, community colleges, and clerks of court, for example) may have the authority to maintain an account for "non-State funds" in their own name. Endorsements for such accounts would not include DST's name. The endorsement should be placed on the back of a check in the location specified by the Federal Reserve's Regulation CC. This location is within 1.5 inches from the trailing edge of the check. The trailing edge is defined as the left side of the check looking at it from the front.

CURRENCY AND COIN DEPOSITS

Cash deposits (currency and coin) should be handled according to the depository bank's specified instructions. Such instructions normally include:

- Currency should be sorted by denomination, placed flat and facing the same direction, face-up.
- Band currency by denomination, using bands provided by the bank. If there are 100 bills of a given denomination, strap each bundle of 100. Do not staple, tape, or paperclip.
- Roll coin in coin rollers and place loose coin in coin envelopes.
- Record the total amount of the currency on the space provided on the deposit slip for "currency."
- Record the total amount of the coin on the space provided on the deposit slip for "coin."

- If checks are included with the deposit, be sure to total all amounts accurately.

CHECK DEPOSITS

Many banks require certain standards for deposit preparation, in order to minimize reconciliation problems and to accommodate image technology. Banks charge DST for having to correct agency deposits prepared incorrectly. Procedures should therefore be in place to ensure that deposits are prepared accurately before being delivered to the bank. Such procedures may include:

- If the "numerical" amount of the check is questionable, verify to the "written" amount on the check. The written amount is the legal amount for which the check may be negotiated.
- Endorse all checks (according to specifications above).
- Arrange checks face-up with MICR encoding toward the bottom.
- If there are a predominant number of checks with like amount, arrange those checks together. For example, place all \$10.00 checks together.
- For multiple checks, create deposit bundles with a maximum of 150 checks per bundle. Run two adding machine tapes on each bundle and verify that they agree.
- Paper clip or rubber-band checks together with one of the adding machine tapes on top. Do not wrap adding machine tape around bundle. Do not use staples or tape.
- If you elect to list the checks on the deposit slip, you should also attach the adding machine tape. Do not use more than one deposit slip per deposit. (Using multiple deposit slips for continuation of listing purposes causes proofing problems at the bank.)
- Record the total amount of the checks on the space provided on the deposit slip for "checks."
- If currency and coin are included with the deposit, be sure to total all amounts accurately.
- Only use deposit tickets provided. Do not use photocopies of deposit tickets.

FOREIGN CHECKS

Foreign checks should not be presented in a regular deposit. The agency should present the item to the bank as a collection item, for which the banks should issue a receipt. Once the institution receives credit for the foreign item (usually a discounted value), the bank will issue the agency a cashier's check for the value received. Any collection related fees may be deducted. The agency will then deposit the cashier's check in the normal fashion. Should a foreign item be included in a regular deposit, the bank will return it to the agency for collection on a "cash item" basis. The definition of a "foreign check" is an item that is drawn on a foreign bank that cannot be cleared through the Federal Reserve Bank System; in other words, it must be issued on a Routing and Transit number that is compatible with the ABA system accepted by the Federal Reserve. An item "payable in US funds" that is drawn on a foreign bank is still considered a "foreign check."

EFT DEPOSITS

Should the State agency be the recipient of an incoming wire transfer or ACH credit, procedures should be established to promptly notify the State agency of the receipt of the funds. Wire transfer advices should be provided directly to DST. Electronic Funds Transfer (“EFT”) deposits are of two types: 1) ACH credits; and 2) wire transfers. Should the State agency be the recipient of incoming wire transfers or ACH credits, procedures should be established with the sender of the funds to be promptly notified that funds are being sent. The agency should consult with DST when completing any enrollment forms for ACH deposit, to ensure the correct information is provided, including transit-routing number and account number. In certain cases it may be desirable for DST to designate a different bank account number for EFT receipts, one that allows DST to verify the receipt of the item(s) through an online terminal with the bank.

Some agencies receive a large volume of EFT or wire deposits, and in this case an agency may request the establishment of a dedicated bank account for its dedicated use. Such account is also considered a “zero balance account” (ZBA), providing for the total of all deposits made to the account on a given day, to be automatically “swept” to a DST account at the end of the banking day. The bank shall provide the agency access to online reporting to view the individual EFT deposits credited to the account. Non-Main banks may have limitations on online accesses. The establishments of such accounts are considered on a case-by-case basis. The cost associated with the dedicated account and online capabilities are normally paid by the agency directly to the provider bank. Agencies requesting dedicated accounts at Non-Main Banks are required to certify funds daily. Agencies not certifying funds in a timely manner may be required to change to a Main Bank. Agencies participating in OSC’s Common Payment Services for collections utilize ZBAs in this fashion. NCDST may grant the agency “view only” access to the account via the bank’s online system. These exceptions shall be requested from and granted by the Chief Financial Officer of the Financial Operations Division of DST.

CREDIT CARD SERVICES

The Office of State Controller (“OSC”) has entered into a Master Service Agreement with a single credit card processor under which agencies, universities, and community colleges may participate. OSC provides guidelines and more information on the program within the E-Commerce section of the State Controller’s website at www.osc.nc.gov. If an agency does not wish to use the statewide contract for this service, the agency must request and have an approved exemption from OSC, and the processor must provide the service at the same pricing rate as is offered through the Master Services Agreement. The fees for such services are handled directly with the university or agency, and are not to be charged as an analysis charge against DST’s account. Any “chargeback” items are to be handled in the same manner as return items, or according to other specially prearranged procedures.

The fees for credit card services are to be paid directly by the university/agency. (The maintenance cost for the related zero balance account (“ZBA”) is paid by DST.) If appropriate, it is permissible for one depository bank to be used for its regular deposit needs (e.g., checks and cash), and a different depository bank for its credit card receipts.

For agencies utilizing the central credit card processor, DST will open at the designated depository bank a dedicated ZBA account where the funds will be credited. The ZBA account allows for multiple "merchant numbers" to be utilized, with the daily settlement for each being made into the agency's ZBA account. The grand total of all funds credited to the ZBA account daily (net of any debits) is "swept" to DST's main bank account that night, for credit to the agency's CIT account. The agency then submits a single CMCS certification for the total of the "ZBA transfer." The agency's depository normally provides the agency an online reporting system to view the deposits made to the ZBA account (prior day transactions). Additionally, the central credit card processor provides the agency access to online reporting features including credit card transactions, associated fees, chargebacks and each transmission. The agency is responsible for reconciling all transactions made to the ZBA. OSC monitors and maintains the contract for users under the Statewide Merchant contract, while Banking Operations functions as security administrator for the agencies accessing the depository accounts online through the depository bank website.

ERRORS IN DEPOSIT

Should a discrepancy be discovered between the amount of a prepared deposit slip and the amount of the items enclosed, an adjustment may be made to the account, with the exception of deposits made by the North Carolina Department of Revenue. If an adjustment is made, immediate notification must be made to both the depositing agency and the Bank Reconciliation Unit.

MONEY DEPOSITED IN ERROR

Under no circumstances should funds be refunded to an agency, or a debit made against DST's account once a deposit has been accepted, without the express authorization of DST. Money deposited in error is to be refunded only as prescribed by the Executive Budget Act and G.S. 147-84. Upon having obtained adequate assurance that money was indeed deposited in error, DST will provide instructions on how to rectify the situation.

RETURN ITEMS (BAD CHECKS)

If the depository bank does not collect an item that was previously included in a deposit and credited to a DST account, the item will be returned by the depository bank as a "cash item" with a request for direct and immediate reimbursement. This is normally after the bank has already presented the item through the banking channels for collection a second time. There are various reasons why the item may be returned, such as insufficient funds, payment stopped, incorrect endorsement, etc. Since statutory restrictions do not permit the bank to debit DST's account once the item has been credited to the account, and because federal banking regulations prohibit the bank from carrying uncollected items on its books after a certain period of time, it is absolutely necessary that the bank be reimbursed within three business days. According to budgetary procedures, a "Refund of Receipts" warrant should be issued, payable to the depository bank. Some banks provide a dedicated "returns account" to track the reimbursement process. In such case, the reimbursement warrant must be deposited to the "returns account." The agency may then initiate its collection procedures to recover the funds from the remitter. With the advent of "Check 21" legislation, the original check may not be returned by the bank, but a legal copy (imaged document) will be returned instead.

OSC has issued a "Cash Management Directive for the Collection and Depositing of Processing Fees for Returned Checks," which provides for the collection of a \$25.00 processing fee from remitters of bad checks, which is consistent with G.S. 25-3-506. Refer to OSC's Cash Management Manual at www.osc.nc.gov for additional information.

NIGHT DEPOSITORY SERVICES

Some agencies require night depository services for the efficient completion of their work processes. For any agency requiring such services, the depository's standard night depository agreement should be executed. DST should sign the agreement as depositor. Individuals at the particular agency will be listed as agents. In the case of a DMV License Plate Agency or DMV Driver's License Office, the DMV field supervisor must authorize the individual agents' names. The cost of the purchase of any bags are the direct responsibility of the agency, while any other related costs are to be considered as bank fees and handled as described below. All agreements should be set up under the open bag option.

OFFICIAL CHECKS

State agencies occasionally have need to secure "official checks" or "cashier checks" from a depository. Any fees for such checks are the direct responsibility of the agency and are not to be debited against DST's account, nor considered as an allowable analysis charge.

CURRENCY TRANSACTION EXEMPTION

DST prefers that the depositing agencies be exempt from the currency transaction reporting for cash deposits that exceed \$10,000.00, as required by the Bank Secrecy Act, which aids in preventing money laundering. As provided by the federal law, DST will execute any forms required by the depository to secure such exemption. In the case of agencies depositing into a branch of a Main Bank, a request for exemption has been filed with the Raleigh office. An agency should refer all questions from a depository regarding an exemption form to DST.

WIRE TRANSFER DISBURSEMENTS / FOREIGN WIRES

Most wire transfer disbursements made by an agency are initiated through DST by utilizing the CB\$ Funds Transfer Feature. For foreign wire transfers, the agency must provide to OSC's Foreign Nationals Unit, information that will assist in determining if there are taxes due for services provided. Once OSC has approved the transaction, and provided that approval to both the agency and Banking Operations, the agency shall submit to Banking Operations an international wire request form, which will include the pertinent foreign transaction information. The agency shall then provide a warrant made payable to the bank providing the service, including a \$25.00 processing fee.

BANK FEES

Most bank fees for depository services associated with a DST bank account are handled between the bank and DST in the form of analysis charges. In accordance with agreements between the banks and DST, analysis charges for depository services are uniform with all the banks, and based upon the "average discounted fee" as published in *The Blue Book of Bank Prices*, as well as an annual review of bank products used and an average price comparison.

Bank fees that are the responsibility of the agency include those relating to credit cards, cashier checks, night depository bags, lockbox services, EDI services, foreign wire transfers, and foreign check collections. Additionally, any fees for ACH originator services acquired from a bank are the direct responsibility of the agency, including those acquired through the Common Payments Service (“CPS”). The exception is for the various payroll centers and for NCAS-related ACH payments, for which DST pays the costs for ACH services. In regards to maintenance fees associated with ZBA accounts, the fees may or may not be paid by DST, depending upon agreements made with OSC.

COMMON PAYMENTS SERVICE (“CPS”)

In 1999, the General Assembly passed Senate Bill 222, requiring the development of a centralized system to accommodate agencies’ electronic payments (both outgoing and incoming). Similar to OSC’s centralized credit card program, a single ACH processor is utilized to facilitate the electronic payments. Agencies subscribe to the service through OSC. A description of CPS can be found on the OSC website at www.osc.nc.gov. Most fees for the CPS are paid by the agency. Where a business case can be demonstrated, OSC may allow an agency to secure ACH services directly from a bank, as long as the provider will charge the same discounted rate as the holder of the CPS contract. In such cases, the ACH origination fees are paid by the agency. DST is involved in processing a Funds Transfer to fund ACH payment files processed against a settlement account. Payment of the fees associated with the settlement account is in accordance with agreements made with OSC and DST.

LOCKBOX SERVICES

Some agencies may desire to contract with a bank to provide lockbox services. Most of the fees associated with contracted lockbox services are not considered one of the depository fees paid for by DST, but are to be paid by the contracting agency. The fees that may be paid by DST are those associated with the “deposit items.” Normally, a ZBA account is established with the lockbox provider, with the total of a day’s deposits being swept to the DST account at the depository. The selected lockbox provider must be one of the official depositories with whom DST has a depository relationship, and is preferably the same institution providing the agency their depository services.

V. STATE WARRANTS (CHECKS)

SPECIFICATIONS FOR STATE WARRANT (CHECK)

Except for disbursements made via Electronic Funds Transfer, State agencies disburse funds through the issuance of warrants (State checks) drawn on DST as opposed to being drawn on a financial institution. The Federal Reserve Bank (“FRB”) considers DST a “non-financial endpoint” and has assigned 053110594 as the unique routing and transit number. All warrants bear this number and are therefore payable at par through the Federal Reserve System. DST subscribes to the FRB’s image capture and check truncation services, and as such, DST has designated the FRB as the point of presentment for all State warrants. State warrants are

generally subject to the Uniform Commercial Code in the same manner as checks/drafts, and are considered as government checks when applying Regulation CC, which governs the length of time a deposit hold may be placed on a deposited item to ensure collection by the depository bank.

