

Washington, DC 20420

Transmittal Sheet

April 21, 1997

DISBURSEMENT MECHANISMS

1. REASON FOR ISSUE: This handbook establishes new Department of Veterans Affairs (VA) disbursement 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. The Debt Collection Improvement Act of 1996 strengthened this issue by requiring EFT for Federal payments to new recipients effective July 26, 1996, unless a waiver has been requested. The 1996 law also requires EFT for Federal payments to existing recipients effective January 1, 1999. Full and specific limitations on use will be prescribed in the forthcoming Treasury Final Rule. This handbook provides information on disbursement 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:

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

Nada D. Harris
Deputy Assistant
Secretary for
Information Resources
Management

D. Mark Catlett
Assistant Secretary for Management

Distribution: RPC:

DISBURSEMENT MECHANISMS

1. PURPOSE. A disbursement mechanism is defined as any tool or system by which the VA transfers money to an outside recipient or to another Federal agency. This handbook describes the various disbursement mechanisms available within the VA. The purpose of this handbook is to provide information that will assist Financial Managers in selecting the most advantageous disbursement mechanism for each type of disbursement. This handbook also provides information to assist in locating additional information and guidance on the mechanisms.

2. RESPONSIBILITIES

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

b. In each case, the disbursement method chosen is to be based upon the dollar value of the disbursement, the type of disbursement, and the cost effectiveness of administratively handling that disbursement.

The disbursement method chosen is to be based on minimizing total costs to the government as a whole.

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 disbursing funds electronically are considerably less than the administrative costs of disbursing funds by check. In addition, EFT increases security, reliability, and convenience for recipients of payments and permits greater control over the timing of the payments.

b. Required Use. The Debt Collection Improvement Act of 1996 requires that all Federal payments to a new recipient who becomes eligible for payment after July 26, 1996, shall be made by EFT. In addition, all Federal payments to existing recipients shall be made by EFT after January 1, 1999. Implementation of EFT for existing recipients should not be delayed until January 1, 1999, as current legislation, Title 31 Code of Federal Regulations

(CFR), Part 206, requires agencies to use effective, efficient disbursement mechanisms, principally EFT, in the delivery of payments. The VA is required to make electronic disbursements a provision of new contractual agreements or renewal of existing contracts. An Agency's failure to use EFT may result in a charge equal to the cost of such non-compliance by the Department of the Treasury.

c. Waivers. Prior to January 1, 1999, a waiver to use a disbursement method other than EFT may be approved if a new individual recipient provides a written certification that they do not have an account with a financial institution. The Chief Financial Officers or comparable office within a VA Administration or Staff Office may establish individual recipient waiver approval methods as appropriate for their programs. After January 1, 1999, individual waivers will not be approved but the Secretary of the Treasury will authorize waivers for classes of individuals or for types of payments. Waivers for classes of individuals or for types of checks will be coordinated by the Office of Financial Policy (047CG1) upon receipt of requests from Chief Financial Officers or comparable office within a VA Administration or Staff Office.

d. Electronic Disbursement Mechanisms. All of the disbursement mechanisms described in this handbook are classified as EFT except cash, treasury checks, FedSelect checks, and third party drafts.

4. AUTOMATED CLEARING HOUSE SYSTEM (ACH). The Automated

Clearing House (ACH) is a nationwide payment and collection system used for the settlement of electronic debits and credits between financial institutions. The ACH clears debits and credits electronically rather than through the physical movement of checks. ACH provides VA and its recipients the ability to disburse payments to bank accounts at designated financial institutions. Title 31 CFR Part 210 defines the responsibilities and obligations of various participants in the Federal Government ACH process.

5. ELECTRONIC FUNDS TRANSFER (EFT) DIRECTLY TO RECIPIENTS ACCOUNT

a. EFT for Payroll. VA is required by 31 CFR Part 206.4 to issue salary payments to all employees by EFT when cost-effective, practicable, and consistent with current statutory authority. The Government Management Reform Act of 1994, Section 402 of Title IV, requires federal agencies to make wage, salary, and retirement payments by EFT for new Federal employees and those hired from outside the agency on or after January 1, 1995. The Debt Collection Improvement Act of 1996 requires EFT for all employees with a date of entry on duty with the VA on or after July 26, 1996, and for all existing employees after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Detailed policy and implementing procedures for payroll EFT are contained in VA Directives 4100 and 4112.

