

PS8530.02 THIRD PARTY DRAFT PAYMENT SYSTEM-FPI-(CASH MANAGEMENT)



# Program Statement

**OPI:** FPI  
**NUMBER:** 8534.02  
**DATE:** August 4, 1995  
**SUBJECT:** Third Party Draft Payment System  
(Cash Management), FPI

1. PURPOSE AND SCOPE. To establish operation of the Third Party Draft Payment System (TPDPS) at Federal Prison Industries (FPI), Central Office. This policy defines the relationships and responsibilities between the various individuals instrumental to the third party payment program.

A third party draft system is an alternative payment mechanism the Department of Treasury prescribes for imprest fund-type transactions and payment of small purchases whenever it is operationally or cost effective and consistent with 31 CFR Part 206. The system involves the issuance of a paper draft, drawn on a third party (a bank), and forwarded to a payee to make payment, in full, for purchased goods or services or authorized travel advances/reimbursements.

The paper draft (third party draft) is a negotiable instrument which does not expend Treasury funds when issued, but rather is a method of payment presented to and cleared through a third party contractor. A financial institution is competitively selected under Department of Justice (DOJ) contract as the third party contractor (TPC) upon which the draft is drawn. The TPC provides funds paid to the payee identified on the draft. The Financial Management Branch, Accounting Operations, reimburses the TPC for properly honored drafts the TPC has paid.

2. PROGRAM OBJECTIVES. The expected results of this program are:

a. Payments to vendors will be expedited through appropriate use of third party draft payments.

b. Effective internal control procedures related to third party payment processing will assure that accounting operations are carried out accurately, efficiently, and economically.

c. Compliance reviews of the third party payment site will be conducted annually.

3. DIRECTIVES REFERENCED

P.S. 4100.02 BOP Acquisitions (05/03/89)

Treasury Financial Manual (TFM), Volume I  
DOJ Third Party Payment Policies and Procedures Handbook,  
July 1994  
Federal Acquisition Regulations  
Federal Travel Regulations

4. STANDARDS REFERENCED

a. American Correctional Association Foundation/Core Standards for Adult Correctional Institutions: None

b. American Correctional Association 3rd Edition Standards for Adult Correctional Institutions: None

c. American Correctional Association Foundation/Core Standards for Adult Local Detention Facilities: None

d. American Correctional Association 3rd Edition Standards for Adult Local Detention Facilities: None

e. American Correctional Association 2nd Edition Standards for Administration of Correctional Agencies: 2-CO-1B-11

5. PAYMENT SYSTEM

a. Draft Account Officer. The FPI Controller is designated the Draft Account Officer for the Corporation. The Draft Account Officer is responsible for administering the TPDPS. In addition, the Draft Account Officer designates Disbursing Officers, Draft Technicians, and the Draft Account Manager.

b. Draft Account Manager. The Corporate Accountant in the Financial Management Branch of FPI shall serve as the Draft Account Manager. The Draft Account Manager, designated by the Draft Account Officer, manages the daily operations of the TPDPS, and serves as the contact person for any TPDPS assistance. This individual is responsible for various duties including, but not limited to, processing stop payment requests, ensuring that invoices from third parties are processed, and maintaining the Financial Management Information System (FMIS) Third Party Payment Module. The Draft Account Manager also serves as the Contracting Officer's Technical Representative (COTR) for the third party contractor. The Draft Account Manager shall not serve as a Disbursing Officer for the TPDPS.

c. Draft Site. The Financial Management Branch, Central Office, is the only draft payment site in FPI. No other disbursing offices are authorized to use the TPDPS.

d. Draft Disbursing Officer. The Disbursing Officer is a certifying officer the Draft Account Officer designates to sign third party payment drafts and is responsible for funds control. The Disbursing Officer shall disburse funds only to the extent authorized by a voucher/invoice certified by a duly certified Approving Official. The same individual may serve as both a Disbursing Officer and an Approving Official because of staffing limitations at the payment site.

e. Draft Approving Official. The Draft Approving Official is an Accountable Officer (see Section 6.f.) who is responsible for attesting to the legality, propriety, and accuracy of the supporting documentation for the draft payment. All Draft Approving Officials must complete a signature form which the Draft Manager must retain in the Central Office. (Since the functions of a Draft Disbursing Officer and a Draft Approving Official are combined, the signature card detailed in Section 8.b. fulfills this requirement.)