Agencies must secure their own supply of warrants. All warrants must meet certain specifications of the American Bankers Association, the Federal Reserve Bank, and DST. Failure to meet any of these specifications may cause the warrants not to be honored upon presentment. For this reason, it is absolutely necessary that precautions be taken when ordering warrants from vendors. It should be noted that low quality warrant printing will result in a high reject rate by sorting equipment, causing warrants to be returned to your agency in a less than desirable condition, and/or increasing the chance that data, such as serial number or amount, may be captured incorrectly.

CHECKSTOCK

Checkstock should meet the following criteria:

- Size of warrants should be one of the standard commercial sizes. Maximum size: 8 3/4" x 3 2/3" Minimum size: 6" x 2 3/4"
- Paper quality should be at least 24 lb. MICR Bond. (26 lb. recommended)
- Reference should be made to "Preventing the Counterfeiting of State Warrants" when securing warrant stock from a vendor.

PREPRINTED CONTENTS

The warrant must contain the following:

- Name of agency
- "North Carolina Department of State Treasurer, Raleigh, NC"
- "Payable at Par Through Federal Reserve System"
- "Void After One Year"
- Fractional bank identification number 66-1059/ 531 in upper right-hand corner
- Warrant (serial) number in top right-hand corner
- Area for "amount" is to be on the right side of the warrant
- No printing is to be in the lower 5/8" band, which is reserved for MICR encoding

MICR ENCODING

Magnetic Ink Character Recognition ("MICR") encoding must meet American Banker's Association Specifications as provided by ANSI X-9 standards (ANSI X9.27-2000). Specifications include ink quality, field positions, symbol identifications and testing. (Poor quality MICR encoding is a prime cause of high reject rates.) When accepting bids from vendors for warrants, an agency should require a vendor to replace warrants without charge if the reject rate exceeds 2 percent. The American National Standards Institute ("ANSI") website address is <http://www.ansi.org>.

Fields to be encoded include:

- Auxiliary On-us Field - Consecutive warrant numbering, the same as preprinted in the top right-hand corner of the warrant. (Maximum of 9 digits)
- Transit Number Field - DST's routing number which is 053110594.
- On-us Field - Assigned disbursing account number, in the following format: X-XXX-XXX (dashes are to be included).
- Amount Field - Encoded by bank. Leave blank.

All fields must include the appropriate beginning and ending symbols. Refer to the "Magnetic Ink Character Recognition ("MICR") - Layout Specification Form" which indicates the position of symbols and digits. This form may be included with all printing orders, and is available from the Disbursing Account Services Unit (919-508-5976).

WARRANT NUMBERING

- Warrant numbers may not contain more than nine digits.
- Warrant numbers must be preprinted consecutively in the top right-hand corner of the warrant, as well as being MICR-encoded in the "Auxiliary On-us Field" at the bottom left-hand corner of the warrant.
- Assigning of warrant numbers should be such that the same warrant number for a given account will not be used twice within the span of at least three years, in order to eliminate problems associated with Stop Payments and active Positive Pay records. Additionally, multiple warrants with the same warrant number and amount cannot be "active" on the Positive Pay issuance file at the same time.

WARRANT ISSUANCE

- Warrants should be typed or generated by a computer printer, not hand-written.
- Typewriters or computer printers should be adjusted to provide clear readability (Positioning and ink quality).
- It is recommended that the amount digits be preceded by a dollar symbol (\$) and followed by an asterisk (*), to minimize alterations.
- The amount should be written out, in addition to being shown in numeric form.
- Only an authorized signature should be used.
- Check stock should be secured.
- Signature plates and stamps should be secured.
- Voided warrants should be accounted for.
- Stale date provision should be printed on the face.
- Warrants should not be folded when inserted into mailing envelopes.

ULTIMATE PAYEE

One of the requirements of the State Controller's Statewide Cash Management Plan [G.S. 147-86.11(f) (1)] is that "Moneys deposited with the State Treasurer (shall) remain on deposit with the State Treasurer until final disbursement to the ultimate payee." The intent of this law is to prevent payments to a non-State account for further disbursement, thereby resulting in potential interest earnings losses. In some cases, the ultimate payee rule may be satisfied if the

payment is a reimbursement for expenditures already made from the recipient account. Such cases must be included in the agency's cash management plan approved by OSC.

ESCHEATING OF STALE DATED ITEMS

DST and OSC have issued a joint statement regarding stale date provisions applicable to State warrants. The policy specifies that the stale date period shall be one year after the date of issuance, the same period applicable to US Treasury checks, and the same period for which State warrants are subject to being escheated. There is an exception for certain types of payments pertaining to federal funds (e.g., Unemployment, Child Support, and Public Assistance), for which the stale date period is 180 days. The one-year stale date period does not prohibit a financial institution from electing to dishonor a State warrant that is older than six months, as provided for under the Uniform Commercial Code (G.S. 25-4-404).

Questions regarding the issuance or validity of a specific State warrant should be addressed to the issuing State agency, whose name is specified on the warrant.

In order to provide notification to a warrant recipient, or other "holder in due course," agencies shall print a statement on the face of all issued warrants that specify the stale date period for the particular warrant. The statement may be one of the following, depending upon the applicability: 'Void After One Year' (time period may be shorter than one year).' At or as soon as practicable after a warrant has reached the stale date period, the issuing agency should take the necessary actions to instruct DST not to honor the warrant should it be presented for payment. The primary method to be utilized to instruct DST is the Positive Pay program. The action may be coordinated with the annual escheating process, in which case the warrant may actually be valid for a period of time beyond one year. All accounts are required to enroll in the Positive Pay program. Any exemptions are to be granted by OSC.

G.S. 116B-53(c) (12) requires that warrants not negotiated after one year should be escheated. This requires the warrants to be canceled and the funds representing the unpaid warrants to be remitted to DST's Unclaimed Property Program. The agency should not place Stop Payments, but submit to DST a "delete" file. Should a transfer pay after it has been escheated, the agency can request a refund from the Unclaimed Property Division. The telephone number of the Unclaimed Property Division is 919-508-1000.

PREVENTING COUNTERFEITING OF STATE WARRANTS

Agencies should establish guidelines for "due diligence" measures to prevent the fraudulent counterfeiting of State warrants and to minimize their potential liability in the event of such an occurrence. State agencies disburse funds by the issuance of "warrants" drawn on DST. Because warrants are negotiable instruments, they are subject to the same potential for being fraudulently counterfeited as commercial bank checks.

POTENTIAL AGENCY LIABILITY

New technology and the increasing trend in fraud occurrences represent an increase in risk for State agencies. At one time fraud was generally considered a bank problem. However, changes

to the Uniform Commercial Code (“UCC”) and the outcome of some court cases have shifted much of the liability to account holders (agencies).

To minimize liability, security consultants recommend that an institution act with "due diligence" and “ordinary care” in its disbursement process. This normally includes using security-printing features and having in place acceptable internal controls to prevent its checks (warrants) from being stolen, copied, forged or counterfeited. While these due diligence precautions to some extent increase the agency’s legal position in the event of a fraudulent occurrence, in most cases the burden is still on the agency. Nevertheless, the features can serve as a deterrent, making the fraud more difficult to commit.

RECOMMENDATION

Check printing companies offer a variety of security features that make checks (warrants) much more difficult to counterfeit or alter. Agencies should partner with their check vendors to identify what features may be of interest to the agency. Each agency must make its own determination as to the features selected, taking into account the type of printer used, the number of warrants issued per year, the presumed risk, and the cost-benefit value of the particular features. Agencies utilizing the North Carolina Accounting System (“NCAS”) should consult with OSC regarding security features selected.

COUNTERFEIT WARRANTS

All agencies are required to participate in the Positive Pay program, which detects unauthorized warrants as they are passed through to Banking Operations each day. The Positive Pay Program allows agencies to provide DST a daily file of its issued warrants. As warrants are presented for payment, DST matches the presented warrants against the issued warrants file. If an item clears an agency account fraudulently, normally due to forged endorsement or altered payee, Banking Operations will attempt collection from the bank of first deposit for discovered counterfeit warrants, crediting the agency’s account only if reimbursed by the bank of first deposit. The agency should execute the Affidavit for Counterfeit State Warrant ((Attachment D)). If reimbursement is denied, the agency should consult with its Attorney General’s Office representative or other legal counsel. OSC should be consulted if the item cannot be recovered and has to be charged off.

REPORTING OF ATTEMPTED FRAUD TO STATE BUREAU OF INVESTIGATION (“SBI”)

G.S. 114-15.1 requires Department heads to report possible violations of criminal statutes involving misuse of State property to the SBI, by completing an incident report. This statute may apply should an agency experience an incident of a counterfeit State warrant. The statute requires the report to be submitted within 10 days of the Department head learning of the information. DST will respond to any requests that the agency or SBI may make in conjunction with an investigation.

VI. FEDERAL RESERVE BANK TRANSFER IMAGE TRUNCATION

DST performs the function of “banker” for various State agencies, universities, community colleges, and local school systems (agencies). These agencies disburse funds from their account maintained with DST by issuing “warrants” (checks) to eligible payees. These warrants bear DST’s unique ABA transit-routing number. Issued warrants are deposited by the recipients into the commercial banking system and are ultimately presented to the Federal Reserve Bank (“FRB”).

FRB provides DST both an MICR data file and an image file of the paid warrants on a daily basis. The original warrants are maintained by the FRB for 30 days after the “date paid” and are then destroyed. After that time, the “official record” is the image maintained on DST’s image storage/retrieval system.

DST makes these images available to the various agencies through CB\$.

Some of the features of the image retrieval system are as follows:

- The original transfer is held in safekeeping by the FRB for 30 days and then destroyed. This “original” may also be a “photo-in-lieu” which is an electronic copy, but shall be admissible in court, if necessary.
- Both front and rear images of paid warrants can be viewed and printed.
- Images are available online for approximately 11 years. In addition, the images are maintained for a total of 11 years. Should an agency determine that a copy of an image possibly may be needed beyond 11 years; the agency should make copies of the image for its own storage and safekeeping.
- The agency may retrieve an image by knowing the combination of account number and warrant number, or the combination of DIN and DIN date.
- Only warrants belonging to an agency can be retrieved by that agency.
- The images are “admissible in evidence” for legal purposes pursuant to G.S. 85-45.1.
- Images are normally available within two business days of being presented to DST by the FRB for payment.

Should an agency need an official copy of a warrant image for legal purposes, it may contact the Disbursing Account Services Unit at 919-508-5976. The Unit will provide a copy of the image with a certified statement stamped on the copy, pursuant to G.S. 85-45.1. With the advent of “Check 21” legislation, the image may be that of a “substitute document,” instead of the image of the original.

VII. MONTHLY ACCOUNT STATEMENTS

STATEMENT DOWNLOAD THROUGH CB\$

Budget code account statements are not generated, but the activity is viewable through CB\$. Refer to OSC's Cash Management Handbook for procedures on reconciliation of budget codes through CMCS.

Monthly statements for disbursing and STIF accounts are generated and are available for downloading by the agency through CB\$. The statement is available for downloading by the agency on the first day of each month, for the previous month. The statement displays activity for each day, along with each day's ending balance. Paid warrants are displayed in a separate section of the statement.

The North Carolina Administrative Code (20 NCAC 1C.0402) requires each agency to reconcile its statement within 15 days of being generated. This is necessary in order to process any returns or adjustments through the banking channels on a timely basis, as required by the Uniform Commercial Code ("UCC"), the FRB's Operating Circular 3, and the Operating Rules of the Carolinas Check Clearing Association ("CCCA"). FRB may refuse to honor requested adjustments after six months.

ACCOUNT ADJUSTMENTS

All adjustment requests for discrepancies found by the agency are to be submitted to DST through CB\$, under DST Support Services menu function. If an agency employee needs to submit adjustment requests, the agency CB\$ administrator must assign that role and the account to be adjusted to the user.

If a depository bank makes an error in encoding, the bank will notify the Bank Reconciliation Unit and request an adjustment. The Bank Recon Unit will make the appropriate adjustment and provide the agency an "Advice of Adjustment." Should the adjustment be \$25.00 or less, DST will make the adjustment. i For adjustments greater than \$25.00, the adjustment will be processed either through the FRB or directly with the "bank of first deposit," depending upon the age of the entry. Adjustments are not made in the case where only the warrant number is incorrect.

All adjustments are subject to being honored in accordance with FRB's Operating Circular 3 and the UCC. Requests for adjustments for entries within six months of the paid date are generally accepted and honored by the FRB. After six months, but before 12 months have passed, DST will attempt adjustment directly with the "bank of first deposit." Attempted adjustment for such older items may or may not be successful. The UCC relieves banks of any liability for items if the request is not made within 12 months of the paid date. Accordingly, DST will not attempt collection for such aged items. Since the UCC (25-4-406) also requires account holders (agencies) to notify its payer bank (DST) within 30 days after rendering of a bank statement, the "bank of first deposit" may refuse a requested adjustment on the basis that the account holder did not "exercise ordinary care" in the matter. Timely reconciliation is critical.

Upon completion of the reconciliation process, the agency is required to verify that the reconciliation has been performed. This verification process is performed through CB\$. The CB\$ verification screen provides a list of months for two fiscal years, the prior fiscal year and the current fiscal year. DST is able to generate reports from this verification reporting. This documentation will assist the State Auditors (or other auditors) in their monitoring of the agency's compliance with the timely reconciliation requirement (20 NCAC 1C.04102).

