

North Carolina Department of State Treasurer Banking Services Handbook

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TABLE OF CONTENTS

INTRODUCTION	5
I. ACRONYMS	6
II. BANKING SERVICES OVERVIEW	7
Specialized Banking Unit (SBU)	7
Disbursing Account Services Unit (DASU)	8
Bank Account Reconciliation Unit (RECON)	8
The Flow of State Funding Deposits	9
The Routing of State Warrants	10
III. TYPES OF ACCOUNTS AVAILABLE THROUGH THE STATE TREASURER	11
Budget Code Accounts	11
Disbursing (DSB) Accounts	12
Short Term Investment Accounts (STIF)	12
Depository Bank Accounts	12
IV. AGENCY REQUEST FOR MAIN OR NON-MAIN DEPOSITORY ACCOUNTS	13
V. DAILY DEPOSIT AND REPORTING REQUIREMENTS	13
Daily Deposit Requirement	13
Daily Deposit Exemption	14
Daily Reporting Requirement	14
Deposit Reporting in CMCS	14
Daily Deposit and Reporting Noncompliance	14
VI. SPECIALIZED SERVICES	15
Federal Withholding Tax	15
US Department of Education (USDOE) Refunds	16
Foreign Wires	16
Safekeeping	16
Securities Sales	17
Credit References	17
VII. GUIDELINES FOR OFFICIAL DEPOSITORIES OF STATE FUNDS	17
Depository Designation and Definition	17
Types of Depositories	18
Account Name, Tax ID Number, and Signature Card	18
Customer Identification Program/Patriot Act	18
Collateral	19
Bank Deposit Slips	19
Endorsements	20
Currency and Coin Deposits	20

Currency Transaction Exemption	21
Check Deposits	21
Foreign Checks	21
Errors in Deposits	22
Moneys Deposited in Error	22
Return Items (Bad Checks)	22
Overdrawn Checks	23
Counterfeit Cash	23
Electronic Funds Transfer (EFT) Deposits	23
ACH Services	24
Merchant Services	25
Lockbox Services	25
Night Depository Services	26
Remote Deposit/Image Capture (RDC)	26
Official Checks	26
Bank Fees	26
VIII. STIF ACCOUNTS	27
Categories of STIF Accounts	27
Mandatory STIF Participants	27
Voluntary STIF Participants	27
Types of Investments	27
Application	27
Deposit of Funds	28
Withdrawals by Check	29
Interest Income	29
IX. DSB AND STIF ACCOUNT MAINTENANCE	29
Disbursing (DSB) Account Deposits	29
Signature Cards	29
X. STATE WARRANTS (STATE CHECKS)	30
Specifications for State Warrant (Check)	30
XI. POSITIVE PAY PROGRAM	32
Overview of Positive Pay Program	32
Transmission of Positive Pay Files	32
Positive Pay and Stop Pay Functions	33
View of Active Warrants on Positive Pay	33
Edits Performed on Each Warrant	33
Stop Payments	34
Photo-in-lieu	35
Paid Warrant Inquiry	35
Escheating of Stale Dated Items	35

XII. COUNTERFEIT WARRANTS	36
Preventing the Counterfeiting of State Warrants	36
Alleged Forgeries	37
Altered Warrants	37
Affidavits and Indemnity Bonds	37
XIII. FEDERAL RESERVE BANK TRANSFER IMAGING	38
XIV. MONTHLY ACCOUNT STATEMENTS	39
Statement Download through CB\$	39
Cleared Warrant Data Formats	39
XV. POLICY ON OVERDRAWN DISBURSING (DSB) AND STIF ACCOUNTS	39
XVI. PAYMENTS/FUNDS TRANSFERS (FTS)	41
Templates	42
FTS Requests without Template	42
FT Initiation Elements	42
Authorizing Transactions	42
Status Levels	43
Effective Date	43
Minimum Amount	43
Large Dollar FT Requests	43
Hold vs. Straight through Posting (“STP”)	43
STIF Account Transfers	44
Withdrawals from STIF by Wire Transfer	44
Reference Numbers	44
Corrections	44
Important Deadline	44
XVII. ULTIMATE PAYEE	44
XVI. GLOSSARY	45

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 financial institution, the accounts are maintained with the North Carolina Department of State Treasurer (DST). DST in turn provides each agency the same services that a financial institution 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 North Carolina General Statutes ("N.C.G.S.") 147-68 and 147-68.1, as well as 147-74 and 147-78.

This Handbook has been prepared to provide guidelines to be followed by agencies and banks. 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 (www.nctreasurer.com) may be referenced for the most current version of this publication.

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

FOR ADDITIONAL INFORMATION CONTACT:

North Carolina Department of State Treasurer
Banking Operations
3200 Atlantic Avenue
Raleigh, NC 27604
Telephone: 919-814-3916
Website: www.nctreasurer.com
Direct Banking Email: cbs.help@nctreasurer.com

I. ACRONYMS

Administrator	Admin
Affidavits and Indemnity Bond	AIB
American Bankers Association	ABA
American National Standards Institute	ANSI
Automated Clearing House	ACH
Bankers Administration Institute	BAI
Bank Account Reconciliation Unit	Recon
Carolinas Check Clearing Association	CCCA
Cash in Transit	CIT
Cash Management Control System	CMCS
Certificate of Deposit	CD
Committee on Uniform Securities Identification Procedures	CUSIP
Comprehensive Annual Financial Report	CAFR
Core Banking System	CB\$
Depository Trust Company	DTC
Disbursing Account	DSB Account
Disbursing Account Services Unit	DASU
Document Identification Number	DIN
Electronic Data Interchange	EDI
Electronic Federal Tax Payment System	EFTPS
Electronic Funds Transfer	EFT
Federal Deposit Insurance Corporation	FDIC
Federal Reserve Bank	FRB
File Transfer Protocol	FTP
Financial Operations Division	FOD
Funds Transfer	FT
Letter of Credit	LOC
Local Education Agency	LEA
Long Term Investment Fund	LTIF
Magnetic Ink Character Recognition	MICR
Master Services Agreement	MSA
North Carolina Accounting System	NCAS
North Carolina Administrative Code	NCAC
North Carolina Capital Management Trust	NCCMT
North Carolina Department of Community Colleges	DCC
North Carolina Department of Public Instruction	DPI
North Carolina Department of State Treasurer	DST
North Carolina Department of Information Technology	DIT
North Carolina General Statutes	N.C.G.S.
North Carolina Office of the State Auditor	OSA

North Carolina Office of State Budget and Management	OSBM
North Carolina Office of the State Controller	OSC
North Carolina State and Local Government Finance Division	SLGFD
Originating Depository Financial Institution	ODFI
Receiving Financial Depository Institution	RFDI
Remote Deposit Capture	RDC
Resource Access Control Facility	RACF
Short-Term Investment Fund	STIF
Specialized Banking Unit	SBU
State Bureau of Investigation	SBI
Straight Through Posting	STP
Tax Identification Number	TIN
Unclaimed Property Division of DST	UPD
Uniform Commercial Code	UCC
US Department of Education	USDOE
US Dollars	USD
Zero Balance Account	ZBA

II. BANKING SECTION OVERVIEW

Per N.C.G.S. § 147-74, the State Treasurer is tasked with serving as the State’s banker ensuring that efficient banking services are provided to all State entities. DST provides a centralized office for deposits and disbursements. These banking services are provided to State entities by the Banking Section within the FOD of DST. The Banking Section is formed by three units. The Disbursing Account Services Unit (DASU) and Specialized Banking Unit (SBU) form Banking Operations. The Bank Account Reconciliation Unit (Recon) is the third unit of the Banking Section.

