85.22   Deposit Adjustments and Returned Payments

85.22.10   About these procedures
May 1, 1999

These procedures cover items returned or adjustments made by the bank for the following reasons:

- Non sufficient funds (NSF) checks
- Missing signature(s) on check
- Stop payment placed on check
- Account closed
- Deposit adjustment found during bank's proof process
- Other reasons causing return of checks or adjustments to the state's bank accounts

85.22.20   Documentation for deposit adjustments
July 1, 2008

85.22.20.a

An agency is to maintain adequate detail records to document a bank deposit adjustment. For deposit adjustments resulting in an amount due the state (e.g., NSF checks), document the following information in subsidiary records:

- Name of maker and amount.
- Date of check and bank upon which it was drawn.
- The date of the initial deposit of the check subsequently returned and the Revenue Source and Sub-source (if applicable) codes or other account coding to which the check was initially credited.

85.22.20.b

For adjustments to cash in treasury/treasury trust accounts to reflect a returned item or bank adjustment, document the following:

The number identifying the Cash Receipt Journal Summary (A8-A) showing Office of the State Treasurer's (OST) adjustment to cash in the bank to reflect the item returned or adjustment by the bank.

The date and coding of the subsequent redeposit of the returned item, if such subsequent collection is actually realized or the number identifying the Cash Receipt Journal Summary (A8-A) reflecting the subsequent redeposit.

Refer to further Subsection 85.54.52 for collection information related to NSF checks.

85.22.30   Deposit adjustments - treasury and trust accounts
July 1, 2009

For **Treasury and Treasury Trust accounts**, when notified by the bank that an adjustment has been posted to the state's bank account, OST will prepare a Cash Receipt Journal Summary (A8), in the name of the agency that **initially** deposited the returned item. OST will record the adjustment in Account 01P, "Suspense Account," adjusting GL Codes 4310 "Current Treasury Cash Activity (OST Only)" and 7110 "Receipts In-Process." OST will send the agency a copy of the Cash Receipt Journal Summary along with the NSF check, deposited item returned, or Deposit Adjustment Notice. The deposit adjustment current document number will start with "ADJ."

The agency is to record the deposit adjustment or returned check:

Using the Cash Receipts Journal Summary (A8) prepared by OST, clear receipts in process in Account 01P and establish a receivable for the amount of the returned item. Refer to Subsection 85.24.50 for an illustrative entry.

Clear the receivable in Account 01P by a journal entry adjusting the GL Code where the amount was originally recorded in the agency's operating account. This is normally revenue, but may be expenditure recovery or receivable liquidation. If a revenue, use either Revenue Source Code 0940 "Deposit Adjustments and Returned Checks" or the revenue source code used on the initial deposit. OST will clear Account 01P with the journal entry reflecting the adjustment. Refer to Subsection Subsection 85.24.50 for an illustrative entry.

At fiscal year end, reclassify any residual balance in Revenue Source Code 0940 to the appropriate asset, liability, revenue or expenditure/expense GL code.

Deposit subsequent collection of amounts for which a journal entry adjustment was posted with a Cash Receipt Journal Summary (A8). Refer to Subsection Subsection 85.24.60 for an illustrative entry.

85.22.40   Deposit adjustments - local accounts
July 1, 2009

For local accounts, redeposit returned items as soon as possible. Items returned a second time and other bank deposit adjustments are posted to accounting records by debiting/crediting GL Codes 1110 "Cash in Bank." A receivable is to be established for deposit adjustments resulting in amounts due the state (e.g., NSF checks).

For other types of adjustments, the cash entry is offset by debiting/crediting GL Codes 3210 "Cash Revenues" for revenues, 6510 "Cash Expenditures/Expenses" for expenditure recoveries, or other coding as appropriate. For revenues, use either Revenue Source Code 0940 "Deposit Adjustments and Returned Checks" or the revenue source code used on the initial deposit. Subsequent redeposit of amounts for which a deposit adjustment was recorded should be coded in a manner consistent with the original adjustment.

At fiscal year end, reclassify any residual balance in Revenue Source Code 0940 to the appropriate asset, liability, revenue, or expenditure/expense GL code.

85.22.50   Returns and reversals of AFRS ACH payments
July 1, 2012

85.22.50.a

An AFRS ACH payment may be returned electronically to the state as an ACH return or an ACH reversal.

85.22.50.b   ACH Returns

The receiving financial institution may initiate a return because:

- The payee bank account on the ACH transaction is closed, frozen, or invalid, or
- The payment is refused by the payee.

When an AFRS ACH payment is returned to the state, OST sends a file electronically to AFRS. Based on the information in the file, an AFRS automated process generates transactions for:

1. OST in the Treasury Management System (TM$) for crediting the returned payment to the paying agency/account(s), and

2. The paying agency for clearing the in-process and crediting the appropriate GL Code. The paying agency must release the transactions for processing in AFRS. For AFRS procedures, refer to the "AFRS Payment Cancellations and Returns" instructions available online at: AFRS Payment Cancellations and Returns

   Agencies that opt out of the automated AFRS process should contact the Office of Financial Management (OFM) for alternative procedures.

OFM contacts the paying agency to alert them of the return. The paying agency is responsible for contacting the vendor, requesting updated bank account information, as appropriate, and determining if the payment will be reissued.

85.22.50.c   ACH Reversals

The paying agency or the payee may request that DES process an ACH reversal up to four days after the ACH effective date. Reversals must be in compliance with ACH rules which designate three valid reasons to reverse an entry:

1. The entry is a duplicate payment.

2. The payment is to the wrong payee.

3. The payment is for the wrong amount.

When a valid reason exists and it is within the allowable timeframe, DES initiates the ACH reversal through TM$. DES also coordinates preparation of a cash receipt journal for OST. The state's bank gives a provisional credit that is posted by OST to the paying agency/account(s), per the cash receipt journal. The paying agency must enter a corresponding cash receipt entry debiting GL Code 7110 "Receipts in Process" and crediting the appropriate GL Code.

ACH reversals are not guaranteed as the financial institution can reject the request due to the account balance being less than the requested amount or funds being otherwise unavailable. If this occurs, the financial institution sends a negative ACH return which reverses the provisional credit. The paying agency must reverse the previous cash receipt entry and is then responsible to recover the erroneous payment from the payee.

When OFM initiates an ACH reversal, DES is also responsible to ensure notification of the reversal occurs in accordance with ACH rules which require the payee be notified of the reversal and the reason for the reversal no later than the effective date of the reversal. The effective date of the reversal is one banking day following the reversal request or the effective date of the original ACH payment, whichever is later.