CLEARED WARRANT DATA FORMATS

To accommodate automated account reconciliation, agencies having access to the State's Information Technology Services ("ITS") may extract their monthly cleared warrant data from the "master" cleared warrant file, which contains cleared warrants for all agencies. DST provides the monthly file to ITS generally no later than the second business day following the close of each month. DST puts the most recent month's data at ITS in two different cataloged disk datasets:

- Disk dataset: TRE.TLA.TLA035.FLEX
Most recently ended month's data – in new format.
- Disk dataset: TRE.TLA.TLA035-1.CDISK
Most recently ended month's data – in old format.

To accommodate archiving, the data is also placed in a tape dataset, named with the following convention: TRE.TLA.TLA035-1.MMMYY, where MMM is the first three letters of the month name and YY is the year. (Note that some months may be named using four letters for the month; e.g., JUNE or JULY.) For months July 2003 and forward, the record layout for the tape datasets is in the new format only. For months prior to July 2003, they are in the old format only.

RACF security allows read access to the data. Following is the new record layout for cleared warrant data, for months beginning July 2003 (due to the implementation of CB\$):

Field	Size	Data type
Account Number	7	Numeric
	1	' '
Check Number	9	Numeric
	1	' '
Amount	11	Numeric 9,2 implied decimal
	1	' '
Process Date	8	Numeric YYYYMMDD
	1	' '
DIN Date	8	Numeric YYYYMMDD
	1	' '
DIN	10	Numeric
	1	' '
Reference	16	Alphanumeric
	1	' '
Source	1	Alpha 'F' or 'C'

Specification Comments for New Format:

- File is in comma-delimited format. (Old file was packed data.)
- All fields are fixed length.
- Account number has the check digit as leading digit (e.g., C-XXX-XXX). The new format is how it appears to the agency.
- Check number is zero filled numeric. (Limited to nine digits)
- Amount is zero filled numeric. The decimal is implied and does not appear as a character.
- Process date is the date DST processed (paid) the item. It has four-digit year, month, day (e.g., 20131225 is December 25, 2013).
- DIN Date – Date the warrant was processed at FRB. Same format as Process date.
- DIN – Document ID Number assigned by FRB and associated with warrant image
- Reference – a unique number assigned to each item by the new CB\$
- Source – “F” for Federal Reserve Bank, “C” for cleared internally by DST.

Sort Sequence for Records:

When querying on the files, be aware of the “record sort sequence.” The sort sequence is account number with check digit first (CXXXXXX) and then warrant number. The old sort sequence was account number with check digit last (XXXXXC) and then warrant number. This sort sequence applies to the datasets containing both the old and new formats.

VIII. ACCOUNT MAINTENANCE

DISBURSING ACCOUNT DEPOSITS

Deposits made to a disbursing account are generally the result of “requisitions” processed through OSC. Agencies submit requisitions through CMCS, which when approved by OSC, are acted upon by DST. Community colleges and local school systems submit requisitions through a central oversight agency – the colleges through the Department of Community Colleges (“DCC”), and the LEAs through the Department of Public Instruction (“DPI”). Questions regarding requisitions should be addressed either to OSC, DCC, or DPI, as appropriate. Deposits pertaining to fraud refunds or paid warrant adjustments should be addressed to the Banking Operations Section.

STOP PAYMENTS

An agency may wish to stop payment on a warrant after it has been issued. Stop Payments normally result from warrants either being lost or stolen. Following are procedures to be followed when requesting a Stop Payment:

- Determine that the warrant has not been paid. Agencies can access CB\$ to assist in making this determination. The warrant may have been paid under a different warrant number and CB\$ will not reflect it as having been paid.

- On CB\$, submit a request to Stop Payment. Only agency employees assigned the Stop Payment role by their agency CB\$ Admin can perform this function through CB\$ by accessing the Single Stop Pay Add function.
- If the item has been paid, you can utilize the CB\$ image retrieval function to determine the date it was paid. All “active” Stop Payments for each account are viewable and downloadable through CB\$. When keying Stop Payments on CB\$, leave out any leading zeros in the warrant number field.
- Proceed with obtaining a notarized Affidavit and Indemnity Bond from the payee (See discussion of Affidavit and Indemnity Bond below).
- Upon determining that the warrant has not been paid, and upon receipt of a completed Affidavit and Indemnification agreement, you may issue a replacement warrant, subject to your agency's policy. CAUTION: It is possible that the warrant has actually been paid, but under an incorrect serial number.
- Agencies with a high volume of Stop Payment requests can submit batch files through CB\$. Batch files can contain both “adds” and “deletes.” The format is available under Core Banking Updates.
- Should an agency desire to lift a Stop Payment, through CB\$, it can submit a “Single Stop Payment Delete.”
- Active Stop Payment records are purged three years after being added (not from date of issuance). Should a warrant be paid due to the Stop Payment having been purged, reliance may be on the Affidavit and Indemnity Bond to assist in collecting the funds from the payee (see below); or if escheated, a refund may be obtained from the Department's Unclaimed Property Division at 919-508-1000.

PHOTO-IN-LIEU

Warrants occasionally get lost in transit before being presented to DST. In such case, the bank will submit a photo-in-lieu, with an indemnification statement on the back. The item may be presented through the FRB or as a collection item by a bank. If presented as a collection item, DST will place a Stop Payment on the warrant number, in case the original warrant was to be presented in the future.

PAID WARRANT INQUIRY

An agency may desire to know if a warrant has been paid, but does not want to place a Stop Payment. This inquiry may be made by using the image retrieval function on CB\$. If the item has been paid, the warrant details and the posting date will be displayed. The image will not normally be available until two days after the posting date. Warrants that have been dishonored by DST (e.g., Stop Payments, stale dated) are not viewable. If a copy of a returned warrant is needed, please contact the Disbursing Accounts Services Unit at 919-508-5976.

ALLEGED FORGERIES

A forged endorsement is the endorsement of a warrant by someone other than the payee. Forgeries are normally discovered after a payee reports he/she has not received his/her warrant, yet the warrant has been paid by DST. In some cases the payee is proven wrong. The statute of limitations for collecting on forged endorsements is three years (G.S. 25-4-111).

Following are procedures to be followed in processing an alleged forgery (endorsement forgery).

- Provide a copy of the paid warrant to the payee for examination. Should he/she allege that the endorsement is not his/hers, request that he/she execute an "Affidavit and Indemnity Bond," which basically certifies that the payee has examined the endorsement and declares it is not his/hers and that the payee agrees to hold the agency harmless from any loss which may result from the issuance of a replacement warrant. The document should be notarized. (See discussion of "Affidavit and Indemnity Bond" below.)
- Prepare a transmittal letter addressed to DST's Office asking that the enclosed item be processed as an alleged forgery. Attach to the letter the original warrant (or image) and the original affidavit. (Retain copies for your file.)
- DST's Office will submit the item and affidavit to the "bank of first deposit" on a "collection basis," providing the agency a copy of the transmittal form submitted to the bank.
- DST's Office will either receive payment from the "bank of first deposit," or receive a denial notice. The length of time to receive either payment or a denial varies from four to twelve weeks. DST's Office will issue a follow-up if there has been no response after 60 days.
- In case the request for payment is denied, DST will forward to the agency any correspondence received supporting the denial. Occasionally, the bank will furnish evidence that indicates the item is not a forgery. The agency may at this point wish to seek legal advice from the Attorney General's Office if it has reason to believe the item is indeed a forgery.
- In case the payment is received from the bank, DST will either provide the agency with the remittance check received, or make a credit entry to the agency's disbursing/ STIF account. The transaction will be posted with a transaction code of "fraud refund."

ALTERED WARRANTS

A warrant determined to have been altered (payee) may be processed through DST in the same manner as an alleged forgery, as a collection item. Generally, the statute of limitations is one year (not three as is the case for alleged forgeries). However, in some cases, collection may be denied if not submitted within 30 days of the detection, dependent upon the bank of first deposit's assessment of the circumstances relating to "ordinary care." Reference should be made to G.S. 25-4-406. Therefore, it is critical that the altered item be brought to the attention of DST as soon as detected. The Affidavit for Altered State Warrant (Attachment A) should be used.

COUNTERFEIT WARRANTS

Reimbursements for counterfeit warrants normally cannot be collected. With the advent of the Positive Pay system, warrants not matching a Positive Pay record are returned to the Federal Reserve Bank. However if needed, Attachment B (Affidavit for Counterfeit State Warrant) may be submitted to the Disbursing Account Services Unit for research.

AFFIDAVITS AND INDEMNITY BONDS

An Affidavit and Indemnity Bond (“AIB”) is a legal instrument used normally in conjunction with Stop Payments and Alleged Forgeries. An AIB is executed by the payee of a warrant indicating he/she has not benefited from the warrant made payable to him/her. The payee normally executes this instrument, seeking to have the agency issue him/her a replacement warrant. An agency may, under certain circumstances, elect to establish a policy allowing the issuance of a replacement warrant without the actual receipt of an executed AIB.

It is important for an agency to be aware that Stop Payments have some limitations, due to the possibility of the warrant being paid under a different warrant (serial) number; having been paid but charged to the wrong account; or due to the purging of Stop Payment records after three years of being added. Additionally, placing a Stop Payment on a warrant does not relieve the drawer (agency) of its liability on the instrument to a "holder in due course." Consequently, the AIB may be the agency's only legal protection from financial loss in case the original warrant is ultimately paid or in case the paying bank does not honor the collection item, in the case of an alleged forgery. A standard AIB is found as Attachments C (Affidavit and Indemnity Bond – Individual) and Attachment D (Affidavit and Indemnity Bond-Business) and will meet most agencies' needs. However, your agency's legal counsel may wish to draft an appropriate document for your agency's use.

SIGNATURE CARDS

For each disbursing account and STIF account established with DST, a current signature card must be on file with Banking Operations. If a signature machine is to be used, the facsimile signature should be affixed to the card. As authorized signers change, new cards must be executed. The signature card has a section for specifying the primary account contact and the CB\$ Security Administrator. If a disbursing account, the card must be executed by the individual that provides the State Controller’s Delegation of Disbursing Authority Form. A blank signature card is found on DST’s website for downloading and completion before submission to the Banking Operations Unit.

CREDIT REFERENCES

Vendors will occasionally request State agencies to provide a bank credit reference. Since DST acts as the agency’s bank, DST can respond to these requests. Requests for credit references can be submitted to the Disbursing Account Services Unit. The general statement provided in responses to the requests will read as follows:

“The referenced agency has an account with DST. All agencies, universities, and school systems having an account with DST are subject to N.C. General Statutes governing the deposit and expenditure of funds, and as such are prohibited from ordering goods or services in excess of available funds. The State of North Carolina has credit ratings of ‘AAA’ with both Moody’s, Fitch Ratings, and Standard and Poor’s.”

IX. POSITIVE PAY PROGRAM

OVERVIEW OF POSITIVE PAY PROGRAM

DST provides a “Positive Pay” program to agencies that maintain disbursing and STIF accounts with the Department. This is a service that most large banks offer their commercial customers. CB\$ allows the Positive Pay program to be used by all agencies. The program primarily provides for the detection of counterfeit State warrants (checks) that may be presented against an agency’s account. It also allows for an upfront reconciliation of presented warrants to be performed by DST, minimizing the after-the-fact reconciliation process for the agency. Another benefit of the program is that it accommodates the prevention of warrants that have been escheated or are stale dated, from being paid. All agencies are required to participate in the Positive Pay program.

On a daily basis, a participating agency submits to DST a check-issuance file containing the warrant data for all warrants being issued (e.g., account number, warrant number, amount, and issue date, and optional payee name). DST performs an upfront matching of warrants presented through the FRB. This allows DST to: 1) detect any counterfeits presented; and 2) correct upfront any amount and warrant number encoding errors. The program helps to ensure that only valid warrants for the correct amounts and correct warrant numbers are posted to an agency’s account. Positive Pay also has a stale date feature, allowing warrants presented more than a specified number of days after the issued date to be dishonored. For most accounts, the specified number of days is 750 (by which time the warrant should have already been escheated). For certain accounts involving federal funds (e.g., ESC, Child Support and Social Services), the specified number of days is 180 (by which time the funds are required to be returned to the federal government). The number of stale days can be customized by account.

TRANSMISSION OF POSITIVE PAY FILES

- Agencies participating through NCAS are automatically enrolled in the program, as DST picks up the check-issuance file from NCAS on a daily basis.
- Select large agencies not participating in NCAS (stand-alone accounts) submit check-issuance files directly to ITS for DST to pick up.
- All other agencies can participate by submitting their check-issuance file to DST through the CB\$, via an FTP batch upload. For very small volume accounts, the agency can, through CB\$, submit single items to DST (adds and deletes).

The Positive Pay file layout for batch uploads is available on DST’s website under the Core Banking section.

As warrants clear DST on a daily basis, matched items drop off the “active Positive Pay” file. For NCAS accounts (except the stand-alone” accounts), any warrants that are either canceled or escheated through NCAS, are automatically forwarded to CB\$ as “deletes.” For all non-NCAS

accounts, any warrants canceled or escheated must be submitted by the agency to CB\$ as “deletes.” (A batch file uploaded to CB\$ can contain both “adds” and “deletes.”) CB\$ also has a Positive Pay maintenance feature, where warrants can be deleted online (as single deletes), regardless which method was used to add the records.