SPECIALIZED BANKING UNIT (SBU)

All revenues collected by a State agency are deposited with DST for credit to the agency's appropriate budget code or account. For 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. SBU is responsible for the setup and maintenance of these external accounts.

SBU also assists with Electronic Funds Transfers (EFTs). EFTs are utilized in both the disbursing and receiving of funds. Disbursing functions include the funding of direct deposit and federal withholding payments for payroll, vendor payments, and student refunds.

SBU 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.

DISBURSING ACCOUNT SERVICES UNIT (DASU)

Except for funds disbursed electronically, North Carolina utilizes a warrant system to disburse funds. In order for a State agency to disburse funds, the agency may issue warrants (State checks) or submit a funds transfer (FT) request in CB\$ against an account maintained with DST. 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. 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. 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.

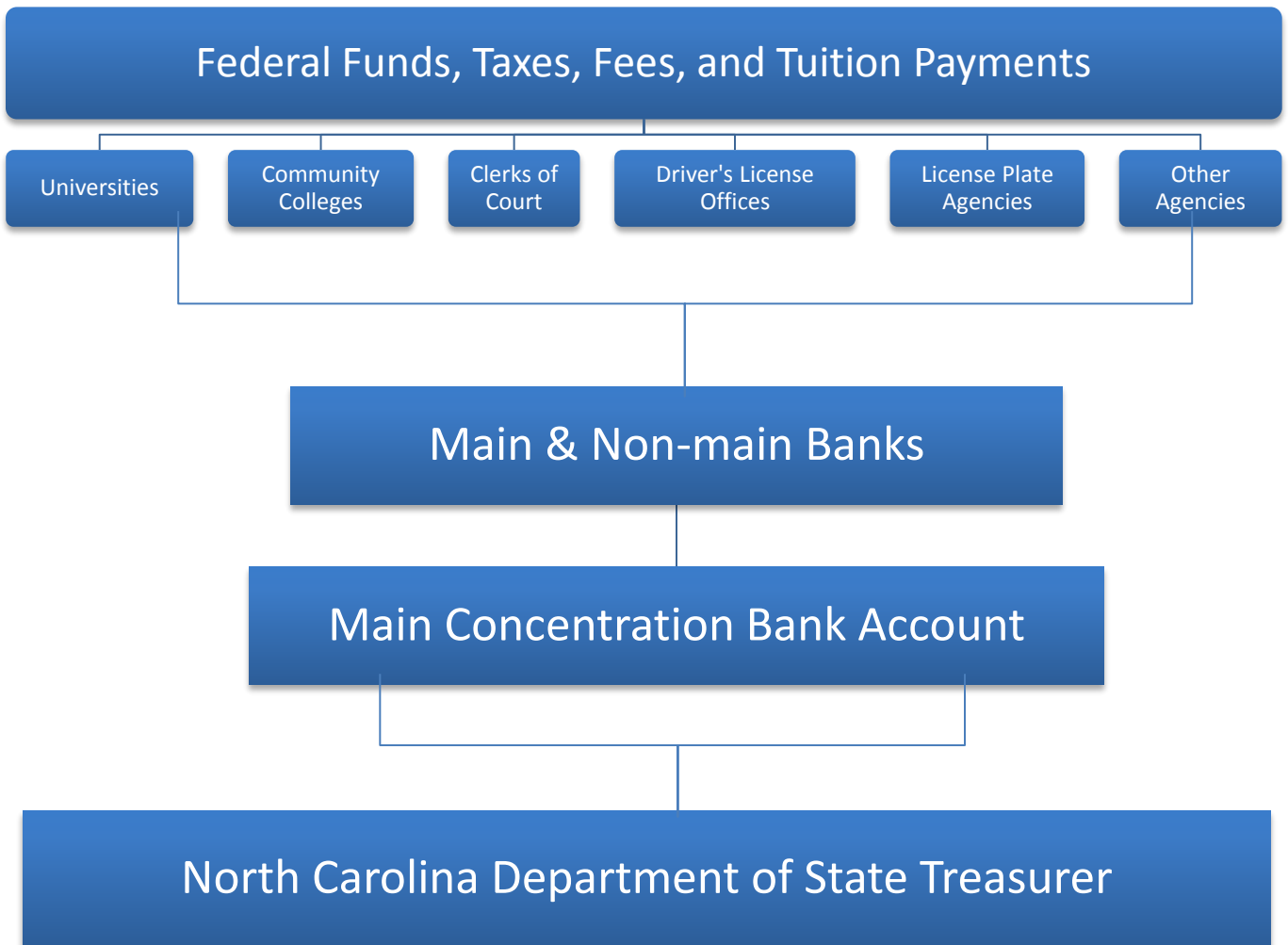
Monthly statements and images of paid warrants are available to the agencies for viewing and downloading via the Internet, through the Core Banking System (CB\$).

BANK ACCOUNT RECONCILIATION UNIT (RECON)

Recon reconciles agency reported deposits to those reported by the depository bank. For agencies utilizing a Main bank, this reconciliation process is automated and performed daily. If a deposit and certification are made within five days and can be matched one to one, the system will automatically match these items. These agencies certify their deposits to a location code, which is available for viewing through 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\$.

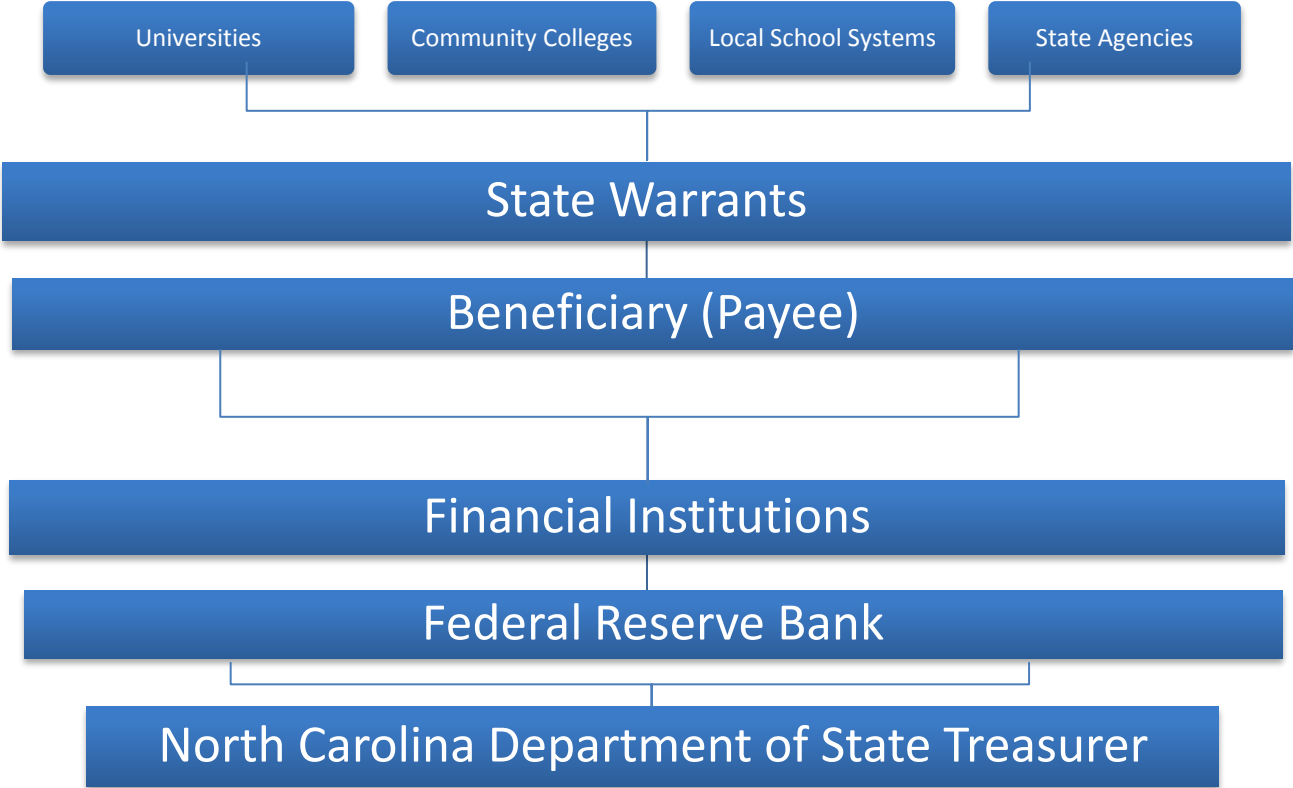
The reconciliation process allows for the detection of discrepancies and any improprieties in handling deposits by agency personnel or bank personnel. Agencies are requested to put a high priority on resolving discrepancies when notified by DST. If further information is needed to resolve the difference, Recon can provide documentation to help expedite the process. Discrepancies not resolved by the agency within 60 days may be cleared by the Reconciliation Unit making adjusting Cash Management Control System (CMCS) entries to the agency's budget code or STIF account and notifying the agency of its action. Several attempts to contact the agency are made providing opportunities for compliance before Recon makes any adjustments.

