

## COLLECTION MECHANISMS

**1. REASON FOR ISSUE:** This handbook establishes new Department of Veterans Affairs (VA) collection management information that supplements the policies contained in VA Directive 4070, Cash Management.

**2. SUMMARY OF CONTENTS/MAJOR CHANGES:** The Cash Management Improvement Act of 1990 and the Cash Management Improvement Amendments of 1992 mandated that executive agencies use Electronic Funds Transfer (EFT) for financial transactions whenever cost-effective, practicable and consistent with statutory authority. Regulations for implementing the law are contained in Title 31 Code of Federal Regulations, Part 206. This handbook provides information on collection mechanisms available in the VA.

**3. RESPONSIBLE OFFICE:** Cash and Debt Management Division (047GC1), Cost and Debt Management Service, Office of the Associate Deputy Assistant Secretary for Financial Policy.

**4. RELATED DIRECTIVE:** VA Directive 4070, Cash Management.

**5. RESCISSIONS:** None.

**CERTIFIED BY:**

Nada D. Harris  
Deputy Assistant  
Secretary for  
Information Resources  
Management

**BY DIRECTION OF THE  
SECRETARY  
OF VETERANS AFFAIRS**

D. Mark Catlett  
Assistant Secretary for Management

*Distribution: RPC:  
FD*

## COLLECTION MECHANISMS

**1. PURPOSE.** A collection mechanism is defined as any tool or system by which the VA receives money from an outside recipient or from another Federal agency. This handbook

describes the various collection mechanisms available within the VA. The purpose of this handbook is to provide information that will assist Financial Managers in selecting the most advantageous collection mechanism for each type of collection. This handbook also provides information to assist in locating additional information and guidance on the mechanisms.

## **2. RESPONSIBILITIES**

a. The Chief Financial Officers (CFO) or comparable office within a VA Administration or Staff Office shall have the overall responsibility to periodically evaluate collection methods used for their programs, to determine the most advantageous collection method, to ensure that adequate internal controls have been established for each type of collection, and to promote the methods chosen for each type of collection.

b. In each case, the collection method chosen is to be based upon minimizing total costs to the government as a whole, including VA costs and the float cost of the money involved in the collection system.

## **3. ELECTRONIC FUNDS TRANSFER (EFT)**

**a. General.** Electronic funds transfer (EFT) is the transfer of funds electronically rather than by cash, check, or other paper instrument. EFT is initiated through an electronic terminal, telephone, computer or similar device and authorizes a financial institution to debit or credit an account. The administrative costs of collecting funds electronically are considerably less than the administrative costs of collecting funds by other methods.

**b. Required Use.** Title 31 Code of Federal Regulations (CFR), Part 206, requires agencies to use effective, efficient collection mechanisms, principally Electronic Funds Transfer, for all federal collections. An Agency's failure to comply may result in a charge by the Department of the Treasury equal to the cost of such non-compliance. All funds must be collected electronically when cost-effective, practicable, and consistent with current statutory authority.

**c. Electronic Collection Mechanisms.** All of the collection mechanisms described in this handbook are either classified as electronic funds transfers or are methods that have electronic transfer capabilities.

**4. AUTOMATED CLEARING HOUSE.** The Automated Clearing House (ACH) is a nationwide payment and collection system used to settle electronic debits and credits between financial institutions. The ACH clears debits and credits electronically rather than through the physical movement of checks. ACH provides the VA and its remitters the ability to collect payments from bank accounts at designated financial institutions. Title 31 CFR Part 210 defines the responsibilities and obligations of participants in the Federal ACH process.

**5. CASH-LINK.** CASH-LINK is the automated reporting system used by financial institutions and Federal agencies to report and transfer receipts to the U. S. Treasury. This system receives deposit and accounting information from the local depositories, prepares information to initiate funds transfers to the Federal Reserve Bank, and provides detailed accounting information through one consolidated deposit information data base. The VA has next-day, on-line access to deposit information and same-day, on-line access to Fedwire Deposit System wire transfers. The CASH-LINK system provides data on deposits by ACH, Federal Reserve Bank, Treasury General Account, Plastic Card Collection Network, lockbox, and Fedwire Deposit System.

## **6. DIRECT PAYMENT BY PREAUTHORIZED DEBIT (PAD)**

**a. General.** Preauthorized Debit (PAD) is an electronic transfer of funds authorized in advance by the remitter. This program uses the ACH system and allows the VA to collect payments automatically. The VA may electronically withdraw the amount from the remitter's bank account on a predetermined basis or the remitter may electronically transmit the funds at their discretion. PAD collections may be used for both recurring and single collections.

**b. Recurring PAD.** A recurring PAD is a standing agreement between the VA and the remitter which allows the VA to collect payments automatically on a predetermined date each month. After enrollment, the VA initiates the entries which releases the payments from the remitter's bank account. The recurring PAD is the ideal method of receiving recurring collections of fixed or slightly varying amounts. VA collections that lend themselves to recurring PAD include life insurance collections, loan collections, and collections on any debt that has a monthly repayment agreement.