POSITIVE PAY AND STOP PAYMENT FUNCTIONS

A Stop Payment may be placed on a particular warrant drawn on an account that participates in the Positive Pay program. The Positive Pay edit takes priority over the Stop Payment edit. If a warrant number has been deleted from the Positive Pay active file, but has a Stop Payment on it, the warrant will be returned as the result of the item not being on Positive Pay, not because of a Stop Payment. If the warrant is on the Positive Pay outstanding file as a valid warrant, but has a Stop Payment on it, it will pass the Positive Pay edit first, but be returned as the result of the second edit, the Stop Payment edit. Agencies should not use “Stop Payments” to prevent stale dated warrants from paying, but use the “Positive Pay delete feature” to instruct CB\$ to not honor stale dated warrants. This will allow the warrant to be returned with the correct reason denoted (e.g., “stale dated” instead of “payment stopped.”). If it is desirable for the warrant to be returned for reason of “payment stopped” (e.g., lost, stolen, or issued by mistake), the item should be left on CB\$ as an “active Positive Pay record,” so that the Stop Payment will detect the item.

POSITIVE PAY IMPACT ON ESCHEATED WARRANTS

An agency should submit Positive Pay “deletes,” which takes the warrant numbers off of the active Positive Pay file. The agency can submit “deletes” either as individual transactions, or as a batch. This will allow the warrant to be returned with the correct reason denoted (e.g., “stale dated” instead of “payment stopped.”) For NCAS accounts, escheated warrants are automatically transmitted by to DST as “deletes” when escheated on the system.

VIEW OF ACTIVE WARRANTS ON POSITIVE PAY

Through CB\$, the agency can also download a comma delimited active Positive Pay file into Excel or MS Access. At any given time, this file should be the same as the agency’s own outstanding warrants file (issued but not paid). If not the same, the agency should submit the necessary “adds” and/or “deletes” to CB\$’s active Positive Pay file.

EDITS PERFORMED ON EACH WARRANT

Edits are performed on each warrant presented through the FRB, providing for a match of the following items: account number, warrant number, date and amount. Presented warrants not passing the matching edit are acted on by DST as follows:

- *Encoding error \$25.00 or less*
DST will correct the amount before charging the account, writing the difference to DST’s over/under account. This will eliminate the item being a mismatch during the agency’s monthly reconciliation process.
- *Encoding error greater than \$25.00*

DST will correct the amount before charging the account, and submit a credit/debit adjustment request to the FRB. This will eliminate the item being a mismatch during the agency's monthly reconciliation process.

- *Altered item*

The warrant number may be correct and the amount different due to an altered amount, not due to an encoding error. In such cases DST will dishonor the item, returning it to the FRB as an altered item.

- *Warrant number error*

DST will correct the warrant number before charging the account. This will eliminate the item being a mismatch during the agency's monthly reconciliation process.

- *Wrong account*

DST will correct the account number before charging the account. This will eliminate the charging of a presented warrant to the wrong account.

- *Counterfeit warrants*

Questionable items will be brought to the agency's attention on the day of presentment in order to determine if the item is valid or not. An immediate response is required of the agency, in order for DST to act upon the presentment timely. An advice will be provided the agency for all items returned.

- *Stale date*

Even if a warrant is "active" on the Positive Pay issuance file, if it is presented after a specified number of days after the issuance date, it will be returned as "stale dated." The item should have been escheated by this time. For most accounts, the stale date is calculated as 750 days, but can be customized by account. An advice will be provided the agency for all items returned.

- *Valid warrants not on issuance file*

There may be cases where the warrant is valid, but for some reason did not get updated to CB\$'s active Positive Pay file (e.g. manual checks, system interface problem). Such items bear the risk of being dishonored by DST. It is the agency's responsibility to provide data on all issued warrants. All manually issued warrants must be added to the Positive Pay file through CB\$, as single "adds."

POSITIVE PAY FILE FORMAT

Field Description	Length	Values
Fill	2	Numeric zeros "00" (for both 'Adds' and 'Deletes')
Account Number	7	Numeric (See important note below)
Update type	1	Alpha "A" or "D"
Record type "D"	1	Alpha "D"
Warrant number	12	Numeric
Warrant amount	15	Numeric
Issue date	8	Numeric CCYYMMDD
Payee name	30	Alpha (Optional)
Filler	24	Alpha Spaces

Specification Comments:

- All alpha fields are fixed length, right padded with space.
- All numeric fields are zero filled to the left and must contain only numeric values.
- Account number has the check digit as leading digit (e.g., CXXXXXX). The old format had the check digit as the trailing digit (e.g., XXXXXXC). The account number is seven digits. The new format is how the account number appears to the agency.
- Update types are fixed values. Insert "A" if an "add." Insert "D" if a delete. Both A and D type records can be contained on the same file.
- Record types are fixed values. Always a "D."
- Warrant number is zero filled numeric. (While field allows 12 digits, the actual number should not exceed nine digits, as the Paid Warrant file provided to the agencies only allows for nine digits.)
- Amount is zero filled numeric. The decimal is implied and does not appear as a character.
- Issue date is the actual date of the warrant. This is used to detect stale dated items. It has four-digit year, month, day (e.g., 20131225 is December 25, 2013).
- Payee name is the name of the person/vendor to whom the warrant is issued.

Sample Layout:

000000059AD00001010253300000000000680020010704THE BUSINESS JOURNAL (Add)
 000000059AD00000044600400000000486121620010704STATE OF NC (Add)
 000000178DD00000001280300000000156594020010704WELLPATH, INC (Delete)

X. POLICY ON OVERDRAWN DISBURSING ACCOUNTS

The purpose of this section is to provide guidelines for administering G.S. 143B-426.40G (b), which allows DST to charge a fee in the event a Disbursing or STIF account is overdrawn.

Departments, institutions, universities, community colleges, and local school administrative units have been authorized by OSC to maintain disbursing accounts with DST for the purpose of accommodating a decentralized disbursement system. For the purpose of this policy statement, the term "agency" is used to refer to any agency having a disbursing account with DST.

Overdrafts represent unauthorized expenditures, usually due to the premature releasing of warrants by the agency. Such overdrafts create a condition where funds are in essence "loaned" from funds of the General Fund to cover the presentment of warrant(s) through the commercial banking system. The result is a detrimental effect on the investment earnings of the General Fund. More importantly, such "borrowing" is not authorized by law and could pose a cash flow problem for the State. Fees are charged to an agency in the event of an overdraft of its disbursing account.

INTENT

The General Assembly deemed the severity of the problem to be such that a fee was needed to discourage and rectify the situation. These guidelines are designed to allow latitude in the imposition of a fee due to inadvertent overdrafts by first-time offenders. However, repeated violations will dictate that the fee be imposed.

SOURCE OF FEE

The statute states that, "The financial officer shall pay the fee from non-State or personal funds to the General Fund..." The agency head will ultimately determine how such a potential fee will be paid. Agencies which have non-State funds, such as universities, community colleges, and local school administrative units, may have an alternative source of funds from which to pay the fee. Agencies not having an alternative source will find it necessary to establish a policy for the payment from personal funds. Unless otherwise provided, this liability will be deemed that of the agency head.

FEE CALCULATION

The statute states that, "The State Treasurer may impose on an agency a fee of fifteen dollars (\$15.00) for each check drawn against the agency's disbursing or STIF account that causes the balance in the account to be in overdraft or while the account is in overdraft." The logic for the fee calculation is as follows:

- Each business day an account is overdrawn, the amount of the overdraft will be determined.
- It will be assumed that the warrant(s) that created the overdraft are the ones that cleared that day with the largest dollar amount(s). [This will allow a greater number of warrants (smaller amounts) to be paid before the overdraft exists.]

- Working in descending order by dollar amount, the number of paid warrants will be calculated until the accumulated amount total of the warrants equals the amount of the overdraft.
- This number of warrants will be multiplied by \$15.00 to derive the fee for that day.
- In the case where the account is overdrawn for more than one day, the warrants which contributed to the overdraft may have been presented for payment on different days. In this case, all warrants for the current day, plus certain ones which cleared on the prior day(s) will be considered. Should prior day clearings need to be considered, the warrants with the highest dollar amounts will be used in the calculations first.
- The \$15.00 fee is per warrant and per day.

IMPOSITION OF FEE

For the first two occurrences of an overdraft within a fiscal year, notices will be provided to the agency; however, the fee will be waived. An occurrence is defined as a negative balance having duration of from one to five business days. For all subsequent occurrences within the fiscal year, an invoice will be rendered. Payment will be due within 30 days of the date of the invoice.

APPEAL OF FEE

An agency may appeal the imposition of a fee to DST by filing a written appeal within 30 days of the date of the invoice. The appeal should include any justification or reason(s) as to why the fee should not be imposed. DST's decision will be final and shall be made and communicated to the agency within 30 days of the date of the appeal.

COLLECTION OF FEES

Any fees not paid by an agency shall be turned over to the Attorney General's Office for collection, pursuant to the State's Cash Management Law. [G.S. 147-86.11(e) (4)]

RETURN OF WARRANTS

Nothing in this policy statement shall prevent DST from exercising statutory authority to dishonor any warrant presented for payment for which funds in the corresponding disbursement account are not adequate to "cover" such warrant. Any and all such warrants may be returned through the banking system as an "Improperly Drawn Warrant."

AVOIDANCE

The writing of "bad checks" is not an acceptable practice in the private sector and likewise, such a practice in State government should not exist. However, due to the organizational structure in North Carolina, with different parties having different responsibilities, the potential for overdrafts does exist. OSC makes deposits to the disbursing accounts (requisitions) with notification of such deposits being given to the agencies, while the agencies actually issue and release the warrants. For this reason it is imperative that proper procedures are in place and followed in order to eliminate the problem.

The timing of the release of warrants is crucial. The proper utilization of CMCS, as well as CB\$, should eliminate the possibility of overdrawn accounts. Furthermore, the requirements of G.S.

147-86.11 (f)(4), which states, "Billings to the State for goods received or services rendered shall be paid neither early nor late but on the discount date or the due date..." should be considered. Cooperative effort benefits State government.

XI. DIRECT DEPOSIT GUIDELINES FOR COMMUNITY COLLEGES & LOCAL EDUCATION AGENCIES

PURPOSE

To provide Community Colleges and Local Education Agencies ("LEAs") general guidelines for establishing a program offering its teachers and employees "Direct Deposit" of payroll through the Automated Clearing House ("ACH").

SERVICES PROVIDED BY A BANK OF ENTRY

A bank of entry is needed in order to "originate" ACH credits through the Automated Clearing House on behalf of the College/LEA. A data file in a specific ACH format must be created by the College/LEA and given/transmitted to the bank at least two banking days prior to payday. The ACH file is generally delivered electronically to the bank of entry. The bank of entry is also referred to as the "Originating Depository Financial Institution" ("ODFI"). The employee's bank is referred to as the "Receiving Depository Financial Institution" ("RDFI"). The College/LEA is referred to as the "Originator."

The College/LEA may have the capability of generating the ACH file on its own computer software, or it may secure a PC software package from the bank of entry. In either event, the computer system used by the College/LEA should allow for the maintaining of a database containing the employees' bank account information.

COMPENSATION FOR BANK OF ENTRY

Currently, the costs of basic services provided by a bank of entry are paid either by DST or the College/LEA. In order for the costs to be paid by DST, the College/LEA must select one of the banks with which DST has entered into an arrangement providing for DST to pay the costs and the charges must be for payroll functions. Such costs are paid according to a schedule of allowable analysis charges. However, the cost of the purchase of any software, as well as monthly online account access, will be that of the College/LEA. A listing of these banks is available from Banking Operations.

Should the College/LEA select any other bank, the College/LEA is responsible for paying all costs. Fees charged by a bank of entry will normally fall into the following categories:

- Account Maintenance for Settlement Account
- Per ACH File Originated
- Per ACH Credit/Promote Originated
- Per ACH Return
- ACH Maintenance (If applicable)

SELECTING A BANK OF ENTRY

A Master Services Agreement (“MSA”) for Electronic Funds Transfer (“EFT”) services has been established with a particular bank of entry in order to lower costs for EFT services through volume pricing. Should a College/LEA choose not to participate in the MSA, it is responsible for selecting its own "bank of entry." Generally, the bank that serves as the College/LEA official depository is the most practicable, but the bank may not offer the type of "bank of entry" services desired, or be one where the services provided are compensated by DST.

The College/LEA should ask each potential applicant bank to complete a questionnaire to assist in evaluating the services offered. A notice must be provided to DST prior to officially entering into any agreement.

BANK OF ENTRY AGREEMENT

Once a bank of entry has been selected, the bank will require the College/LEA to execute a standard ACH Agreement for providing the services of an ODFI. This agreement generally specifies each party's responsibilities and obligates each to comply with the "Operating Rules and Regulations of the National Automated Clearing House Association" (“NACHA”).

ESTABLISHING A SETTLEMENT ACCOUNT

When the bank of entry is provided an ACH file, the bank must have established a bank account number which is to be debited on payday for the amount totaling the payments contained on the file. Funding of the payroll will generally be from two sources, from its State account maintained with DST and from its local bank account. It is therefore usually necessary to establish a separate settlement account at the bank. The name of the account should include the “College's/LEA's name - ACH Payroll Settlement Account.” If compensation is paid by DST, this clearing account is required in order that it may be included in DST's consolidated analysis.