THE FLOW OF STATE FUNDING DEPOSITS



THE ROUTING OF STATE WARRANTS

(STATE CHECKS PRESENTED FOR PAYMENT)



III. 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 DSB 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 below, 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 the types of account related to DST, OSC and OSBM. The asterisk (*) denotes who authorizes the establishment of the account.

DST	OSC	OSBM
<ul style="list-style-type: none"> • Main Depository Bank Accounts * • Main Account • CIT Accounts (assigned location codes) • One-Off Accounts • Settlement Accounts • Return Accounts • Non-main Depository Bank Accounts * • Disbursing Accounts • Mandatory STIF Accounts* • Voluntary STIF Accounts* 	<ul style="list-style-type: none"> • Budget Codes • Disbursing Accounts * • Mandatory STIF Accounts 	<ul style="list-style-type: none"> • Budget Codes *

BUDGET CODE ACCOUNTS

Budget code accounts are for State funds collected by State agencies subject to the State Budget Act. These accounts are established by OSBM and monitored by OSC. 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 through CMCS. Disbursements are made from budget code accounts by the transfer to the agency’s assigned DSB 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 are 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 or OSBM.

DISBURSING (DSB) ACCOUNTS

OSC is authorized under the State Budget Act to allow agencies to establish DSB accounts with DST for the purpose of decentralized disbursing (N.C.G.S. § 143B-426.40G). An agency funds a DSB account by submitting a requisition to OSC to transfer funds from the agency’s budget code account into its DSB account. Withdrawals from DSB accounts are made through the issuance of warrants or FTs. Refer to OSC for procedures on establishing a new DSB account, which involves the State Controller issuing a “Delegation of Disbursing Authority.”

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 N.C.G.S. § 147-86.11 (certain agency trust funds); or N.C.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 or FTs 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.

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 in the name of the North Carolina Department of State Treasurer. This provides agencies an account to deposit receipts before being credited to a budget code or STIF account, as normally reported through CMCS.

Each main bank has a main account where funds are concentrated for that particular bank. Each main bank also contains a CIT account that can be used by multiple agencies for depositing funds. Location codes are assigned to the CIT account for agencies to identify their deposits. Agencies may have multiple location codes. Location codes are established in CMCS to accommodate the reporting of an agency’s deposits.

Each Main bank has an “unidentified” location code assigned to it which allows transactions without a location code to post to the CIT account. All incoming EFTs to a CIT account post to the

unidentified location code and not to a location code assigned to the agency. This also happens when counter deposit slips are used or the location code is not clearly captured by the bank.

Agencies occasionally have the need for a dedicated account that is used solely by their agency. Banking Operations refers to these as one-off accounts. Agencies also have settlement accounts for credit card and ACH deposits. Return accounts may be established for returned items to settle.

IV. AGENCY REQUESTS FOR MAIN OR NON-MAIN DEPOSITORY ACCOUNTS

Agencies needing to request a new depository account or a switch from one depository to another should submit their request to SBU in writing on agency letterhead. The letter should be signed by a person from the agency with the authority to make such a request. The letter should include the following information:

- Agency name and physical address
- Agency budget code and branch number (if applicable)
- If applicable, current bank name and account number or location code
- New bank name, address, bank contact name, and contact information (phone number and email address)

SBU will work directly with the depository to establish the account. Agencies requesting a new depository account with a Main bank will be assigned a location code by SBU to the CIT account with that depository. If a one-off account is needed, that determination will be made between SBU and the requesting agency based on the agency's need. SBU will contact a Non-main bank to establish a new account if an agency requests the depository to be a Non-main bank. A returns account may be required when opening new depository accounts depending on the institution's requirements.

Establishing a depository account with a Main or Non-main bank will take a minimum of three weeks which includes the receipt of deposit slips, but may take longer. Agencies should not begin using a depository account without permission from SBU to make the first deposit.

V. DAILY DEPOSIT AND REPORTING REQUIREMENTS

DAILY DEPOSIT REQUIREMENT

The Daily Deposit and Reporting Law (N.C.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." N.C.G.S. § 147-77.

The Statewide Cash Management Plan, as managed by OSC, requires each agency to use techniques to improve efficiencies in handling 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 all-day banking for same day credit. In the event a bank utilizes the 2 p.m. 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 in CMCS before the 2 p.m. upload and interface with DST's banking system which posts transactions to the agency budget codes or STIF accounts.

DAILY DEPOSIT EXEMPTION

Under certain circumstances, the Daily Deposit Act 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 \$5,000.00 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 most frequent source of noncompliance is the daily reporting requirement by most agencies. This 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. Please see the following sections regarding information and guidance on how to remain compliant.

DEPOSIT REPORTING IN CMCS

All eligible agencies depositing funds to a DST bank account are required to report the deposits online through CMCS. All certifications submitted prior to the established daily cut-off time of 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 SBU. 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 in CMCS.

DAILY DEPOSIT AND REPORTING NONCOMPLIANCE

Most agencies and universities generally adhere to the requirements of the Daily Deposit and Reporting Law (N.C.G.S. § 147-77), the State Cash Management Legislation (N.C.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 options or suggestions are discussed.

For repeat occurrences, the matter will be brought to the attention of OSC, which is responsible for the Statewide Cash Management Plan, and OSA, which is responsible for compliance with the plan.

While the daily depositing requirement of N.C.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.