b. EFT for Benefit Recipients. The Office of Management and Budget (OMB) requires agencies to consider EFT the presumed method of payment for all programs providing direct benefits to individuals, including veterans programs. Both OMB and 31 CFR Part 206 require EFT to be presented to new beneficiaries as the presumed method for receiving benefits. The Debt Collection Improvement Act of 1996 requires EFT for those recipients that applied for that type of benefit on or after July 26, 1996, and for all existing recipients after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Disbursements for existing recipients prior to January 1, 1999, should be EFT to the maximum extent. There are two options for providing EFT payments to benefit recipients, deposits to their personal account and Electronic Benefit Transfers (EBT).

(1) Deposits for Benefit Recipients. Under this method, the benefits are directly transferred to the beneficiaries personal account at a financial institution.

(2) EBT for Benefit Recipients. EBT is a program to provide the advantages of electronic payments to federal recipients that do not have a bank. Under EBT, benefits are transferred to a location at which funds are then available through an automated teller machine or a point-of-sale terminal.

c. EFT for Employee Travel. The Debt Collection Improvement Act of 1996 requires EFT for all payments for employee travel orders authorized on or after July 26, 1996, unless a waiver has been issued as described in paragraph 3.c. Additional information on EFT for employee travel will be available in VA Directive 4003, Travel Reimbursement.

6. VENDOR EXPRESS. Vendor Express is the VA's preferred payment method for contractors and vendors. This program electronically transfers money and remittance information through the ACH network to vendors, contractors, grant recipients, and other commercial operations. The Debt Collection Improvement Act of 1996 requires EFT for all payments made under a contract or purchase order resulting from a solicitation issued on or after July 26, 1996, and for all payments made on or after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Disbursements prior to January 1, 1999, for existing contracts should be EFT to the maximum extent. The Vendor Express program provides payment-related accounting information which is transmitted along with the actual payments. In the past, Vendor Express used the Cash Concentration or Disbursement Plus Addendum (CCD+) or the Corporate Trade Payment (CTP) formats for the accounting information. The enhanced Vendor Express will use the CCD+ and the Corporate Trade Exchange (CTX) ACH formats to issue payments. The CTX format allows for up to 9,999 addendum records with approximately 800,000 characters. The additional addendum record capability will allow for transmission

of complete remittance information along with the payment. This will also provide the capability for one CTX payment to cover multiple invoices. The Vendor Express Programs has also been enhanced with additional Electronic Data Interchange (EDI) capabilities which allows the VA to order goods electronically. Additional information on EFT for contractors and vendors is available in VA Directive 4113, Use of Electronic Funds Transfer Payment Methods.

7. GOVERNMENT PURCHASE CARDS/IMPAC

a. General. Government Purchase Cards, also known as International Merchant Purchase Authorization Cards (IMPAC) are plastic commercial bank cards much like credit cards. A Government Purchase Card may be issued to designated VA employees. The card bears the employee's name and can be used only by this employee for official purposes. The Government Purchase Card was developed to make small purchases with a minimum of paperwork and is considered an electronic funds disbursement.

b. Applicable Purchases. The Government purchase card is normally used for micropurchases, currently defined as orders for \$2,500 or less. The card may be used for an amount up to the simplified acquisition threshold which is currently set at \$100,000. Nonelectronic disbursement methods for micropurchases such as imprest funds, third party drafts, and Treasury checks may be used in lieu of the Government purchase card only when it is more

cost-effective, practicable or required by existing statutes and an EFT waiver has been approved, if applicable.

NOTE: At the time of issuance of this handbook, the Treasury Financial Manual (TFM), Volume 1, Part 4, Chapter 4500 limited purchase cards disbursements to orders of \$25,000 or less. The Department of the Treasury has informed us that the \$25,000 amount is incorrect and the amount is linked to the simplified acquisition threshold amount.

c. Internal Control Issues. In order to protect the government's interest, it is extremely important that adequate internal controls are established throughout the administration of this program. This includes, but is not limited to, ensuring that: only authorized employees receive the card; authorized employees are adequately trained in use of the card; the charge card numbers are not available to anyone other than the authorized employee; charges are for official purchases only; purchases made using this card are fairly priced; purchases are received; and, bills are correctly paid. Adequate procedures shall be established to meet these goals and reviews shall be conducted to ensure compliance with these goals.

d. Program Information. The Office of Financial Operations (047F) has provided Purchase Card Procedures Guides, Instructor's Guides, Training Guides, and Credit Card System (CCS) User Guides. These guides furnish detailed information on the program. Supplemental

information on government purchase cards is contained in TFM Volume 1, Part 4, Chapter 4500, and GAO Title 7, Chapter 6, Section 6.7.