The account should serve as a clearing account only, with deposits made to the account consisting of a State warrant for the amount of the State and federally funded portions, and a local bank check for the amount of the locally funded portion. Debits to the account will be in the form of an automatic debit created by the bank on payday for the amount of the total net payroll. The bank will require "immediately available funds" to be in the account on payday. Since banks consider State warrants "next-day" funds, it is permissible for the State warrant to be deposited one day prior to payday. Depositing the State warrant more than one day prior to payday would be considered a violation of the State Cash Management Law.

EMPLOYEE AUTHORIZATIONS

Each employee to be paid by direct deposit must first enroll by completing an "Authorization Form.” The authorization specifies the financial institution to which the funds are to be deposited. The form indicates the: 1) RDFI's nine-digit transit-routing number; 2) employee's account number; and 3) whether the account is a checking or savings account. The authorization form also authorizes the College/LEA to initiate any necessary adjustment entries to the employee's account for any transactions credited in error. The employee may select a bank, savings institution, or credit union to be its RDFI.

It is recommended that the employee attach a canceled check to the authorization form, as the check normally contains both the transit-routing number and account number. Deposit tickets are not recommended, as many banks' deposit tickets contain an in-house number instead of the transit-routing number.

RETURNS

Should an ACH credit payment not be able to post against the intended employee's account, the RDFI will return the item to the ODFI, which will then notify the College/LEA. This may occur if the employee changes banks and does not notify the College/LEA of the change. Employees should be advised to always notify the payroll department of any planned changes in bank accounts, with a new authorization form being completed.

The amount of any return will be posted as a credit to the settlement account. To withdraw the funds from the settlement account, the College/LEA may request the ODFI to debit the account and issue an official check made payable either to the intended employee, or to the College/LEA.

XII. PAYROLL CENTER SERVICES

There are multiple payroll centers in the State which secure special services from DST. The special services are: 1) funding direct deposit of payroll; 2) funding federal tax withholding payments; and 3) funding other payroll deduction payments.

DIRECT DEPOSIT SERVICES

Payroll centers administered by individual state universities and by several state agencies have secured the services of various banks to act as their ODFI. These services are provided pursuant to agreements executed by DST, the university/agency, and the ODFI. Separate clearing accounts are maintained by these banks, with the funding of the ACH file being made on payday via a wire transfer from DST.

Each community college and each local public school system has authority to select an ODFI to process its ACH payroll file. The fees can be paid either by the college/local school system, or by DST. In order for the fees to be paid by DST, there must be a separate clearing account established for each. The service fees associated with these separate accounts should be considered as analysis costs and be applied to DST's regular account in accordance with DST's allowable charges. Funding of the ACH file is normally made by the college/school system depositing both a local bank check and a State warrant to the clearing account on payday. Any uncollected funds balance resulting from the deposit of the State warrant is considered in the consolidated analysis of all DST accounts maintained with the bank.

FEDERAL WITHHOLDING TAXES

Payroll centers are required to remit their federal tax payments (federal withholding and Social Security) to the IRS by EFT. The EFT system utilized is referred to as "Electronic Federal Tax Payments System" ("EFTPS"). The payroll centers enroll with the IRS selecting the method to be

used. The payroll centers have all been instructed to select the "ACH Debit Method" in combination with the "Personal Computer Reporting Method."

On or prior to payday, the payroll center connects with the IRS through a PC and authorizes an ACH debit against a designated DST clearing account at Wells Fargo Bank, established specifically for this purpose. The ACH debit is effected against DST's account one banking day after payday (tax due date). Utilizing the "Funds Transfer" feature, the payroll center initiates a warrant(s) for the tax amount due and authorizes Banking Operations to debit its disbursing account and transfer funds into the Wells Fargo clearing account to fund the ACH debit submitted by the IRS. Banking Operations makes the transfer on the tax due date ("effective date" specified by the payroll center). Failure to submit a Funds Transfer timely will result in DST's bank account potentially being overdrawn and/or result in the agency being subject to a late penalty. Consequently, it is imperative that the Funds Transfer be submitted timely and for the correct amount.

PAYROLL DEDUCTIONS

Certain payments pertaining to payroll deductions are eligible to be paid utilizing the CB\$ Funds Transfers feature. They generally include payments that are time sensitive. Examples include deferred compensation plans, 401(k) plans and retirement plans. For payments requiring the plan administrator to submit an ACH debit, a designated bank account has been established at Wells Fargo Bank specifically for this purpose. Some payments may be effected by Banking Operations initiating a wire transfer to the plan administrator.

HOLIDAYS

Payroll centers should be aware of holidays where the State may be closed but the banks are open. The due date for a tax payment may be on a holiday. In such cases, DST has the capability of completing a "future dated" transfer to fund the payment timely, even though the State may be closed on the due date. Funds Transfers should be submitted before 10 a.m. on the business day prior to the holiday. The "effective date" should be the date of the holiday (the date the funds are to be wired). The Funds Transfer will be processed against the disbursing or STIF account on the first business day after the holiday.

VENDOR ACH SERVICES

For any ACH services other than for payroll purposes (e.g., vendor payments), the fees are not paid for by DST. Such services are either secured through OSC's Common Payment Service, or secured directly from the bank. Funding is however made through DST's Funds Transfer feature.

XIII. SECURITIES SAFEKEEPING SERVICES

GOOD FAITH DEPOSITS

Banking Operations provides securities safekeeping services for certain State agencies, as required by specific laws. There are a number of agencies that require companies and/or individuals to pledge securities as "good faith" bonds. These agencies deliver the securities to the Banking Operations Section versus a receipt. The securities are held in safekeeping in the

Banking Operations vault. The securities are released to the agency upon request of the agency.

SECURITIES SALES

Occasionally, a State agency will come into the possession of securities. For example, the agency may be the recipient of securities (e.g., bonds or stock) as a gift. Since the securities cannot be deposited as cash, it may be necessary to have the securities sold, with the proceeds being deposited with DST. Banking Operations can assist with the sale of such securities on behalf of the agency, if the agency so chooses.

Agencies wishing for DST to sell securities on their behalf should forward a letter to Banking Operations requesting that the securities be sold. The agency should ensure that the certificate(s) representing the securities are in a “form” that can be sold. The certificates should either: 1) be endorsed over to the State of North Carolina (endorsement on the back side); 2) have assignment papers attached, assigning ownership to the State of North Carolina; or 3) be registered to the State of North Carolina. Any signatures by the owner of the certificates should be “guaranteed” by a bank official. If the shares are held in electronic form, the agency should provide to Banking Operations the current custodian holding the shares.

After the certificates are converted into DST’s name and deposited with DST’s custodian, the securities will be sold at the current market price. The proceeds from the sale of the securities will be forwarded to the agency by credit to the agency’s designated account. Any related fees (e.g., brokerage commissions) will be deducted from the gross sale price, with the proceeds being net of any such fees.

XIV. CASH MANAGEMENT CONTROL SYSTEM ONLINE DEPOSIT REPORTING

All eligible agencies depositing funds to a DST bank account are required to report the deposits online through CMCS. An agency reports a deposit by signing on to CMCS and accessing the Online Deposit Reporting function (PF21). The agency retrieves a blank “Certification of Deposit” screen and prepares a certification by entering the deposit data related to a particular bank deposit. CMCS performs certain edits on the data (e.g. valid budget code(s); valid associated bank account; valid dates; total of bank deposit equals distribution amounts; etc.). Once successfully prepared, the certification is submitted to DST. All certifications submitted prior to the established daily cut-off time (2 p.m.) will go through an approval process before being updated. Types 1 and 4 will be automatically approved, while types 2 and 3 require action by Banking Operations. The status of a certification will change as follows: 1) New; 2) Prepared; 3) Submitted; 4) Approved; 5) Updated by DST; and 6) Updated by OSC. The status of a submitted certification may be determined by utilizing the inquiry function (PF24).

XV. FUNDS TRANSFERS

The CB\$ has a “Funds Transfer” module that accommodates the initiation of “Funds Transfers.” The initiation is performed online, eliminating the necessity of having to write a paper warrant. An agency can submit a Funds Transfer to DST, with a current or future “effective date.” On

the effective date, DST acts upon the warrant, effecting the payment according to a preauthorized set of payment instructions.

A Funds Transfer may be initiated against the agency's disbursing account or STIF account maintained with DST. The item will appear on the agency's monthly disbursing/STIF account statement as a debit. (The Funds Transfer does not replace either the agency requisition or agency budget code transfer procedure provided for through CMCS.)

DESCRIPTION OF USE

These pre-authorized Funds Transfers are characterized as those that are repetitive in nature, are time sensitive, are to be remitted in "same day funds," and are of sizable amounts.

Examples include:

- Wire transfers to fund direct deposit of payroll -- to the ACH originator bank
- Wire transfers to fund federal tax withholding payments -- initiated through EFTPS
- Wire transfers for debt service payments
- Wire transfers for payroll deduction-related payments (401(k), Deferred Comp, etc.)
- Wire transfers for withdrawals from STIF (LEAs, Community Colleges, and Boards)
- Wire transfers to fund ACH payments submitted through OSC's Common Payments Service
- Funding of investment subscriptions in the Treasurer's Long-term Investment Fund

PAYMENT PREAUTHORIZATION

In order to establish a Funds Transfer on CB\$, the agency should complete a "Payment Preauthorization Form," indicating the elements of the payment (the beneficiary's name, the receiving bank's wire instructions, the associated remittance information, and the disbursing account or STIF account number that the Funds Transfer would be charged against). All forms are to be signed by the agency's Chief Fiscal Officer.

TEMPLATES

All payments preauthorized will be maintained in CB\$ and will have an assigned Template number. This will correspond to the remittance instructions assigned to the payment, as well as the associated disbursing/STIF account to be charged. When a Funds Transfer is submitted to DST, this payee number is used by DST to effect the payment only as preauthorized. The Funds Transfer feature only accommodates preauthorized payments through CB\$. Non-repetitive wires must be handled manually by Banking Operations.

FUNDS TRANSFER ROLES

For an agency having the need to initiate Funds Transfers, Banking Operations will grant the "FTADMIN" role to the agency's CB\$ Admin. The agency's administrator can then assign either of the two roles associated with Funds Transfer to an agency user he/she determines appropriate. The two roles are: Funds Transfer and Funds Transfer View Only. Only one of

these roles should be assigned to a user, not both. After assignment of either one of the roles, the agency administrator must map the user to the applicable accounts.

FUNDS TRANSFER FUNCTIONS

A user having the “Funds Transfer Role” can perform the following four functions:

1) Initiate; 2) Modify; 3) Authorize; and 4) View.

A user can also be set up with “Funds Transfer View Only” role. A user should be assigned only one of these two roles, not both.

SECURITY ACCESS MAINTENANCE

Security maintenance is performed by the agency’s CB\$ Admin. After the assignment of the Funds Transfer role to a user, the agency admin must map the user. The user must be:

- Mapped to the accounts he/she will have access to (associated with templates)
- Set transaction limits (maximum amounts that can be initiated or authorized) (limit for each)
- Mapped to authorizers/initiators

FUNDS TRANSFER INITIATION ELEMENTS

The following elements are mandatory to be keyed when initiating Funds Transfer:

- Template Number (Select from drop down list) (User must be mapped to account)
- Effective Date (mm/dd/yyyy) (Must be current or future)
- Transfer Amount (Must be within initiator’s maximum limit)

The following elements are optional:

- User Reference Number (Defaults to CB\$ number if nothing keyed. Cannot be repeated.)
- Memo (For agency use. Limited to 35 characters.)
- Supplemental Information (Lower section for DOR and Retirement Only)
 - Remitting Agency Account No.
 - Payment Type Code
 - Payment Period Date
 - Employee Amount

AUTHORIZING TRANSACTIONS

Under CB\$, the same user cannot perform both functions on the same transaction. While a CB\$ user having the Funds Transfer role can act as both an “initiator” and an “authorizer,” the user cannot authorize his/her own initiated transaction. This provides an added degree of control appropriate for the wiring of funds via the Internet. Therefore, it will be necessary to have at least two users assigned the role of Funds Transfer.

Under the “Authorize Funds Transfer” menu item, the user can do a search on all unauthorized transactions. The user will only be displayed unauthorized transactions initiated by users for which he/she has been mapped as an authorizer. Upon viewing an item, which will be in the “Initiated” status, he/she can authorize it, resulting in the status changing. Typically the status will change to “Sent to DST.” The authorizer should verify the transaction is correct before authorizing it, including verifying the correct template number, correct amount, and correct effective date. An authorizer cannot authorize transactions with amounts in excess of the “authorized limit” assigned to the authorizer.

STATUS LEVELS

A Funds Transfer will display one of the following status levels:

- Initiated - After initiated by agency user, but not yet authorized by another agency user.
- Sent to DST (Hold) - After authorized by second agency user. Applies to wire transfers.
- Accepted by DST (STP) - After authorized by second agency user. Applies to future-dated agency transfers, not wire transfers.
- Liquidated - After acted upon by DST, on effective date.
- Rejected by Authorizer – Second agency user rejects – not sent to DST.
- Rejected by DST – Sent to DST, but rejected by DST.

Until a Funds Transfer displays the status of Liquidated, the transaction has not been completed.