A list of common reporting problems includes:

- 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 (This is a very common offense that may result in DST requiring the certification be reversed and re-entered correctly.)
- Making a single deposit, but reporting it on CMCS as multiple certifications (This may result in DST requiring the certification be reversed and re-entered correctly.)
- Not reporting a deposit for the same amount that the bank credits DST’s account (This may result in DST requiring the certification be reversed and re-entered correctly.)
- Not reporting EFT or credit card deposits for the same amounts credited by the bank (This usually occurs when the agency fails to report the balance swept from the credit card account or the daily ZBA.)
- Making corrections to reported deposits by making “net” entries instead of reversing the incorrect entry and re-entering the correct amount (This may result in DST requiring the certification be reversed and re-entered correctly.)

Any questions regarding reconciliation should be addressed to the Recon staff.

VI. SPECIALIZED SERVICES

FEDERAL WITHHOLDING TAXES

Agencies may pay their federal tax payments (federal withholding and social security) to the IRS by EFT. The EFT system utilized by the IRS is referred to as Electronic Federal Tax Payments System (EFTPS).

DST has established a dedicated account with Wells Fargo for the IRS to debit federal tax payments paid by agencies that wish to use this account. SBU should be contacted when completing the required IRS enrollment form to obtain the dedicated account number and DST or Wells Fargo signatures. The agency must also work with DST to setup a template to fund the dedicated account using CB\$.

On or prior to payday, agencies that have been setup to use this method sign into EFTPS and authorize an ACH debit against the designated DST account. Utilizing the Payments module in CB\$, the entity submits a FT request for the tax amount due, authorizing Banking Operations to

debit its disbursing or STIF account and transfer funds into the dedicated Wells Fargo account to fund the ACH debit submitted by the IRS. Banking Operations funds the dedicated account on the effective date of the FT request.

Failure to submit a FT timely may result in DST's account being overdrawn and/or result in the agency being subject to a late penalty due to the ACH debit from the IRS being rejected by DST. Consequently, it is imperative that the FT in CB\$ be submitted timely and for the correct amount.

US DEPARTMENT OF EDUCATION (USDOE) REFUNDS

Universities may have the need to return excess funds to the USDOE by EFT. The EFT system utilized by the USDOE is referred to as G5.

DST has established a dedicated account with Wells Fargo for the USDOE to debit. SBU should be contacted when completing required USDOE enrollment forms to obtain the dedicated account number and DST or Wells Fargo signatures, if applicable. The university must also work with DASU to setup a template to fund the dedicated account using CB\$.

Universities will use G5 to authorize an ACH debit against the designated DST account. Utilizing the Payments module in CB\$, the university will submit a FT request for the refund amount with an effective date the same as or prior to the date the USDOE will debit the account. The FT request authorizes Banking Operations to debit the universities disbursing or STIF account and transfer funds into the dedicated Wells Fargo account to fund the ACH debit submitted by the USDOE. Banking Operations makes the transfer on the effective date of the FT request.

Failure to submit a FT timely may result in DST's account being overdrawn. DST may reject the ACH debit from the USDOE if the debit has not been properly funded prior to or on the same day our account is debited. Consequently, it is imperative that the FT be submitted timely and for the correct amount.

FOREIGN WIRES

Most wire transfers made by an agency are initiated through DST by utilizing the CB\$ Payments module. For foreign wire transfers, the agency must provide an international wire request with supporting documentation to SBU to forward to OSC's Foreign Nationals Unit. This information will assist in determining whether taxes are due for services provided, and if those taxes have been properly withheld. Once OSC has reviewed and approved the wire request, that approval is forwarded to both the agency and SBU. The agency shall then complete a FT to the designated international wire bank account. This amount should include the wire processing fee to cover the cost the bank charges to send the funds internationally. After each request is processed, a reference number is forwarded to its respective agency for record purposes.

SAFEKEEPING

SBU provides securities safekeeping services for certain State agencies. 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 SBU. The securities are held in safekeeping with Banking Operations. 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. Since the securities cannot be deposited as cash, it may be necessary to have the securities sold, with the proceeds being deposited with DST. SBU can assist with the sale of such securities on behalf of the agency in certain circumstances.

Agencies wishing for DST to sell securities on their behalf should forward a letter to SBU requesting 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 via Medallion Signature Guarantee. If the shares are held in electronic form, the agency should provide to Banking Operations the current custodian holding the shares. DST cannot assist with obtaining a Medallion Signature Guarantee.

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.

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 at dst.disbursing@nctreasurer.com. Depending on the information request, DST will either complete the vendor's form or provide a general statement. 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 Moody's, Fitch Ratings, and Standard and Poor's."

VII. 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." No corporate resolution is required, as the account is considered that of a "body politic," and is authorized pursuant to N.C. Gen. Stat. § 147-78. This designation letter should be accepted in lieu of a corporate resolution, which is normally required of corporate accounts at financial institutions.

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 a financial institution must provide full-service operations in North Carolina. These operations must consist of at least a "brick and mortar" presence, 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 financial 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. Credit unions are not eligible depositories under statute.

TYPES OF DEPOSITORIES

There are two basic types of depositories: Main banks (currently Wells Fargo, Bank of America, First Citizens, BB&T, PNC, and SunTrust) and Non-main banks (all other financial institutions). 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 financial institutions that generally do not have a large branch network system and do not provide DST a cash concentration service.

ACCOUNT NAME, TAX ID NUMBER, AND SIGNATURE CARD

All accounts are to be in the name: "North Carolina Department of State Treasurer." The Federal Tax ID (TIN) for each account will be 56-1545517. Under IRS regulations, DST is an Exempt Recipient and therefore is not subject to Backup Withholding. The only authorized signature for the account is that of the current elected State Treasurer. The signature provided may be an actual signature or a facsimile signature as provided by N.C. Gen. Stat. § 147-69. No other signature, including that of an agency official, is valid.

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, or 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” does not include a person that has an existing account with the bank, provided that the bank has a reasonable belief that it knows the true identity of the person. 31 C.F.R. § 1020.100(c)(2)(iii). 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 C.F.R. §1020.100(c)(2)(i) and (ii) and 31 C.F.R. §1020.315(b)(2) through (b)(4). 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 C.F.R. §1020.315(b)(2)).

COLLATERAL

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 FRB, the Federal Home Loan Bank, or an eligible bank authorized to conduct a trust business (See 20 NCAC 07. 0300 for additional information regarding escrow securities). 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. (See 20 NCAC 07 .0305). A depository using the “Dedicated Method” secures uninsured deposits of each public depositor separately. 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 (NCAC), Title 20, and Chapter 07.

BANK DEPOSIT SLIPS

SBU will order the initial supply of deposit slips through the depository or vendor and confirm they are received by the agency. This ensures that the proper information is included on the slips. Deposit slips should be on NCR paper and headed as follows:

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

Counter deposit slips may be used only prior to the receipt of the initial supply of pre-encoded slips, but this practice is discouraged. If counter deposit slips are used, the location code should be included, if applicable, so that posting of the deposit in the correct location code is not delayed.

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 and financial institution. All subsequent orders of deposit slips must be placed through SBU, who in turn will place the order with the bank or vendor. The cost of the deposit slip order for a Main bank will be billed as an analysis fee that is included on the invoice to be paid by DST or the agency, depending on who is responsible for the account fees.

However, agencies using a Non-main bank will place any subsequent orders directly with the depository. Non-main bank deposit slips are to be provided by the depository at no charge to the agency or to DST.

Deposit slips 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 if applicable)

Some entities (universities, community colleges, clerks of court, and school systems) 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.

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.

CURRENCY TRANSACTION EXEMPTION

DST prefers that the depositing state entities 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 SBU.