8. PRIME VENDOR PROGRAM CREDIT CARD ACCOUNT. The Prime

Vendor Program is an electronic payment program which automates Prime Vendor (pharmaceutical drugs and supplies) billings and payments. This program utilizes the same concept as the Credit Card System (CCS). When a purchase is made, the Prime Vendor bills the credit provider who in turn transmits the transaction electronically into the Austin Finance Center CCS and an electronic payment is made to the credit provider. The CCS also formats and generates payment documents which are interfaced with the accounting system. The Prime Vendor Payment Procedure Guide issued by the Office of Financial Operations (047F) provides detailed information on this program.

9. VA EMPLOYEES TRAVELER'S CHARGE CARD.

a. VA employees may be issued a Government Charge Card to charge transportation, subsistence, and other allowable travel and transportation expenses incurred during official Government travel. Under this program, the individual employee receives their own card, charges their allowable expenses, is reimbursed by the VA for expenses, and is personally liable to the company issuing the charge card. This program allows the VA to reduce cash travel advances which

subsequently allows the agency to reduce the amount of cash required by Agent Cashiers.

b. Additional information on the Travel Charge Card program is available in:

(1) VA HANDBOOK 4010, SECTION F

(2) OFM BULLETIN 95G4.2

(3) VA EMPLOYEE TRAVEL MANAGEMENT MANUAL, MP-1, PART II, CHAPTER 2, APPENDIX M

(4) FEDERAL TRAVEL REGULATIONS, CHAPTER 301-15.40--15.44

10. VA TRAVELERS AUTOMATED TELLER MACHINE (ATM) PROGRAM.

a. VA employees with a traveler's charge card account which is in a current status may be given approval to participate in the ATM program. Authorized employees complete an enrollment form and receive a personal identification number (PIN). Then, employees may use their charge card to obtain cash travel advances at an ATM. This program also allows the VA to reduce cash travel advances which subsequently allows the agency to reduce the amount of cash required by Agent Cashiers.

b. Additional information on the Automated Teller Machine program is available in:

(1) VA HANDBOOK 4010, SECTION F

(2) VA EMPLOYEE TRAVEL MANAGEMENT MANUAL, MP-1, PART II, CHAPTER 2, APPENDIX M

(3) FEDERAL TRAVEL REGULATION, CHAPTERS 301-15.47 AND 301-9.1

11. GOVERNMENT TRAVEL ACCOUNT.

a. The Government Travel Account (GTA) is an additional method of purchasing passenger transportation services. This is a centrally billed account for use by a location or office. Advantages of the GTA program include: a single monthly statement; better control and immediate credit on unused tickets; reduced administrative costs; and, simplified billing, reconciliation, and payment procedures.

b. Additional information on the GTA program is available in:

(1) VA HANDBOOK 4010, SECTION F

(2) VA EMPLOYEE TRAVEL MANAGEMENT MANUAL, MP-1, PART II, CHAPTER 2, APPENDIX M

12. TREASURY FEDWIRE PAYMENTS

a. General. The FEDWIRE program, also referred to as the FEDLINE system, is a funds transfer method developed by the Federal Reserve System. This disbursement mechanism provides the capability to electronically transmit funds to financial institutions over the Federal Reserve Communications System through a direct line to a Federal reserve bank. FEDWIRE provides for immediate availability of funds.

b. Limitations on Use. FEDWIRE is expensive for the VA and for the recipient. Thus, FEDWIRE should be used only for high-dollar, low volume payments in excess of \$100,000 which must be received that day.

13. ON-LINE PAYMENT AND COLLECTION SYSTEM (OPAC). The preferred method of disbursing funds to other federal agencies and components is an interagency transfer through the OPAC system. The OPAC system allows electronic transfers of debits and credits between agencies. Additional information on OPAC is available in the TFM Volume 1, Part 6, Chapter 4000.