EFFECTIVE DATE

A transaction cannot be initiated or authorized if it has an effective date prior to the current date. Only current and future-dated transactions can be initiated and authorized. The effective date cannot be more than 30 days in the future. At the time of initiation, there is no validation if the effective date keyed is a weekend or holiday. Therefore, the initiator and the authorizer should be careful not to enter an effective date that is a weekend or holiday. Should this occur, the type of transaction will determine the result. If it is a wire transfer (HOLD), DST will reject the item, but likely not until the day after the weekend or holiday. If it is an agency transfer (STP), the item may be accepted, but post on the first business day after the weekend or holiday. For funding of ACH files submitted through OSC’s Common Payment System, the effective date for a Funds Transfer should be one business day greater than the effective date placed on the file submitted to ITS.. (ITS’s effective date is “file processing date.”)

HOLD VS. STRAIGHT THROUGH POSTING (STP)

Transactions pertaining to wire transfers will go through a “HOLD” (Sent to DST) status. Once the effective date arrives, DST will act upon the wire transfer request. There are some templates that will be set up by DST as straight through posting (“STPs”). These transactions will not require action on behalf of DST (e.g., transfers to a STIF or CIT account). Once an STP transaction is authorized by the agency, and the effective date is entered as the current date, the posting takes place immediately, with the status becoming Liquidated. STP transactions

with a future effective date will remain in the “Accepted by DST” status until the effective date arrives, at which time the status will then change to Liquidated.

REFERENCE NUMBERS

There are three different reference numbers associated with a Funds Transfer transaction:

- User Reference No. – For agency use. Optional. Defaults to CB\$ Reference Number if not keyed. When using the View Funds Transfer menu item, this number can be used in the search criteria.
- CB\$ Reference Number – Assigned by system when initiated (12 digits with first four digits being year).
- DST Reference Number – Assigned by DST (FT Contract No.) and viewable on effective date. May or may not yet be in liquidated status. Number is displayed on transaction statement.

CORRECTIONS

The manner of correcting the transaction will depend upon the status of the transaction:

- Initiated – The transaction can be modified by the agency user that initiated it. Once created, a transaction cannot be deleted, only modified. Only the user who initiated the transaction can modify the transaction. If not authorized within 30 days, it will be purged.
- Authorized – The agency must contact DST to have it “rejected by DST.”
- Sent to DST (Hold) – The agency must contact DST to have it “rejected by DST.”
- Accepted by DST (STP) – The agency must contact DST to have it “rejected by DST.”
- Rejected by Authorizer – The initiator must modify the transaction.
- Rejected by DST – The initiator must modify the transaction.
- Liquidated – The agency must contact DST for determination of resolution.
(CB\$ will not allow a negative Funds Transfer transaction to be initiated.)

IMPORTANT DEADLINE

All warrants must be submitted on CB\$ prior to 10 a.m. of the effective date the payment is to be made. Warrants may be submitted one or more days prior to the effective date. Warrants submitted in advance will not be acted on until the effective date.

STIF ACCOUNT TRANSFERS

For the STIF accounts not accounted for on NCAS, templates can be established that will allow for the transfer between STIF accounts. These transfers will be straight through payments (“STP”), resulting in a debit to the source account and a credit to the designation account. STPs do not require any authorization action to be taken by DST. No account transfers can be made that affect a budget code. After a Funds Transfer involving an account transfer has been posted (liquidated) by DST, the agency can view the transaction under the Account Data role, under the Transaction Activity menu item. The 10 a.m. deadline does not apply to these types of transfers.

XVI. GLOSSARY

Absentee Insurance Fund – Fund administered by DST’s Banking Operations Section pursuant to G.S. 28C. Provides for a portion of the estate of an individual who had been declared “absentee” by the court, to be paid into the fund as an insurance premium, for possible claim in the event of the reappearance of the individual after the estate has been distributed.

Account Analysis – Monthly statement provided to a corporate customer by a financial institution evaluating the adequacy of compensating balances maintained by the customer to offset services paid. Elements contained include average collected balance for the period, earnings credits, and service charges. Service charges in excess of the earnings credits normally require a payment to the financial institution.

Account Reconciliation – The act of a bank customer, or a State agency having a disbursing account with DST, inspecting its monthly rendered statement to determine if there are any discrepancies on the statement. Agencies are required to reconcile their statements within 15 days of receipt, pursuant to the NC Administrative Code (20 NCAC 1C.04102), and report the reconciliation to DST through the CB\$.

Adjustment – Refers to a transaction where a bank deposit is corrected due to the deposit ticket being prepared incorrectly (e.g., addition error or missing item). Also refers to a correcting entry made to an agency disbursing account due to a posting error of a State warrant presented for payment (e.g., due to the wrong account being debited initially, or to the warrant being encoded for the wrong amount by the bank of first deposit).

Affidavit and Indemnity Bond – A legal document executed by the intended recipient of a State warrant (check) which has either been stolen or lost. The intended recipient basically affirms that the warrant has not been negotiated by him/her, in order to seek a replacement warrant. The instrument is executed whenever there is an alleged forgery.

Agency Transfer – A type of transaction an agency may initiate on CMCS, affecting a transfer of funds between budget codes. There are both intra-agency transfers (budget codes within the same agency) and inter-agency transfers (budget codes belonging to different agencies).

Alleged Forgery – The event where the intended recipient of a State warrant (check) alleges that he/she did not endorse a warrant that has been negotiated and presented to DST for payment. The intended recipient is normally required to provide the issuing agency an affidavit and indemnity bond before issuing a replacement warrant. Banking Operations processes alleged forgeries by attempting to collect reimbursement from the “bank of first deposit” through the financial system. The statute of limitation for an alleged forgery is three years (G.S. 25-4-111).

American Bankers Association (“ABA”) Transit Routing Number – The number encoded in magnetic ink on the bottom of checks (and State warrants), assigned by the ABA, to specify the

bank (or other financial end point) that the check/warrant may be presented to for collection. DST's ABA transit routing number is 053110594.

American National Standards Institute ("ANSI") – Nonprofit organization that sponsors industry standards for information management and financial communication. The American Bankers Association has responsibility for the ANSI financial industry standards committee (ANSI-X9). State warrants (checks) must meet the ANSI-X9 standards regarding MICR encoding and printing.

Appropriation – A budgetary term representing the amount of funds that an agency is authorized to spend during a fiscal year, as specified by the North Carolina General Assembly. The details are outlined in the "appropriations bill." Some agencies have funds available for expenditure that are not appropriated, due to the agency having the authority to disburse funds from its receipts. Funds are appropriated by the General Assembly at the beginning of a fiscal year, and then are allotted by the Office of State Budget and Management ("OSBM") to the agency throughout the year as needed. Once allotted, the agency can requisition the funds from OSC to be expended from a disbursing account maintained with DST.

Automated Clearing House ("ACH") – Organization housed within the Federal Reserve Bank ("FRB") that acts as a clearing house for all ACH payments (a form of EFT), serving the function of exchanging ACH transactions among member financial institutions, and providing for the settlement of the funds. ACH transactions include "ACH Credits" (direct deposit payments) and "ACH Debits" (electronic drafts). All transactions are subject to the NACHA Operating Rules.

Available Balance – See "Collected Funds."

Bad Check – Any check dishonored by a paying bank for wrong endorsement, lack of endorsement, insufficient funds, account closed, stale date, etc. Also referred to as a "return item."

Bank Account Reconciliation Unit – Organizational unit within DST's Financial Operations Division responsible for reconciling the various depository bank accounts maintained in the name of DST (which reflect agency bank deposits). The unit researches and resolves deposit discrepancies between deposit amounts reported by the agencies through CMCS and those reported by the depository banks.

Bank of Entry – Refer to "Originating Financial Depository Institution" ("OFDI").

Bank of First Deposit – The financial institution that is first in the collection process for a check (or State warrant) that has been negotiated and presented for payment through the banking system. The check may be routed through other financial institutions, including the Federal Reserve Bank, before being presented to the payer bank. Certain liabilities are placed on the bank of first deposit under the Uniform Commercial Code ("UCC") regarding the negotiation of the check/warrant (e.g., endorsement verification).

Bankers Administration Institute (“BAI”) File – An electronic file downloaded daily by Banking Operations from each of the six main depository banks. The file reflects the details of the prior day’s agency deposits by agency location number, and is used for reconciliation purposes.

Bank Secrecy Act – Federal law requiring any financial institution’s customer who deposits or withdraws more than \$10,000 in currency, to complete a currency transaction report for the IRS, allowing federal authorities to identify possible money laundering.

Beneficiary – The name of an individual, company, or governmental agency that is the intended recipient of a wire transfer.

Bloomberg – Online system used by DST’s Banking Operations to provide securities delivery instructions (fixed income) to the custodian bank, The Bank of New York, with notification also being provided to the master custodian bank, State Street Bank.

Book Entry Security – Security represented by an account entry on the records of a depository, instead of a physical certificate. Examples of depositories include the Federal Reserve Bank, the Depository Trust Company (“DTC”), and a commercial bank (for certificates of deposit).

Carolinas Check Clearing Association (“CCCA”) – Association comprised of various financial institutions in both North and South Carolina that have developed a set of Standard Operations Rules for members, with the rules pertaining to the exchange of cash letters among each other.

Cash Letter – Group of checks and/or warrants generally prepared by a financial institution (sometimes by a large depositor) for presentment either to the Federal Reserve Bank, a payer bank, a correspondent bank, or a depository, for collection. The checks are pre-encoded and are contained in bundles, with a “cash letter listing” of all checks contained within the bundle being attached (sometimes wrapped). Financial institutions present cash letters containing warrants to the FRB daily.

Cash Management Control System (“CMCS”) – System operated by OSC, providing State agencies a mechanism to report their daily deposit of receipts to official depositories, to requisition funds for disbursement, and to transfer funds between budget codes. DST interfaces with the system daily, allowing for the various transactions to be posted to CB\$ System/Flexcube. Banking Operations maintains CMCS’s database of depository bank accounts.

Cash Management Improvement Act of 1990 – Federal law requiring the State to tract and remit any interest earned on federal funds on deposit with DST to be remitted to the federal government. The amount owed is offset by any interest lost by the State as a result of the State advancing funds prior to being reimbursed by the federal government. Settlement is made March 1 of each year. The responsibility for the State’s compliance is with OSC.

Cash Management Plan – Plan required of all State agencies to be filed with OSC pursuant to G.S. 147-86, outlining the agency’s procedures for the deposit and disbursement of funds, in order to maximize interest earnings on funds coming into the hands of the agency. The

individual plans are to be in compliance with the master Cash Management Plan promulgated by OSC.

Cash Management Program – Program operated by DST to provide for the earliest deposit of funds collected by State agencies, the latest disbursement of the agencies’ funds, and the investment of the funds while on deposit with DST.

Certificate of Deposit (“CD”) – Receipt for a “time deposit” issued by a financial institution for a stated time period and normally paying a stated interest rate. Maturity must be at least seven days. On behalf of the Short-term Investment Fund, DST may purchase CDs from North Carolina banks and savings institutions with six-month maturities.

Certificate of Incumbency – A document obtained from the Secretary of State’s Office certifying the name and signature of a public office holder or government official. Used by DST when endorsing certificates representing securities being assigned to another party (e.g., the State’s custodian bank).

Certification of Deposit – Refers to an electronic document prepared by and submitted by a State agency on CMCS, “certifying” that funds have been deposited with an official depository. The certification specifies the bank account the funds were deposited into, and the budget code or STIF account at DST to which the funds are to be credited.

Chargeback – Refers to a credit card transaction that has been refused by the cardholder’s bank, resulting in the merchant’s bank debiting its customer’s bank account. Chargebacks for disputed transactions can be made up to 90 days after the initial credit.

Check Hold – Number of days a bank can legally hold uncollected funds before crediting deposited funds to a customer’s account, pursuant to Regulation CC. (A one-day hold may be applied to a State warrant.)

Collateralization of Public Deposits Program – Program operated by Banking Operations pursuant to G.S. 147-79(a) and the N.C. Administrative Code (20 NCAC 7) regarding the pledging of collateral by financial institutions to secure public deposits that are in excess of any FDIC insurance coverage. Functions include accounting and monitoring.

Collected Funds – Refers to funds deposited to a financial institution, where the funds are available for either withdrawal or investment. Collected funds are generally either cash, federal funds, checks that are drawn on the financial institution, or checks drawn on another financial institution that have been deposited for a sufficient amount of time (at least one day) allowing for an exchange of checks and settlement between the financial institutions. Also referred to as “good money.”

Collection Item – A check or other negotiable instrument (including a State warrant) that is not credited to the presenter’s account until payment has been received from the payer bank (or DST). State warrants are sometimes presented to DST by a financial institution (bypassing the

Federal Reserve Bank) in certain situations (e.g., indemnified photocopies). Bad checks are returned to depositing agencies as collection items, seeking reimbursement, as opposed to charging the items back against DST's bank account.

Core Banking System ("CB\$") – Refers to a system operated by a financial institution to accommodate the accounting for the institution's general ledger accounts, as well as the accounts belonging to its customers (e.g., savings accounts and checking accounts, etc.) DST's in-house software is called Flexcube. The online banking component utilized by the various agencies is referred to by the agencies as CB\$.

CUSIP – The Committee on Uniform Securities Identification Procedures number assigned by the CUSIP Service Bureau for U.S. and Canadian companies. It consists of nine alpha-numeric characters, and is used to identify securities issued by the companies.

Daily Deposit and Reporting Law – Refers to G.S. 147-77, requiring all agencies to both deposit and report on a daily basis any receipts that may be received by the agency.