CHECK DEPOSITS

Many banks require certain standards for deposit preparation, in order to minimize reconciliation problems and to accommodate image technology. Banks may 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 slips provided. Do not use photocopies of deposit slips.

FOREIGN CHECKS

The definition of a foreign check is an item that is drawn on a foreign bank that cannot be cleared through the FRB; in other words, it is not issued on a transit routing 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.

Foreign checks should not be presented in a regular deposit. The agency should present the item to the bank as a collection item. Each bank has its own process for handling collection items. Agencies should consult with the bank on these procedures. A DST account should not be credited until the foreign item has been converted into US dollars, and any applicable bank fees

have been collected or deducted from the item. 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.

ERRORS IN DEPOSIT

Should a discrepancy be discovered between the amount of a prepared deposit slip and the amount of the items enclosed, and the bank has provided definitive proof, an adjustment may be made to the account, with the exception of deposits made by the North Carolina Department of Revenue (DOR). If the agency is contacted by the Recon Unit concerning an adjustment, they should take action to get the adjustment resolved within 30 days of the initial notification.

Please contact the Recon unit or the DOR for instructions on how to handle DOR deposit adjustments. Bank Recon can be reached at 919-814-3903.

MONEY DEPOSITED IN ERROR

If an item (e.g. cash, check, wire, ACH credit, etc.) is deposited into a DST owned account in error, under no circumstances should funds be refunded to an agency or a debit made against DST's account, without the express authorization from DST. 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 a 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 to the depositing entity 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 banking channels for collection twice. 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 defined period of time, it is absolutely necessary that the bank be reimbursed within five business days of the agency receiving notification from the depository bank of a returned item, by the agency issuing a warrant. It should be noted that pursuant to 20 NCAC 01C .0404 (e), that the returned item is to be forwarded by the depository as a "cash item" to the depositing agency with a request for direct and immediate reimbursement. The accounting procedures of the State Treasurer and the Director of the Budget will not permit charges to the account of the State Treasurer. 20 NCAC 01C .0404 (e).

Some banks provide a dedicated "returns account" to track this reimbursement process. In such a case, the preferred method to reimburse the bank is to establish a template in CB\$ to electronically fund the account with a FT.

Once the bank has been reimbursed, the agency may begin its collection procedures to recover the funds from the remitter. With the advent of the Check Clearing for the 21st Century Act ("Check 21 Act"), 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 N.C.G.S. § 25-3-506. Refer to OSC for additional information.

OVERDRAWN CHECKS

The State Treasurer may impose a fee on an agency pursuant to N.C.G.S. § 143B-426.40G for each check drawn against the agency's disbursing account that causes the balance in the account to be in overdraft or while the account is in overdraft. Please see section XV.

COUNTERFEIT CASH

If a depository bank has to make a deposit correction because of counterfeit cash being included in the original deposit, then 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 Recon. If the agency is contacted by Recon concerning an adjustment, they should take action to get the adjustment resolved within 30 days of the initial notification.

Please contact the Recon unit or the DOR for instructions on how to handle DOR deposit adjustments. Bank Recon can be reached at 919-814-3903.

ELECTRONIC FUNDS TRANSFER (EFT) DEPOSITS

If a State agency is the recipient of an incoming EFT, a wire or an ACH credit, procedures should be established with the sender of the funds to promptly notify the State agency that funds are being sent. This notification should include the amount of each credit and the date funds are sent. The agency should consult with DST when completing any enrollment forms for EFT deposits, to ensure the correct information is provided, including transit routing and account number. For reconciliation purposes, it may be desirable for DST to designate a bank account number for EFT deposits.

For efficient investment, agencies receiving a wire credit into the Wells Fargo main account of \$25 million or more should contact SBU at minimum one business day prior to the receipt of funds, or as soon as they become aware.

Some agencies receive a large volume of wire and ACH credits, and in this case may request the establishment of a dedicated bank account (one-off) for their individual use. Such an account is opened as a zero balance account (ZBA), providing for the net amount deposited to the account each day, to be automatically swept to a main DST account at the end of the banking day. DST shall provide the agency access to online reporting to view the individual EFT deposits credited to the one off account. The establishments of such one-off accounts are considered on a case-by-case basis. The cost associated with the one-off account and online capabilities are paid by the agency directly to the bank. Funds deposited into a one-off account are required to be certified daily. Additionally agencies are required to reconcile the one-off account on a monthly basis at minimum.

Agencies may request to use a dedicated account established with a Non-main bank for receiving wire and ACH credits. However, non-main banks may have limitations on online access. Agencies not certifying funds deposited with a Non-main bank in a timely manner may be required to change to a Main bank.

ACH SERVICES

OSC has entered into a Master Service Agreement (MSA) with a single financial institution for certain ACH services under which agencies may participate. OSC provides guidelines and more information on the program within the E-Commerce section of their website at www.osc.nc.gov/SECP/index.html. 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 MSA.

ACH accounts involving State funds will be owned by DST, and be under DST's TIN. Additionally, agencies are required to reconcile each ACH account on a monthly basis at minimum.

DST has agreed to pay for ACH accounts opened under this agreement that are used solely for payroll transactions provided that the account is setup as required by our office. DST will pay for one payroll account per entity. These accounts require DST to approve paying the fees on the setup form. The fees for all other ACH accounts are handled directly by and paid by the agency. These fees are not to be charged as an analysis charge against DST's account or to DST's analysis statements.

The ACH MSA also includes prepaid cards. Please contact OSC for more information on prepaid cards.

ACH CREDIT RETURNS

Should an ACH credit payment not be able to post against the intended account, the settlement account (the account the payment was initiated from) will be credited if a returns account was not setup/designated.

If the settlement account is credited for a returned ACH, the ACH credit payment may be initiated again if correct banking information can be obtained. If a check from an alternative account such as a disbursing or local account is written, then the next time a payroll file needs to be funded, the funded amount should be less the returned amount.

If a returns account is established for a settlement account, the returns account will be credited for an ACH return. The returns account will be set up as a ZBA providing for the net amount deposited to the account each day, to be automatically swept to a main DST account at the end of the banking day. The agency will be required to submit a certification in CMCS for the net amount deposited on a business day, hence crediting the agency's budget code or STIF account. Additionally, agencies are required to reconcile the return account on a monthly basis at minimum.

MERCHANT SERVICES

OSC and DST have entered into a MSA with a single credit card processor under which agencies may participate. OSC provides guidelines and more information on the program within the E-Commerce section of their website at www.osc.nc.gov/SECP/index.html. 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.

For agencies utilizing the credit card processor under the MSA, DST will open a dedicated ZBA at a designated depository bank for settlement of merchant funds. If State funds are being deposited into the designated account, the account will be owned by DST and be under DST's tax identification number (TIN).

The ZBA allows for multiple merchant numbers to be utilized, with the daily settlement for each being made into the agency's ZBA. The net deposit amount is swept to a main DST account at the end of each banking day, for credit to the agency's location code. The agency then submits a single CMCS certification for the total of the ZBA transfer. The credit card processor provides the agency access to online reporting features including credit card transactions, associated fees, chargebacks, and information on each transmission. DST shall provide the agency access to online reporting to the ZBA. Additionally, agencies are required to reconcile the credit card account on a monthly basis at minimum.

The fees for such services and the ZBA are handled directly by and paid by the agency, and are not to be charged as an analysis charge against DST's account or to DST's analysis statements.