14. TREASURY CHECKS. Treasury Checks are drawn on the U.S. Government and are issued at the VA's request. Treasury Checks

are not electronic disbursements and are generally not the most advantageous disbursement method. In lieu of Treasury Checks, facilities are required to use electronic disbursements for all new recipients after July 26, 1996, and for all existing recipients after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Disbursements for existing recipients prior to January 1, 1999, should be EFT to the maximum extent.

15. FEDSELECT CHECKS

a. General. FedSelect Checks are check-like instruments drawn on and paid by the U.S. Department of the Treasury. The FedSelect Check program was developed as a more cost effective program than the Third Party Draft program. The FedSelect Check is an alternative to cash disbursements and third party drafts but should only be used when the Government Purchase Card cannot be used.

b. Limitations on Use. The FedSelect Check, like other non-electronic disbursements, may not be used for new payees after July 26, 1996, or for any payee after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Full and specific limitations on use will be prescribed in the forthcoming Treasury Final Rule.

c. Dollar Limit. The standard dollar limit for a single

FedSelect check is \$10,000. The Department of the Treasury will consider exceptions which allow \$25,000 disbursements but prior approval must be granted. Requests for Treasury exemptions are to be made through the Cash and Debt Management Division (047GC1).

16. THIRD PARTY DRAFTS

a. General. Third Party Drafts are check-like instruments drawn on and paid by an issuing company. The issuing company provides the VA with a supply of drafts drawn on the issuing company's account. The Third Party Draft is an alternative to cash disbursements. Third Party Draft usage is beneficial because it provides a complete audit trail and reduces cash held by the Agent Cashier and Imprest Funds personnel. Third party drafts should be used in lieu of cash but only when the Government Purchase Card or FedSelect checks cannot be used. Third party drafts may also be used for small purchases subject to the Prompt Payment Act. Drafts should be used for small purchases only if they are operationally and cost effective.

b. Limitations on Use. Third Party Drafts, like other non-electronic disbursements, may not be used for new payees after July 26, 1996, or for any payee after January 1, 1999, unless a waiver has been issued as described in paragraph 3.c. Full and specific limitations on use will be prescribed in the forthcoming Treasury Final Rule.

c. Dollar Limit. When third party drafts are issued for routine imprest funds payments, the dollar limit is \$2,500 and their use is restricted by the imprest funds guidelines defined in the TFM Volume 1, Part 4, Chapter 3000, Section 3040.70. When third party drafts are issued for small purchases, the dollar limit is \$10,000 unless a waiver has been received from the Department of the Treasury. Requests for Treasury waivers are to be made through the Cash and Debt Management Division (047GC1).

d. Additional Information. More information on Third Party Drafts is available in:

(1) VA Handbook 4010, Sections C and G

(2) VA Handbook 4030

(3) Treasury Financial Manual, Volume 1, Part 4, Chapter 3000, Section 3040.70

17. CASH

a. General. Cash held by Agent Cashiers and Imprest Funds Cashiers costs the government millions of dollars in lost interest annually. Thus, cash disbursements should generally be limited to very small disbursements which must be distributed immediately. Cash on hand shall be maintained at the minimum needed to meet

normal requirements. In lieu of cash, facilities are required to use electronic disbursements to the maximum extent possible.

b. Limitations on Use. Cash, like other non-electronic disbursements, should not be used for new recipients that become eligible for federal payments on or after July 26, 1996, unless a waiver as outlined in paragraph 3.c. has been requested. Prior to January 1, 1999, individual waiver requests may be approved upon receipt at the facility level. After January 1, 1999, only the Department of the Treasury may waive the electronic funds transfer requirement for individuals or classes of individuals for whom compliance poses a hardship. Full and specific limitations on the use of cash will be prescribed in the forthcoming Treasury Final Rule.

c. Additional Information. More information on cash disbursements is available in:

(1) VA Directives 4010 and 4030

(2) VA Handbook 4010, Section C

(3) Treasury Financial Manual, Volume 1, Part 4, Chapter 3000

(4) Treasury Financial Manual, Volume 1, Part 6, Chapter 8000, Section 8040

(5) Manual of Procedures and Instructions for Cashiers, Supplement
to the Treasury Financial Manual

(6) GAO's Policy and Procedures Manual for Guidance of Federal
Agencies, Title 7 Fiscal Guidance, Chapter 6, Section 6.8