Daylight Overdraft – Refers to the incident where a bank account experiences an overdraft during the banking day but has a balance at the end of the banking day. Generally results from funds being withdrawn from the account by wire transfer during the day, prior to an anticipated wire transfer being received, or prior to an over-the-counter deposit being posted to the account during the nightly posting cycle. Banks generally limit the amount that an account can be in daylight overdraft, based upon the customer's assigned credit risk. A bank can incur a daylight overdraft at the FRB if it transfers funds in excess of its "reserve account balance." Each bank is assigned a limit of how much of an overdraft it may incur, based upon its asset size. Since 1994, the FRB has assigned banks a processing fee for daylight overdrafts.

Debt Service – Refers to payments required to pay for maturing principal and interest coming due on issued bonds (municipal securities). DST remits payments for bonded debt to the State's paying agent on a timely basis, thereby assisting in maintaining the State's AAA credit rating.

Dedicated Method – One of two methods under 20 NCAC 7 that a financial institution can select to secure its public deposits (State and local units of government). The financial institution calculates how much collateral is required for each of the units (public depositors), and then pledges sufficient collateral with a third party escrow agent, in the name of each of the public depositors. The other method is known as the Pooling Method.

Delegation of Disbursing Authority – Document executed by the Chief Fiscal Officer of a State agency who the State Controller has authorized to open a disbursing account with DST, pursuant to the State Budget Act. Specifies the conditions of the operation of the disbursing account as required by the State Controller.

Depository Trust Company ("DTC") – Corporation owned by various brokers, dealers and custodian banks that serve as a central depository for securities held by the owners/members,

allowing the securities to be held in book entry form. DST's custodian bank is an owner/member, allowing its securities to be held at the DTC in book entry form.

Direct Deposit – Refers to a type of Electronic Funds Transfer (“EFT”) payment (e.g., payroll or vendor payment). Also known as an Automated Clearing House (“ACH”) credit transaction.

Disbursing Account Services Unit – Organizational unit within DST's Banking Operations Section responsible for the maintenance of disbursing and STIF accounts for State agencies. Agencies have access to the accounts through CB\$. The unit interacts with the Federal Reserve Bank to process MICR files (presented warrant data). The unit processes special transactions relating to the accounts, such as Stop Payments, forgeries, account adjustments, and wires.

Dishonor – Refusal of a payer bank (or DST) to honor a check (State warrant) presented for payment, usually due to a Stop Payment being placed on the item, or the item not being on the agency's Positive Pay issuance file (e.g., counterfeit or stale dated). Regarding handling by the FRB, there are two categories: dishonor returns and dishonor adjustments, depending upon which FRB department handles the dishonor.

Document Identification Number (“DIN”) – A number assigned by DST during its imaging capture process of State warrants that are presented for payment from the FRB. The DIN, along with the DIN Date, serves as a unique number used to identify the image of a warrant.

Don't Know (“DK”) – Refers to the act exercised by a custodian bank or broker/dealer when refusing to pay for securities when “delivered versus payment” because it does not have instructions to receive the securities, or because it does not agree with the payment amount being requested.

Electronic Data Interchange (“EDI”) – Refers to data exchanged electronically between companies, governments and financial institutions. Data is created in standard formats specified by the ACH, and is generally transmitted through the ACH. Data can be transmitted along with EFT transactions (in the form of addendum records), or separate from the EFT transactions.

Electronic Federal Tax Payment System (“EFTPS”) – Refers to the system provided by the IRS allowing taxpayers to remit their federal tax payments to the IRS electronically. The system utilizes the ACH debit payment method, providing the taxpayer the ability to communicate with the IRS's third party data collection center to authorize an ACH debit against its bank account.

Electronic Funds Transfer (“EFT”) – Refers to payments made electronically. There are two basic types of EFT payments, “wire transfers” and ACH payments (direct deposit).

Funds Transfers – Feature offered by DST's Banking Operations Section, allowing State agencies to issue “warrants” electronically (online) against its disbursing or STIF account. The feature is provided through the CB\$ System. Payments are limited to those that are repetitive in nature,

and time sensitive (e.g., debt service payments, federal withholding tax payments, and payroll funding payments).

Encoding Error – Refers to an error normally made by the bank of first deposit (but could be a subsequent bank in the collection process) where the amount field on a presented check (or State warrant) is encoded for the incorrect amount. This results in the check/warrant being charged to the customer’s/agency’s account incorrectly. This is a common error in the banking industry, which is one of the reasons why customers/agencies should reconcile their statements upon receipt.

Endorsement – The act of placing (either writing, stamping, or typing) verbiage on the reverse side of a check or State warrant, in order to make it a negotiable instrument. Endorsement legally transfers ownership to another party. Normally contains the name of the payee reflected on the front of the instrument. Checks deposited by State agencies should be endorsed with the restrictive endorsement “For Deposit Only – N.C. State Treasurer – By (name of agency).” Endorsements are governed by the Uniform Commercial Code (“UCC”) and by Regulation CC. An alternate spelling is “indorsement.”

Escheat – Refers to the transferring of abandoned or unclaimed property to the State. The State’s escheats program is administered by DST’s Unclaimed Property Division.

Escrow Agent – A financial institution performing a third-party role of holding securities to accommodate the collateralization of public deposits, pursuant to 20 NCAC 7. The Federal Reserve Bank and the Federal Home Loan Bank are also eligible escrow agents.

FCAT – Refers to the Flexcube administrator who administers security for the online portion of CB\$ known internally as flex@.

Federal Deposit Insurance Corporation (“FDIC”) – A governmental agency that secures deposits of member financial institutions. While deposits of individuals are insured up to \$250,000 total, deposits of public depositors are insured up to \$250,000 for interest bearing deposits, and a separate \$250,000 for non-interest bearing deposits.

Federal Reserve Bank (“FRB”) – One of 12 regional banks in the Federal Reserve System. DST deals with the Charlotte Branch of the FRB of Richmond. The FRB provides DST a warrant truncation imaging service, allowing the FRB to be the “point of presentment” for all State warrants.

Federal Reserve System – Refers to the central banking system in the United States, established by the Federal Reserve Act of 1913, and comprised of 12 district banks and a seven-member Board of Governors. State warrants (checks) are “payable at par through the Federal Reserve System.”

Flexcube – Software system installed by DST serving as the official Core Banking System utilized by DST. The agency online banking component is referred to by the agencies as CB\$.

Float – Refers to the time between the issuance of a check (or State warrant) and the clearing of the item at the paying bank (DST in the case of a State warrant). There is a financial benefit resulting from the interest earned on the float. In the case of State warrants, the State is the beneficiary of any float, as funds representing balances in disbursing accounts are in an invested status until the warrants are presented for payment at the Federal Reserve Bank.

Foreign Check – A check that is drawn on a bank other than one that can be cleared through the Federal Reserve System, even if “payable in US funds.” Foreign checks are not to be deposited by an agency, but must be submitted to its depository to be entered for collection.

Good Money – See “Collected Funds.”

Holder in Due Course – Legal term referred to in the Uniform Commercial (“UCC”), referring to the party who becomes the good faith holder of a negotiable instrument (e.g., check or State warrant), for value received without knowledge of any claims against it, or that the instrument was dishonored when presented for payment, or in any way defective.

Immediately Available Funds – Refers to funds that have been deposited to a financial institution that are available for either withdrawal or investment the same day deposited. Immediately available funds are generally cash, federal funds, or checks that are drawn on the financial institution.

InfoView – System used by Financial Operations to view Business Objects reports, related to the CB\$ System. Also, referred to as WebIntelligence.

Late Return – A State warrant that DST returns through the banking channels, after the 24 hour time frame specified for returns by the UCC has passed. Late returns are generally returned on a “collection basis.” Collection attempts for late returns may or may not be honored by the presenting bank, or bank of first deposit. Per FRB’s rules, late returns less than \$100 cannot be denied by the presenting bank.

Legal Amount – Refers to the amount on a check (or State warrant) that is written, instead of the numeric amount indicated. In the case of a discrepancy, the written amount is the legal amount.

Letter of Credit (“LOC”) - An obligation issued by a bank on behalf of a bank customer to a third party. There are many different kinds of letters of credit. The most common type is a standby letter, which is a bank promise to pay the third party in the event of some defined failure by the bank’s customer, usually, but not always, a failure to pay. LOCs issued by the Federal Home Loan Bank are eligible security for the collateralization of public funds.

Local Education Agency (“LEA”) – One of 117 “local school administrative units” providing public education in North Carolina, pursuant to G.S. 115C, and being supported by the Department of Public Instruction.

Local Government Commission (“LGC”) – A commission housed within DST’s State and Local Government Finance Division, created pursuant to G.S. 159. The LGC has fiscal oversight responsibilities for local units of government, and is responsible for approving bonded debt issuance, for the State as well as for local units of government.

Lock Box Service – Cash management service provided by a depository bank to its corporate/government customers, where payments are remitted to a post office box and picked up several times during the day by the bank. The service speeds up the collection of the funds, and allows the bank to capture the remittance data accompanying the payment and transmit it electronically to the customer, for automated updating of its accounts receivable system. There are two basic types of lock box services – retail and wholesale. The fees for any lock box services utilized by State agencies are paid for by the agency, not DST.

Main Bank – A depository banks providing a service to DST, where a BAI file is downloaded each day, containing the details of deposits made the previous day by various State agencies across the State. All deposits made to a cash concentration are automatically swept to DST’s main account each night, as the account is designated as a “zero balance account” (“ZBA”).

Magnetic Ink Recognition Character (“MICR”) – Refers to the data encoded with magnetic ink along the bottom of a check (including State warrants). The MICR fields include serial number, ABA transit routing number, account number and amount. Also used to describe the data file received from the FRB daily.

Next-day Funds – Refers to items deposited with a financial institution where the funds are not immediately available for either withdrawal or investment, but will be the following banking day. Such funds are generally checks drawn on another financial institution, and the collection process will take one day to accomplish (either through the FRB or with the paying bank directly). Next-day funds are characteristic of checks contained in a “mixed cash letter.”

Non-Main Bank – Refers to one of the depositories with which DST maintains a demand account to accommodate State agencies’ depository needs. Does not include one of the six “main banks” that provides DST a cash concentration service. Funds deposited by an agency to a Non-Main bank are withdrawn by DST by ACH debit.

North Carolina Accounting System (“NCAS”) – Accounting System maintained by OSC for State agencies. Some agencies perform all of their accounting through NCAS, while others perform separately but interface with NCAS through a summary mode.

North Carolina Bankers Association – An industry trade group that comprises most North Carolina banks.

North Carolina Capital Management Trust (“NCCMT”) – An organization providing an investment program (mutual fund investments) for local units of government, certified by the Local Government Commission.

Official State Depository – Refers to a financial institution designated by DST for a particular State agency to deposit its daily receipts, pursuant to G.S. 147-78. Such accounts are in the name of DST, and funds deposited by the agencies are withdrawn daily for use by DST (e.g., to fund disbursements made from disbursing accounts or to be invested).

On-Us Cash Letter Deposit – A deposit made with a depository financial institution, where the deposit consists entirely of checks drawn on the depository. This results in the funds being “collected funds” on the same day deposited (immediately available). The N.C. Department of Revenue makes (prepares and delivers) an “on-us cash letter deposit” with each of six Raleigh depository banks each day.

Operating Circular 3 – Circular issued by the FRB of Richmond pursuant to various federal laws, including the Expedited Funds Availability Act and Regulation CC. Pertains to the “Collection of Cash Items and Returned Checks.” DST adheres to the circular’s requirements in its processing of State warrants (checks).

Originating Financial Depository Institution (“OFDI”) – The financial institution that initiates an ACH payment (direct deposit) on behalf of a payroll center or other issuing agency. Sometimes referred to as the “bank of entry.” The ACH transaction is remitted through the Automated Clearing House to a “Receiving Financial Depository Institution” (“RFDI”).

Over-The-Counter Deposit – Refers to a deposit made at a bank’s teller window, usually consisting of cash and/or checks, accompanied by a bank deposit ticket. Such deposits are not posted to the account until the nightly bank posting cycle, provided the deposit was made prior to the end of the banking day (2 p.m.).

Payer Bank – The financial institution that checks are drawn on. In the case of State warrants, DST is the “payer bank.”

Pooling Method – One of two methods under 20 NCAC 7 that a financial institution can select to secure all of its public deposits (State and local units of government). The financial institution calculates how much collateral is required to secure the units’ accounts, and then pledges sufficient collateral with a third party escrow agent, in the name of DST, on behalf of all the units. The other method is known as the Dedicated Method.

Positive Pay System – System operated by DST’s Banking Operations Section, providing agency disbursing and STIF accounts a service similar to one offered by certain commercial banks to detect counterfeit checks. The issuing State agency provides DST with a file of its issued State warrants daily, allowing DST to match presented warrants (serial number, account number, date amount) with the warrants presented for payment through the FRB.

Post Dated Check – A check (or State warrant) payable on a future date. Checks issued with a future date cannot be honored by the banking industry until that date. There is no legal

prohibition against writing a post dated check. Post dated warrants are normally not released until the date specified on the warrant.

Prenote – Term used to describe a “zero amount” ACH transaction submitted through the Automated Clearing House system as a “test” transaction, as required by the ACH Operating Rules. The transaction tests the ABA transit-routing number and account number. Prenotes are generally submitted at least 10 days prior to the first “live” transaction.