LOCKBOX SERVICES

Some agencies may desire to contract with a bank to provide lockbox services. Fees associated with contracted lockbox services are not 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 deposited items. Below are some fees that banks may charge that are the responsibilities of the agency:

- Initial set up fee
- Programming fees
- Monthly transmission fees
- Monthly lockbox base fees
- Annual Post Office Box fees

Normally, a ZBA is established with the lockbox provider, with the net deposited amount swept to a main 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.

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 the 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 night depository bags are the direct responsibility of the agency, while any other related costs are to be considered as bank fees are handled in accordance to the Bank Fees section of this publication.

REMOTE DEPOSIT/IMAGE CAPTURE (RDC)

Some agencies require remote deposit capture for the efficient completion of their work processes. For any agency requiring such services, the cost and maintenance of the required equipment is at the expense of the agency. The financial institution the agency would like to use for their depositing needs can provide equipment cost information. DST should be contacted if a new dedicated account or location code is needed. The financial institution will handle and assist with programing and training agencies to use the new equipment. DST will handle online administration.

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.

BANK FEES

North Carolina General Statutes (N.C.G.S. § 147-68(b)) do not permit disbursements from the State Treasurer without the issuance of a State warrant. Additionally, Article 5, Section 7(1) of the North Carolina Constitution states in part: "no money shall be drawn from the State Treasury but in consequence of appropriations made by law". Therefore, no debits are to be made to an account to pay any bank fees, service charges, or other fees.

Bank fees for depository services associated with a DST bank account with a Main bank 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 Main banks. DST releases a Bank Analysis Schedule of Fees annually. All Main banks agree to abide by this schedule of fees.

DST does not pay analysis fees for accounts with Non-main banks. Instead DST maintains a target balance in each Non-main bank account to compensate for services provided by the depository for each account.

VIII. STIF ACCOUNTS

CATEGORIES OF STIF ACCOUNTS

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

MANDATORY STIF PARTICIPANTS

Based upon N.C.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 N.C.G.S. § 147-69.3.

VOLUNTARY STIF PARTICIPANTS

N.C.G.S. § 147-69.3(b) and the NCAC (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 of the State
Other Public Authority	Local Government
Local ABC Board	

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 general statute 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 N.C.G.S. § 147-69.1. The investments are generally characterized by high quality money market investments and U.S. Government/agency securities. These accounts are normally categorized as investment accounts. Therefore, FDIC insurance coverage and deposit collateralization issues do not apply. A more detailed description of 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 at <https://www.nctreasurer.com/fod/Pages/Banking-Forms.aspx>.

ESTABLISHING THE ACCOUNT

Once an application is received and approved, DASU will assign and notify the agency of its account number and request a signature card 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

See Section IX.

DEPOSIT OF FUNDS

STIF account deposits may be deposited at a financial institution into an account in the name of the North Carolina State Treasurer for certification through CMCS to the agency's STIF account. Agencies that do not have CMCS access should contact Banking Operations for setup to deposit with one of the main banks. In both cases, bank deposit slips ordered through DST must be utilized, unless the deposit is electronic (wire or ACH). An initial supply of deposit slips will be supplied upon establishing a deposit process with a bank.

For accounts maintained on CMCS, deposits may also be made through the "agency transfer" feature.

WIRE TRANSFER DEPOSITS

Wire transfer deposits can be made to:

Bank: Wells Fargo Bank
San Francisco, CA
ABA#: 121000248
Beneficiary: North Carolina Department of State Treasurer
Acct#: Contact Banking Operations
OBI: Name of agency and STIF account number

A Wire-In Form is available on our website at www.nctreasurer.com/fod/Pages/Banking-Forms.aspx. Agencies with CMCS access are responsible for submitting a certification on CMCS indicating an incoming/pending wire prior to completing the online form. SBU will submit the certification for agencies without CMCS access. After receiving the form and confirming that the wire is received, SBU will approve the certification thus crediting the STIF account. It is critical that the Wire-In Form is submitted online prior to 10 a.m. on the effective date of the wire. Failure to make a timely notification may result in a delay in the STIF account being credited, hence when the deposit begins to accrue interest.

WITHDRAWALS BY WARRANT

Withdrawals are generally initiated by the participant issuing a State warrant against the STIF account. The warrants must be in accordance with the "Specifications for State Warrants" provided by Banking Operations. (See Section X)

- For each warrant issued against the account, a Positive Pay record must be submitted through CB\$.
- The funds must be in the disbursing or the STIF account before the warrant is issued.

See the Payments/Funds Transfers (FTs) section (XVI) for information on sending a wire from a STIF account.

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 Investment Accounting at the beginning of each month. Any questions pertaining to interest calculations should be addressed to Investment Accounting at (919) 814-3899.

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

IX. DSB AND STIF ACCOUNT MAINTENANCE

DISBURSING (DSB) ACCOUNT DEPOSITS

Deposits made to a DSB account are generally the result of "requisitions" processed through OSC. Agencies submit requisitions through CMCS which, when approved by OSC, fund disbursing accounts. Disbursing account balances, available on Core Banking, are updated daily at 2 pm to include these requisitions. Community colleges and local school systems ("LEA") 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 Banking Operations.

SIGNATURE CARDS

For each DSB 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 agency's Chief Fiscal Officer. In a DSB account, the card must be executed by the individual that executes the State Controller's Delegation of Disbursing Authority Form. A blank signature card can be found <https://www.nctreasurer.com/fod/Banking%20Forms/SignatureCard.pdf>.

X. STATE WARRANTS (STATE CHECKS)

SPECIFICATIONS FOR STATE WARRANTS

Except for disbursements made by FT, State agencies disburse funds through the issuance of warrants (State checks) drawn on DST as opposed to being drawn on a financial institution. The FRB considers DST a "non-financial endpoint" and has assigned 053110594 as the unique transit routing number. All warrants bear this number and are 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 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 (ABA), the FRB, 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 rejection 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.

All check stock should be reviewed and approved before use by the Disbursing Account Services Unit. Please direct any questions to 919-814-3904.

CHECK STOCK

Check stock 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 check 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" or approved time from Disbursing Account Services Unit
- Fractional bank identification number 66-1059/ 531 in upper right-hand corner
- Warrant (serial) number in top right-hand corner
- Area for numeric "amount" is to be on the right side of the warrant
- Written amount field is required
- 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 the American National Standards Institute (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 ANSI website address is 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 transit routing number which is 053110594
- On-Us Field – Assigned DSB 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 DASU (919-814-3916).

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 active Stop Payments and active Positive Pay records. Additionally, multiple warrants with the same warrant number 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.

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.

XI. POSITIVE PAY PROGRAM

OVERVIEW OF POSITIVE PAY PROGRAM

DST provides a “Positive Pay” program to agencies that maintain DSB and STIF accounts with the department. 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 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. 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. The standard time period before a warrant is considered stale dated is one year. Some accounts that receive federal funding may have a shorter time period.

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 DIT 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 System section.

POSITIVE PAY AND STOP PAYMENT FUNCTIONS

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. A Stop Payment may be placed on a 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 will be returned as the result of the second edit, the Stop Payment.

Agencies should not use a Stop Payment 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 the reason of payment stopped (e.g., lost, stolen, or issued by mistake), the item should be left on CB\$ with an active Positive Pay record so the Stop Payment will detect the item. The 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.
- On CB\$, submit a request to add a Stop Payment.
- All "active" Stop Payments for each account are viewable and downloadable through CB\$. When keying Stop Payments on CB\$, leave out any leading zeroes in the warrant number field.
- If the item has been paid, you can utilize the CB\$ image retrieval function to determine the date it was paid. If applicable, proceed with obtaining a notarized Affidavit and Indemnity Bond (AIB) from the payee (see Section XII on AIB).
- 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 on DST's website under Core Banking System.
- Should an agency desire to remove 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 the warrant was issued). Should a warrant be paid due to the Stop Payment having been purged, reliance may be on the Affidavit and Indemnity Bond (see section on AIB) to assist in collecting the funds from the payee; or if escheated, a refund may be obtained from the Unclaimed Property Division at 919-814-4200.