**c. Single PAD.** A single PAD is an agreement between the VA and the remitter which allows the VA to collect one payment automatically on a predetermined date. After approval from the remitter for a specified amount and collection date, the VA initiates the entries which releases the payment from the remitter's bank account. The single PAD is best suited for recurring collections where the amount varies.

**d. PAD Originating and Collection Options.** Prior to establishing a PAD application, the VA must initiate an agreement with the Department of the Treasury and the financial institution that will process the ACH entries. Requests for PAD applications are to be forwarded to the Cash and Debt Management Division (047GC1). There are two options for originating and collecting PAD transactions, either an approved automated lockbox financial institution or the Department of the Treasury Regional Finance Center (RFC).

**(1) Lockbox Network Financial Institutions.** The Department of the Treasury manages a lockbox collection network comprised of financial institutions around the country. One of these financial institutions may be selected to provide PAD services. These banks can process both recurring and single PAD collections. The selected bank will serve as VA's entry point into the ACH network and receive the funds on behalf of the agency. The bank will receive information from the VA, format the transactions, and originate the file

into the ACH network for settlement. The banks may also receive payment instructions directly from the remitter. The banks will report the deposits received through CASH-LINK, transfer the funds to Treasury's account for credit to the VA, and transfer remittance data to the agency as requested.

**(2) The Department of the Treasury Regional Finance Center (RFC).** Treasury's RFC can provide originating and collection services for recurring PAD programs. PAD instructions from the VA are transmitted to the RFC in a format similar to disbursement instructions. The RFC reformats the information and forwards the file to the ACH system. The RFC is credited with funds on behalf of the VA and the VA's account is credited through CASH-LINK.

## **7. DIRECT PAYMENT BY CUSTOMER CREDIT**

**a. General.** A customer credit is an electronic funds transfer initiated by the remitter. This program uses the ACH system and allows the VA to receive automatic collections. With a customer credit, the remitters request that their financial institution send an electronic payment to a specified account for the VA. The remitter controls the payment timing and amount. Payments are generally initiated by the remitter through some type of electronic device, such as telephone, personal computer, or point-of-sale terminal.

**b. Customer Credit Collection Options.** Prior to establishing a customer credit application, the VA must initiate an agreement with the Department of the Treasury and the financial institution that will receive the ACH credits. Requests for customer credit applications are to be forwarded to the Cash and Debt Management Division (047GC1). Customer credits may be received through either an approved automated lockbox financial institution or through the Remittance Express (REX) Program discussed below.

**(1) Lockbox Network Financial Institutions.** One of the financial institutions in the Department of the Treasury's lockbox collection network may be selected to provide customer credit collection services. These banks can receive information from the VA, from the remitter, or directly from the ACH system. The banks will report the deposits received through CASH-LINK, transfer the funds to Treasury's account for credit to the VA, and transfer remittance data to the agency as requested.

**(2) Remittance Express (REX) Program.** The REX program allows the federal government to receive ACH collections directly from the private sector. The remitter sends an ACH credit transaction to a unique routing transit number at a Federal Reserve Bank. The transaction information includes program and remitter information to identify both the sender of funds and the purpose of the payment. The Federal Reserve Bank receives the transaction and credits the Remittance Express account. Then, transaction information is passed into the CASH-LINK deposit reporting system. The VA may query the CASH-LINK system or download information to update receivable systems.

## **8. LOCKBOX**

**a. General.** In addition to the ACH lockbox services described for PAD and Customer Credits, there are non-ACH lockbox services available. These also are included in Treasury's lockbox collection network. They provide a post office box or account established by a financial institution for receipt of payments to an agency. The lockbox mechanism accelerates the deposit of payments mailed and credited to the VA. If the lockbox handles payments by check, the remitter makes payment to the post office box. Then, the designated lockbox institution picks up the mail several times a day, opens it, and processes it. Checks and electronic payments are cleared through banking channels in accelerated batches and record of the payment, along with any correspondence received, is forwarded to the VA. Lockboxes are recommended for use when the average monthly dollar volume of collections is one million or more. These lockbox services may be either retail or wholesale. Additional information on lockboxes is available in the Treasury Financial Manual (TFM), Part 5, Chapter 4600.

**b. Retail Lockbox.** A retail lockbox handles receipts of payments that also include coupon type payment documents. The retail lockbox electronically processes the machine-readable coupons, captures specific information from the invoice and check, and forwards information in electronic form to the VA. Retail lockboxes are best suited for low dollar, high volume collections.

**c. Wholesale Lockbox.** A wholesale lockbox handles receipts of payments manually. Invoice and payment information is input by the lockbox operation for electronic transfer to the VA. Wholesale lockboxes are best suited for high dollar, low volume collections.

