

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER**  
**POSITIVE PAY PROGRAM**  
Revised December 1, 2003

**What is positive pay?**

The North Carolina Department of State Treasurer (NCDST) provides a "Positive Pay" program to agencies that maintain disbursing and STIF accounts with the Department. This is a service that most large banks offer their commercial customers. While the program has been offered to a limited number of agencies since 2000, the newly installed Core Banking System (CB\$) allows the program to be offered to 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 the NCDST, 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. Types of agencies eligible to participate include general government agencies, universities, community colleges, local school systems, boards, and commissions. The "Stale Date Policy for State Warrants" issued September 2, 2003 requires all accounts, unless exempted by the State Controller, to participate in the positive pay program.

**How does positive pay work?**

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

**What are the different methods utilized to transmit positive pay files to NCDST?**

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

The positive pay file layout for batch uploads is available on the State Treasurer's Web site under Financial Operations - Core Banking Updates. For batch files uploaded through CB\$, the status of the submitted file can be viewed online (unprocessed, processed, or error). The daily deadline for submitting batch uploads for same-day processing by NCDST is 10:00 a.m.

**How are positive pay records deleted?**

As warrants clear NCDST on a daily basis, matched items drop off the "active positive pay" file. For NCAS accounts (except the stand-alone" accounts), any warrants that are either canceled or escheated through NCAS, are automatically forwarded to CB\$ as "deletes." For all non-NCAS accounts, any warrants canceled or escheated must be submitted by the agency to CB\$ as "deletes." (A batch file uploaded to CB\$ can contain both "adds" and "deletes.") CB\$ also has a positive pay maintenance feature, where warrants can be deleted online (as single deletes), regardless which method was used to add the records.

**Is there a transition period to begin participating in the positive pay program?**

Yes. Before an account can be "turned on" (activated) to positive pay, all outstanding issued warrants must be submitted to CB\$, as well as all newly issued warrants. An agency can submit outstanding and newly issued warrants over a period of time, before the account is activated. This may take several weeks, depending upon the agency's ability to identify the outstanding items. Once an agency has determined that all warrants have been submitted, NCDST can then activate the account. This requires coordination with the NCDST.

**How do the positive pay and stop payment functions work together?**

A stop payment may be placed on a particular warrant drawn on an account that participates in the positive pay program. The positive pay edit takes priority over the stop payment edit. If a warrant number has been deleted from the positive pay active file, but has a stop payment on it, the warrant will be returned as the result of the item not being on positive pay, not because of a stop payment. If the warrant is on the positive pay outstanding file as a valid warrant,

but has a stop payment on it, it will pass the positive pay edit first, but be returned as the result of the second edit, the stop payment edit. Agencies should not use stop payments to prevent stale dated warrants from paying, but use the positive pay delete feature to instruct CB\$ to not honor stale dated warrants. This will allow the warrant to be returned with the correct reason denoted (i.e., "stale dated" instead of "payment stopped.") If it is desirable for the warrant to be returned for reason of "payment stopped" (e.g., lost, stolen, or issued by mistake), the item should be left on CB\$ as an active positive pay record, so that the stop payment will detect the item.

#### **How does positive pay affect escheated warrants?**

Prior to positive pay, some agencies put stop payments on warrants that were being escheated. When an account begins to participate in positive pay, this practice should be discontinued. Instead, the agency should submit positive pay "deletes," which takes the warrant numbers off of the active positive pay file. The agency can submit "deletes" either as individual transactions, or as a batch. This will allow the warrant to be returned with the correct reason denoted (i.e., "stale dated" instead of "payment stopped.") For NCAS accounts, escheated warrants are automatically transmitted by to NCDST as "deletes" when escheated on the system.

#### **Can an agency view all warrants that are active on the positive pay file?**

Yes. 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.

#### **What edits are performed on each presented warrant?**

Edits are performed on each warrant presented through the Federal Reserve Bank (FRB), providing for a match of the following items: *account number*, *warrant number*, and *amount*. Presented warrants not passing the matching edit are acted on by NCDST as follows:

- **Encoding error \$50.00 or less**  
NCDST will correct the amount before charging the account, writing the difference to NCDST's over/under account. This will eliminate the item being a mismatch during the agency's monthly reconciliation process.
- **Encoding error greater than \$50.00**  
NCDST will correct the amount before charging the account, and submit a credit/debit adjustment request to the FRB. This will eliminate the item being a mismatch during the agency's monthly reconciliation process.
- **Altered item**  
The warrant number may be correct and the amount different due to an altered amount, not due to an encoding error. In such cases NCDST will dishonor the item, returning it to the FRB as an altered item.
- **Warrant number error**  
NCDST 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**  
NCDST 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 the NCDST to act upon the presentment timely.
- **Stale date**  
Even if a warrant is "active" on the positive pay issuance file, if it is presented after a specific number of days after the issuance date, it will be returned as "stale dated." For most accounts, the stale date is calculated as 750 days, but can be customized by account.
- **Valid warrants not on issuance file**  
There may be cases where the warrant is valid, but for some reason did not get updated to CBS's active positive pay file (e.g. manual checks, system interface problem). Such items bear the risk of being dishonored by NCDST. It is the agency's responsibility to provide data on all issued warrants, and timely. All manually issued warrants must be added to the positive pay file through CB\$, as single "adds," except for those entered through NCAS through the manual check feature, which automatically updates CB\$.