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 outlined below. An advice will be provided to the agency for all items returned.

- *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.
- *Stale dated warrants*
Even if a warrant is active on Positive Pay, 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. An advice will be provided to the agency for all returned items.
- *Valid warrants not on Positive Pay*
There may be cases where the warrant is valid, but for some reason did not get updated with a Positive Pay record (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.”

PHOTO-IN-LIEU

Warrants occasionally get lost in transit before being presented to DST. In such a 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. Provided that there is an active Positive Pay record on file and no active stop pay, the item will be paid.

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 DASU at 919-814-3915.

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 (UCC) (N.C.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 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. This should be done in CB\$ through the Positive Pay-Delete function. 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.

N.C.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 Positive Pay “delete” file. A batch file uploaded to CB\$ may contain both “adds” and “deletes”. CB\$ also has a Positive Pay maintenance feature, where warrants can be deleted online (as single deletes), regardless of which method was used to add the records. If a warrant pays after it has been escheated, the agency can request a refund from DST’s Unclaimed Property Division (“UPD”) at 919-814-4200.

For NCAS accounts (except the “stand-alone” accounts), any warrants that are either canceled or escheated through NCAS, are automatically forwarded to CB\$ as Positive Pay “deletes”.

XII. COUNTERFEIT WARRANTS

PREVENTING THE 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 financial institution checks.

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. 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. If reimbursement is denied, the agency should consult with its Department of Justice representative or other legal counsel. OSC should be consulted if the item cannot be recovered and has to be charged off.

N.C.G.S. § 143B-920 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 State Bureau of Investigation (SBI) may make in conjunction with an investigation.

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. The statute of limitations for collecting on forged endorsements is three years (N.C.G.S. § 25-4-111). The 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 (see the section on Affidavit and Indemnity Bond). The document should be notarized.
- Prepare a transmittal letter addressed to DST asking that the enclosed item be processed as an alleged forgery. Attach to the letter an image of the front and back of the cleared warrant and the original affidavit. Retain copies for your file.
- DASU 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.

- DASU 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 30-120 business days.
- In case the request for payment is denied, DASU 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 North Carolina Department of Justice if it has reason to believe the item is indeed a forgery.
- In case the payment is received from the bank, DASU will provide the agency with the remittance check received.

ALTERED WARRANTS

A warrant determined to have been altered 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 N.C.G.S. § 25-4-406. Therefore, it is critical that the altered item be brought to the attention of DASU as soon as detected. The Affidavit for Altered State Warrant should be used.

AFFIDAVITS AND INDEMNITY BONDS (AIB)

An 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 may 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 and Affidavit and Indemnity Bond-Business, will meet most agencies' needs. However, your agency's legal counsel may wish to draft an appropriate document for your agency's use.

XIII. FEDERAL RESERVE BANK TRANSFER IMAGING

DST performs the function of "banker" for various State agencies, community colleges, universities, and local school systems. These agencies disburse funds from their account maintained with DST by issuing warrants 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 FRB.

FRB provides DST both a 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 maintained on DST’s image storage/retrieval system. DST makes these images available to the issuing agencies through CB\$, typically within two business days.

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

- 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 11 years. Should an agency determine that a copy of an image 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 N.C.G.S. § 8-45.1.
- Images are normally available within two business days of being presented to DST by the FRB for payment.

Should an agency need to obtain an official copy of a warrant image for legal purposes, it may contact the DASU at 919-814-3904. DASU will provide a copy of the image with a certified statement stamped on the copy, pursuant to N.C.G.S. § 8-45.1. With the advent of “Check 21” federal legislation, the image may be that of a “substitute document,” instead of the image of the original.

XIV. MONTHLY ACCOUNT STATEMENTS

STATEMENT DOWNLOAD THROUGH CB\$

Budget code account statements are not generated, but the activity is viewable through CB\$. Refer to OSC 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\$ on the first business 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 NCAC (20 NCAC 1C.0402) requires each agency to reconcile its statement within 15 days of being generated (in other words, within 15 days of the date of the statement). 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. 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.0402). Reconciliation is necessary in order to process any returns or adjustments through the banking channels on a timely basis, as required by the 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.

CLEARED WARRANT DATA FORMATS

To accommodate automated account reconciliation, agencies having access to the Department of Information Technology's (DIT) mainframe 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 DIT, generally no later than the second business day following the close of each month. RACF security allows read access to the data. Additional information including file format is available on our website under Core Banking System.

XV. POLICY ON OVERDRAWN DISBURSING (DSB) AND STIF ACCOUNTS

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

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 DSB 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 to the General Fund. The agency head will ultimately determine how such a potential fee will be paid. See N.C.G.S. § 143B-426.40G. 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 of the fee. Unless otherwise provided, this liability will be deemed that of the agency.

FEE CALCULATION

The statute authorizes the State Treasurer to 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 occurs.]
- 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. If prior day clearings need to be considered, the warrants with the highest dollar amounts will be used first in the calculation.
- 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 in writing 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. (N.C.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 DSB accounts by approving requisitions, 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 N.C.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.

XVI. PAYMENTS/FUNDS TRANSFERS (FTS)

CB\$ has a Payments module that accommodates the initiation of Funds Transfers. The initiation is performed online, eliminating the necessity of having to issue a warrant. An agency can submit a FT request to DST using CB\$, with a current or future effective date. On the effective date, DST acts upon the FT request, processing the payment according to a preauthorized set of payment instructions (template).

A FT may be initiated against an agency's DSB or STIF account. The item will appear on the agency's monthly disbursing or STIF account statement as a debit. (The FT does not replace the agency requisition or agency budget code transfer procedure provided through CMCS.)

TEMPLATES

In order to establish a FT on CB\$, the agency must complete the appropriate template form available on our website at www.nctreasurer.com/fod/Pages/Banking-Forms.aspx. This form requires payment instructions that will remain constant (the beneficiary's name, the receiving bank's wire instructions, the associated remittance information, and the DSB or STIF account number that the FT would be charged against). All forms are to be signed by the agency's authorized signer (a signer on the signature card) and emailed to DASU at cbs.help@nctreasurer.com. DASU will assign a template number to each request.

Non-repetitive wires must be handled manually by Banking Operations. Wire Out forms are available on our website at www.nctreasurer.com/fod/Pages/Banking-Forms.aspx.

FT 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)
- Supplemental Information for DOR and DST Retirement payments
 - Remitting Agency Account No.
 - Payment Type Code
 - Payment Period Date

- Employee Amount

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.)

AUTHORIZING TRANSACTIONS

The Department of State Treasurer requires each funds transfer (wire) to be authorized by a second user. 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 Funds Transfer role.

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 (“FT”) will display one of the following status levels:

- Initiated – After initiated by agency user, but not yet authorized by another agency user.
- Accepted – Authorized by second agency user
- Completed – After acted upon by DST, on effective date
- Rejected by Authorizer – Second agency user rejects – not sent to DST
- Rejected – Rejected by system
- Deleted – Deleted by initiator

Until a Funds Transfer displays the status of ‘Completed’, the transaction has not been completed. Agencies should check the status of their FT request on the afternoon of the effective date. If the status is not updated to ‘Liquidated’ then you should contact Banking Operations.