## **9. PLASTIC CARD COLLECTION NETWORK (PCCN)**

**a. General.** The Plastic Card Collection Network (PCCN) is a government-wide network that allows the VA to accept credit or charge cards and debit cards in payment for goods, services, and debts. Benefits of the PCCN include: reducing deposit operations, eliminating returned checks, enhancing administrative savings, reducing cash handling, and accelerating fund availability.

**b. Commercial Credit Cards.** The VA accepts charge cards for collection purposes. These cards may be used for low-dollar collections received over the counter, by mail, or by phone. Transactions are then processed electronically using a selected network bank. Additional information on credit card collections is available in VA Handbook 4010, Section E and TFM 5-4700.

**c. Debit Cards.** The debit card, also known as an Automated Teller Machine (ATM) card, allows direct withdrawals from debtor or purchaser banking accounts. The machine readable card allows electronic withdrawals from checking or savings accounts. The debit card program accelerates the receipt of funds and decreases the loss of funds from bad checks. Additional information on debit card collections is available in TFM 5-4700.

## **10. STORED VALUE CARDS**

**a. General.** Stored Value Cards are credit card sized instruments that contain a cash value. The consumer purchases the card with cash, credit card, or debit card. When small value items are purchased, the value of these items is deducted from the value of the card. The purpose of the card is to reduce handling of coin currency and small amounts. These cards can be either smart cards or read only cards. In addition, they can be disposable or reloadable.

**b. Smart Cards.** Smart Cards contain a computer chip that enables them to make a decision. Smart cards are used not only for cash or stored value purposes but also for access and informational purposes.

**c. Read-only Cards.** Read-only cards do not contain a computer chip but are capable of having amounts or information added or deleted.

**d. Rechargeable Cards.** Rechargeable cards can be used permanently. After purchase, additional funds transfer can be made to reload card values.

**e. Disposable Cards.** Disposable cards are purchased once. When their value reaches zero, they cannot be reused.

**11. ON-LINE PAYMENT AND COLLECTION SYSTEM (OPAC).** The preferred method of collecting funds from other federal agencies and components is interagency transfer through the OPAC system. OPAC electronically transfers debits and credits between agencies. Additional information on OPAC is available in TFM 6-4000.

**12. FEDWIRE DEPOSIT SYSTEM (FDS).** FDS is Treasury's method for processing wire transfer collections. Under FDS, the remitter requests its financial institution to wire the funds to Treasury's account. Wire transfers are relatively expensive and use of FDS should be limited. Generally, FDS should be used either for individual collection amounts in excess of \$100,000 or for individual collection amount of \$100,000 or less when there is an immediate need for receipt of funds acknowledgment.

### **13. OFFSET FROM FEDERAL FUNDS**

**a. General.** An offset from federal funds is the collection of a debt, in part or full, from monies a debtor is currently receiving or may receive in the future from the Federal Government. The VA may collect funds through offset from selected VA benefit payments, tax refunds, federal salary or lump sum payments, federal retirement systems, vendor payments or other miscellaneous federal payments.

**b. VA Benefit Payment Offset.** An offset from VA Benefit Payments is the reduction of benefits due as a VA beneficiary. These benefits may include education benefits, compensation benefits, pension benefits or other VA benefits which are allowed, under law, to be offset only to recoup debts resulting from participation in a VA benefit program. Additional information on VA benefit payment offsets is available in MP-4, Part VIII.

**c. Tax Refund Offset.** Tax Refund Offset is a tool the VA may use to collect a debt by withholding all or part of an income tax refund. If the VA wants to initiate a tax refund offset, it will refer the debt to the Internal Revenue Service (IRS) for matching against income tax files of a given tax year. If a match occurs and a refund is available for offset, IRS returns the amount of the offset to the VA, less a servicing fee. Additional information on tax refund offsets is available in MP-4, Part VIII.

**d. Federal Salary and Lump Sum Offset.** Federal Salary and Lump Sum Offset is a mechanism for collecting obligations from Federal employees by withholding a portion of their salary or lump sum benefits due. Additional information on federal salary and lump sum offsets is available in MP-4, Part VIII.

**e. Retirement System Offset.** Federal Retirement System offset is a mechanism for collecting obligations from former Federal employees by withholding a portion of their retirement benefits from either the Civil Service Retirement System (CSRS) or from the Federal Employees Retirement System (FERS). Additional information on retirement offset is available in MP-4, Part VIII, Chapter 10.13 and MP-4, Part II, Chapter 5C.

**f. Vendor Payment Offset.** Vendor Payment Offset is a mechanism for collecting obligation by withholding funds due to a vendor. Additional information on vendor offset will be included in VA Handbook 4800.8, Vendor Debts.

**g. Miscellaneous Federal Offset.** Most federal payments, with a few exceptions, are subject to offset. The exceptions include VA benefit payments which may only be offset to recoup VA benefits debts, and Social Security, Railroad Retirement and Black Lung payments. These exceptions may only be offset on benefit amounts exceeding a threshold of \$750 a month.