Proof Encoding – The process the “bank of first deposit” goes through to verify the dollar amounts of checks contained in a customer’s deposit, as well as placing the amount on the MICR line (to accommodate the presentment of the item for collection). It is during this process that a bank may discover errors in a customer’s deposit. Since this process is not normally performed until several hours after a deposit is made, the bank account receives “provisional credit,” until the deposit is verified and payment is received from the payer bank.

Receiving Financial Depository Institution (“RFDI”) – The financial institution that receives an ACH payment from an “Originating Financial Depository Institution” (“OFDI”). The RFDI is normally the bank of the customer that is the recipient of an ACH transaction.

Regulation E – Federal Reserve regulation pertaining to EFT and credit card/debit card transactions.

Regulation CC – Federal Reserve regulation implementing the Expedited Funds Availability Act of 1987, setting endorsement standards on checks, and addressing “holds” that may be placed on the funds of checks.

Requisition – Refers to the process a State agency utilizes to request OSC to transfer funds from a budget code into the agency’s disbursing account, in order to allow the agency to disburse funds. The process is accommodated through the CMCS. A requisition (the transaction) is sometimes referred to as a “transfer warrant.”

Rejects – Refers to checks (or State warrants) that cannot be processed on bank sorting equipment due to a problem with data on the MICR line. Problems include unreadable or missing MICR, incorrect account number or ABA transit-routing number. Inferior check stock can cause high reject rates.

Repetitive Wire Transfer – A wire transfer that is reoccurring to the same payee, allowing a “template” to be set up with the sending bank. The associated wiring instructions for the recipient (e.g., bank name, ABA transit-routing number, account name, and account number) are associated with the template number. Repetitive wire transfers can be initiated through the CB\$ Funds Transfer Feature.

Return – Refers to a bank transaction (or the item itself) where an item previously deposited or presented is returned due to non-collection. Examples of returns include bad checks, and

dishonored checks/State warrants included in a cash letter. Returns are governed by the Federal Reserve Bank's Circular 3.

Same Day Funds – Funds that can be withdrawn or invested the same day deposited because they are “collected funds.” See “immediately available funds.”

Security Agreement – A two-party agreement required to be executed between a public depositor and a depository, pursuant to the Collateralization Rules (20 NCAC7) and the Uniform Commercial Code (“UCC”), in order to ensure the “perfection” of pledged collateral for public deposits.

Setback – Refers to the “effective date” posting of a CMCS “certification of deposit,” setting back the date to the prior month. Setbacks are accomplished by utilizing the “record date” field. While OSC recognizes setbacks, DST's system does not.

Settlement Account – An account maintained at a financial institution for the purpose of “clearing” certain types of transactions for a payroll center, or other agency. The most common use is to accommodate the funding of direct deposit of payroll and for the payment of federal withholding taxes.

Short-term Investment Fund (“STIF”) Account – An account an eligible entity may open with DST pursuant to G.S. 147-69.3(b), G.S. 116-36.1, or G.S. 147-86.11(e) (1a). The account operates similar to an interest-bearing checking account. STIF accounts are maintained on DST's CB\$ System. Some STIF accounts are mandatory, while others are voluntary.

Signature Card – Card executed by a customer upon opening an account with a financial institution. The card contains the signature(s) of the individual authorized to sign checks drawn against the account. Chief fiscal officers of State agencies are required to execute signature cards for State disbursing and STIF accounts.

Specialized Banking Unit – Organizational unit within DST's Banking Operations Section responsible for processing certain banking transactions, including EFT receipts and ACH collection processing. The Unit is also responsible for downloading BAI files received from each of the six main banks, processing investment transactions, monitoring the Collateralization of Public Deposits Program, and performing the daily cash flow calculations through DST's official depositories.

Stale Date – Reference to the time period after which a check is no longer valid. The UCC (G.S.25-4-404) specifies that a bank may refuse to accept a check after six months, but is not required to do so. The stale date period for a State warrant is one year, per joint policy issued by the State Controller and DST.

State Budget Act – Refers to G.S. 143, which specifies the requirements regarding the disbursements of funds from DST through the warrant system, which includes the involvement of the State Controller.

Stop Payment – A request by an agency for DST’s Banking Operations Section to dishonor a warrant that the agency has issued should the warrant be presented for payment. Stop Payments are generally requested due to lost or stolen warrants. Stop Payments can be submitted by agencies through the online CB\$.

Surety Bond – A type of collateral that can be obtained from an insurance company by a financial institution and pledged to secure public deposits. The bond represents the insurance company’s obligation to pay should the financial institution go into default.

Target Balance – Desired balance a corporate customer attempts to maintain with a financial institution in order to compensate or offset the cost of services rendered. Also referred to as a compensating balance. Target balances are established for each of DST’s official depository bank accounts.

Transcode – Term used to describe a combination of alpha/numeric characters, assigned to a particular type of banking transaction. Each type of transaction that is posted in the Core Banking System (Flexcube) is assigned a unique transcode.

Truncation – Refers to the act of “cutting off” of checks (or State warrants) prior to the presentment to the paying bank (or DST). Imaging services are generally provided in conjunction with truncation services. The FRB provides DST an image-truncation service for State warrants.

Ultimate Payee – The person or entity that a check (or State warrant) is made payable to, representing the intended recipient of an obligated payment. G.S. 147-86.11(f) (1) requires that moneys deposited with DST remain on deposit with DST until final disbursement to the ultimate payee. The intent of this law is to prevent payments being made to a non-State account for further disbursement, thereby resulting in potential interest earnings loss to the State.

Uncollected Funds – Funds representing checks deposited with a depository financial institution, where the checks are not drawn on a customer’s account maintained at the depository, and must be entered for collection. Also see “collected funds.”

Uniform Commercial Code (“UCC”) – The set of standardized State laws pertaining to the negotiation of checks, as they are presented through the commercial banking system for collection. The North Carolina UCC is found in Chapter 25 of the General Statutes.

Uniform Commercial Code Article 4A – Addition to the UCC covering corporate-to-corporate electronic payments, such as wire transfers and ACH transactions.

Warning Band – A security feature contained on the front of State warrants (checks), containing verbiage that alerts the acceptor as to which security features to look for on the warrant.

Warrant – Draft similar to a “check,” drawn against DST instead of against a commercial bank, pursuant to the State Budget Act. Warrants are “payable at par,” are issued either by the State Controller or by a State agency under the State Controller’s authority, and are presented to DST for payment by financial institutions through the Federal Reserve System.

Warrant Imaging Truncation Service – Service provided by the FRB to DST’s Banking Operations Section, providing for the truncation (cutting off) of State warrants presented to the FRB, and the FRB’s providing to DST, MICR data and images of the warrants in lieu of the physical warrants. The FRB destroys the physical warrants after 30 days, with DST providing the State agencies images through the Internet (CB\$).

Warrant Specifications – Specifications that all agencies issuing State warrants must require their check stock vendors to adhere to when printing State warrants. The specifications refer to paper stock quality and size, and to magnetic ink requirements as specified by ANSI X-9 standards.

Watermark – A security feature contained on the reverse side of State warrants (checks), representing a design printed in opaque ink, which can only be seen when viewed at an angle.

Wire Transfer – A form of electronic payment, where the funds are transferred from one bank to another bank through the FRB. Funds are transferred on the same day initiated, with the transfer occurring quickly. A wire transfer should not be confused with an ACH payment, which is also transacted through the FRB. Funds for ACH payments are not transferred until at least one banking day after being initiated.

Zero Balance Account (“ZBA”) – An account maintained by DST with a financial institution (official depository) for an individual State agency to accommodate special depository needs of the agency. Multiple deposits made to the account on a given day are totaled and “swept” as a single amount to DST’s regular account maintained at the financial institution. The agency normally has online reporting access to the account, allowing the agency to submit a single certification of deposit through CMCS, sometimes referred to as a “sweep account.”

XVII. ATTACHMENTS

Attachment A-Affidavit for Altered State Warrants

AFFIDAVIT FOR ALTERED STATE WARRANT

I, _____,
chief fiscal officer of _____,
an agency of the State of North Carolina, being first duly sworn, deposes and says that warrant number
_____, dated _____, official amount of _____
officially issued by this agency, made payable to _____,
and drawn on the State Treasurer, has been altered as follows (complete as applicable):

Official Payee: _____ Altered Payee: _____

Official Issued Date: _____ Altered Date: _____

WITNESS my hand and seal, this the _____ day of _____, _____

(SEAL)

Chief Fiscal Officer

STATE OF _____)

COUNTY OF _____)

Subscribed and sworn to before me

This the _____ day of _____, _____.

Notary Public

My commission expires: _____

The statute of limitation for alterations is one year. (G.S. 25-4-406)

Attachment B-Affidavit and Indemnity Bond for a Counterfeit Warrant

AFFIDAVIT FOR COUNTERFEIT STATE WARRANT

I, _____,
chief fiscal officer of _____,
an agency of the State of North Carolina, being first duly sworn, deposes and says that document purported to be a
State warrant issued by this agency, bearing warrant number _____, dated _____,
official amount of _____, officially issued by this agency, made payable to
_____, bearing the NC State Treasurer's transit routing number
053110594; and bearing the account number _____ assigned to this agency,
is not a State warrant issued by this agency, and is allegedly a counterfeit instrument.

WITNESS my hand and seal, this the _____ day of _____, _____

(SEAL)
Chief Fiscal Officer

STATE OF _____)

COUNTY OF _____)

Subscribed and sworn to before me

This the _____ day of _____, _____.

Notary Public

My commission expires: _____

The statute of limitation for alterations is one year. (G.S. 25-4-406)

AFFIDAVIT AND INDEMNITY BOND

_____, being first duly sworn, deposes and says that
(Affiant)
warrant(s) numbered _____ for \$ _____ dollars, dated _____,
allegedly issued by _____, an agency of the State of North Carolina
and drawn on the State Treasurer, and allegedly made payable to the order of this affiant,

- _____ has/have not been received by me,
- _____ has/have been received by me, was endorsed by me, but has/have since been destroyed, stolen, or lost,
- _____ has/have been received by me, was not endorsed by me, and has/have since been destroyed, stolen, or lost,
- _____ has/have been examined by me and the first endorsement is not my handwriting, and I have not at any time authorized anyone to endorse the check on my behalf;

that I did not cash the warrant(s) and have never benefited in any manner from said warrant(s); that I seek to have the State of North Carolina replace said warrant(s) and,

In consideration of the issuance of the replacement warrant(s) by the State of North Carolina, I, the undersigned, am held and firmly bound unto the State of North Carolina in the sum of _____ dollars (an amount equal to the sum of the warrant(s) involved herein), to be paid to the State of North Carolina, to the payment whereof, well and truly to be made, I bind myself and each of my heirs, executors and administrators, firmly by these presents, so that I, my heirs, executors or administrators, shall at all times save harmless and keep indemnified the State of North Carolina against any claim, demand, loss or expense of any character, and against all loss and damages whatever that shall or may result at any time to the State of North Carolina, or any agency thereof, arising out of and by reason of the issuance to the undersigned of the duplicate warrant(s) in replacement of the warrant(s) hereinabove described.

WITNESS my hand and seal, this the _____ day of _____, _____

Last 4 digits of Social Security Number

Signature of Affiant (SEAL)

STATE OF _____)

COUNTY OF _____)

Subscribed and sworn to before me

This the _____ day of _____, _____.

Notary Public

My commission expires: _____

The statute of limitation for endorsement forgeries is three years. (G.S. 25-4-111)

AFFIDAVIT AND INDEMNITY BOND

I, _____ on behalf of _____,
(Affiant) (Business Name)

being first duly sworn, depose and say:

That warrant(s) numbered _____ for \$ _____ dollars, dated _____, allegedly issued by _____, an agency of the State of North Carolina and drawn on the State Treasurer,

- _____ has/have not been received by this business,
- _____ has/have been received by this business, was endorsed, but has/have since been destroyed, stolen, or lost,
- _____ has/have been received by this business, was not endorsed, and has/have since been destroyed, stolen, or lost,
- _____ has/have been examined by me and the first endorsement is not an authorized signature or stamp of this business;

That I and this business did not cash the warrant(s) and have never benefited in any manner from said warrant(s);

That I and this business seek to have the State of North Carolina replace said warrant(s); and,

In consideration of the issuance of the replacement warrant(s) by the State of North Carolina, the undersigned business is hereby held and firmly bound unto the State of North Carolina in the sum of \$ _____ dollars (an amount equal to the sum of the warrant(s) involved herein), to be paid to the State of North Carolina, to the payment whereof, well and truly to be made, the undersigned business binds itself and its successors, firmly by these presents, so that the undersigned business and its successors shall at all times save harmless and keep indemnified the State of North Carolina against any claim, demand, loss or expense of any character, and against all loss and damages whatever that shall or may result at any time to the State of North Carolina, or any agency thereof, arising out of and by reason of the issuance to the undersigned of the duplicate warrant(s) in replacement of the warrant(s) hereinabove described.

WITNESS my hand and seal, this the _____ day of _____, _____

Business Name Signature of Affiant and Title (SEAL)

STATE OF _____)

COUNTY OF _____)

Subscribed and sworn to before me

This the _____ day of _____, _____.

Notary Public

My commission expires: _____

The statute of limitation for endorsement forgeries is three years. (G.S. 25-4-111)