EFFECTIVE DATE

The effective date on a FT request cannot be more than 30 days in the future. If a FT request is initiated and authorized in CB\$ with an effective date that is on a weekend or holiday, the request will be processed on the first business day after the weekend or holiday.

MINIMUM AMOUNT

DST does not have a minimum amount for a FT request. However, an agency may be contacted by Banking Operations if a FT is submitted for an amount less than \$25.00 due to the cost DST will incur to process the FT request. Banking Operations along with the agency will determine if the FT request can be combined with a future payment.

LARGE DOLLAR FUNDS TRANSFER REQUESTS

For efficient investment projections, agencies with the need to send a wire for \$25 million or more should contact SBU a minimum of one business day prior to the effective date or as soon as they become aware of such a need.

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). Once an STP transaction is authorized by the agency and the effective date is entered as the current date, the posting immediately takes place, 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.

STP payments to DOR cannot be submitted with the current date as the effective date. DOR payments are required to be submitted one business day prior to 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 FT involving an account transfer has been posted (liquidated) by DST, the agency can view the transaction in CB\$ under the Account Data role, under the Transaction Activity menu item. The 10 a.m. deadline does not apply to these types of transfers.

WITHDRAWALS FROM STIF BY WIRE TRANSFER

Some STIF account participants may desire to withdraw funds from their account by wire transfer, as opposed to writing a warrant and depositing it into its local bank account. A USD Wire Out Form is available on our website at www.nctreasurer.com/fod/Pages/Banking-Forms.aspx. The Wire Out Form is for non-repetitive wires, or last minutes wires with no established template in CB\$. Wire out requests must be received by DST prior to 10 a.m. on the day the funds are desired to be wired.

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.
- Host Reference Number – Assigned by system when initiated
- 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. Only the user who initiated the transaction can modify the transaction. If not authorized within 30 days, it will be purged. The transaction can be “rejected by authorizer” (RBA).
- Authorized – 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 FTs must be submitted on CB\$ prior to 10 a.m. on the effective date of the payment. FTs submitted in advance will not be acted on until the effective date.

XVII. ULTIMATE PAYEE

One of the requirements of OSC’s Statewide Cash Management Plan (N.C.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 losses of interest earnings. Payment methods include warrants, ACHs, and FTs. 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.

XVIII. GLOSSARY

Absentee Insurance Fund – Fund administered by DST’s Banking Operations pursuant to N.C.G.S. Chapter 28C. Provides for a portion of the estate of an individual who has 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 credit normally require a payment to the financial institution.

Account Reconciliation – The act of a bank customer, or a State agency having a DSB 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.0402), and report the reconciliation to DST through the CB\$.

Adjustment – Refers to a transaction where a bank deposit is corrected due to the deposit slip being prepared incorrectly (e.g., addition error or missing item). Also refers to a correcting entry made to an agency DSB 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 – An 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 (N.C.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 DSB account maintained with DST.

Automated Clearing House (ACH) – The primary system used for electronic funds transfer (EFT). ACH transactions include “ACH Credits” (direct deposit payments) and “ACH Debits” (electronic drafts). All transactions are subject to the NACHA Operating Rules.

Available Balance – Refers to funds deposited to a financial institution, where the funds are available for either withdrawal or investment.

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 (Recon) – Organizational unit within DST's FOD 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 FRB, 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, and also allows 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 – A news company that offers real time and historic prices, trends, and analysis of securities, as well as information and reporting on the economy as a whole. Bloomberg covers news in a variety of media, notably using television, radio, the Internet, and its own Bloomberg Terminal, a software program that offers a great deal of information in real time.

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 FRB, the Depository Trust Company (“DTC”), and a financial institution (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 FRB, 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 31 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 N.C.G.S. § 147-86 *et seq.*, 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 Statewide 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.

Collateralization of Public Deposits Program – Program operated by Banking Operations pursuant to N.C.G.S. § 147-79 and the N.C. Administrative Code (20 NCAC 07) 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 FRB) in certain situations (e.g., indemnified photocopies). Bad checks are returned to depositing agencies as collection items as opposed to charging the items back against DST’s bank account.

Core Banking System (CB\$) – Refers to the online banking system operated by the Department of State Treasurer which allows agencies, community colleges, universities and local school systems to access their account information. The internal banking system utilized by DST is referred to as Flexcube.

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 N.C.G.S. § 147-77, requiring all agencies to both deposit and report on a daily basis any receipts/funds 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 positive 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 07 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 DSB account with DST, pursuant to the State Budget Act. Specifies the conditions of the operation of the DSB 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 (DASU) – Organizational unit within DST’s Banking Operations responsible for the maintenance of disbursing and STIF accounts for State agencies and providing support for CB\$. The unit interacts with the FRB to process MICR files (presented warrant data). The unit processes special transactions relating to the accounts, such as Stop Payments, forgeries, account adjustments, and outgoing 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).

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 (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 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 UPD.

Escrow Agent – A financial institution performing a third-party role of holding securities to accommodate the collateralization of public deposits, pursuant to 20 NCAC 07. The FRB and the Federal Home Loan Bank are also eligible escrow agents.

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.”

Fiscal Agent for the State – An agency or entity that performs various financial duties on behalf of the State.

Flexcube – Refers to the internal system operated by the Department of State Treasurer to accommodate the accounting for the agencies’ general ledger accounts as well as the accounts belonging to its customers (agencies, community colleges, universities and local school systems). The online banking component utilized by the agencies is referred to as Core Banking (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 DSB accounts are in an invested status until the warrants are presented for payment at the FRB.

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.

Payments – Module offered by DST’s Banking Operations, 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).

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.

Immediate Credit– 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.

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 N.C.G.S. Chapter 115C, and being supported by the Department of Public Instruction.

State and Local Government Finance Division (SLGFD) – A commission housed within DST’s State and Local Government Finance Division, created pursuant to N.C.G.S. Chapter 159. The SLGFD 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.

Lockbox 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 Character Recognition (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.

Mobile Payments – Generally refers to payment services performed from or on a mobile device such as a smartphone or tablet.

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 SLGD.

Official State Depository – Refers to a financial institution designated by DST for a particular State agency to deposit its daily receipts, pursuant to N.C.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 DSB 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 slip. 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 07 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, providing agency disbursing and STIF accounts a service similar to one offered by certain financial institutions 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 (warrant number, account number, date, and amount) with the warrants presented for payment through the FRB.

Postdated 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 postdated check. Postdated 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.

Prepaid Cards – A card issued by a financial institution that is preloaded with funds and is used like a normal credit card.

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 requests OSC to transfer funds from a budget code into the agency’s DSB 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\$ Payments module.

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 FRB’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 NCAC 07) 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 N.C.G.S. § 147-69.3(b), N.C.G.S. § 116-36.1, or N.C.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 (SBU) – Organizational unit within DST’s Banking Operations 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 (N.C.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 N.C.G.S. § 143C, 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 to dishonor a warrant that has not been 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 converting a physical check into electronic form for transmission to the paying bank. 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. N.C.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. (N.C.G.S. § 25-4A *et seq.*)

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 financial institution, 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, providing for the truncation (conversion) 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. Accommodates multiple deposits made to the account on a banking day. The net deposit amount is swept as a single amount to a main DST 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.”