f. Accountable Officer. An employee, by virtue of his or her employment, function, and position, who is responsible for the obligations and payment of Government funds. **This employee can be held personally liable or subject to disciplinary action for the loss or improper payment of funds for which he or she is accountable or failure to follow laws, regulations, or DOJ policy with regard to obligation or payment of Government funds.** Accountable Officers should seek the advice of his or her component's General Counsel when in doubt about the legality of authorizing the obligation or payment of government funds. Within the TPDPS, both the Disbursing Officer and the Approving Officer are Accountable Officers.

g. Draft Technician (DT). Employees who prepare the supporting documentation for payments, make entries into the FMIS Draft Payment Module, and prepare draft payments. Each DT must have a unique TPDPS user identifier (USERID) and password. Shared ID's and passwords are not permitted. Each DT shall protect his/her password and not disclose it to anyone. The Draft Account Officer must be notified immediately of any compromise in passwords. When a DT no longer functions in that capacity, the Draft Account Manager shall notify the Draft Account Officer via memorandum within three days.

h. FMIS Third Party Payment Module. The automated system used by the DT to prepare and issue drafts and generate reports. The Draft Account Manager is responsible for the FPI maintenance duties associated with this system.

6. AUTHORIZED USE OF DRAFTS. In accordance with the Treasury Financial Manual, 4-3040.70, draft payments shall be considered an extension of an imprest fund, and issued for cash transactions. **Third party payment authority does not constitute procurement authority.** Third party payments shall only be made for purchases or other expenses which have been procured in

accordance with the Federal Acquisition Regulations or other applicable laws or regulations, such as the Federal Travel Regulation.

Third party drafts are authorized for payment of small purchases subject to the Prompt Payment Act whenever they are operationally or cost effective and consistent with 31 CFR Part 206, and when Electronic Funds Transfer or other standard Treasury applications (for instance, Treasury check or Automated Clearing House) or the use of the Government Purchase Card does not meet FPI's needs. Draft amounts for small purchases are not to exceed \$10,000. Travel and routine imprest fund draft payments may not exceed \$2,500.

a. Uses. Drafts may be used for payment of:

- È small purchases (as defined by the Federal Acquisition Regulation) subject to the Prompt Payment Act;
- È authorized travel advances;
- È temporary duty travel settlement;
- È non-inmate periodical subscriptions (when authorized by FAR, JAR and BPAP);
- È partial salary payments to new employees and certain emergency salary payments;
- È prepaid tuition;
- È registration fees; or
- È bank service charges.

b. Prohibitions. Drafts shall not be used for payment of:

- È disbursements subject to the Prompt Payment Act other than small purchases;
- È disbursements to contract employees; or
- È permanent change of duty station (PCS) reimbursements.

7. AUTHORIZED PAYMENT LIMITATIONS. The Treasury Department has granted authority to issue drafts not to exceed \$10,000 for small purchases and \$2,500 for all other routine imprest fund transactions. This limitation must be printed on the face of the draft.

a. Circumventing Dollar Limitations. Multiple payments **shall not** be issued to circumvent an authorized dollar limitation. If a vendor issues multiple invoices in an apparent attempt to circumvent the authorized limit, the invoices should be returned to the vendor.

b. Request for Approval of Exceptions to Payment Limitations. All requests for exceptions to authorized payment limitations shall be forwarded through the FPI Controller to the Director, Finance Staff, Justice Management Division, for review and approval.

8. DESIGNATION OF DRAFT DISBURSING OFFICERS. The Draft Account Officer shall delegate draft signature authority to individuals by designating primary and alternate Disbursing Officers.

a. Bank "Business Signature Cards". Each Draft Disbursing Officer, with the Draft Account Officer's approval, must prepare and sign three third party contractor (TPC) "Business Signature Cards" (signature verification cards). Up to four disbursing officers may be designated on the same signature card. One card is to be retained on file with the Draft Disbursing Officer. The other two cards are forwarded to the Draft Account Manager who retains one on file and forwards the other one to the TPC.

b. Additions/Deletions of Draft Disbursing Officers. The Draft Account Manager is responsible for revoking a Draft Disbursing Officer's signature authority when that individual is no longer functioning in that capacity. When this occurs, the Draft Account Manager shall notify the Draft Account Officer within five working days of the date of effective revocation. The Draft Account Manager shall complete two signature cards with the name of the individual to be deleted and the effective date. After securing the Draft Account Officer's signature, the Draft Account Manager shall retain one of the cards on file and forward the other one to the TPC. Deletions and additions may be requested on the same signature card.

c. List Maintenance. The Draft Account Manager shall retain a list of all current Draft Disbursing Officers and Draft Technicians.

9. ACCOUNTABILITY AND CONTROL OF DRAFT INVENTORY. The Draft Account Manager shall be responsible for the accountability and control of draft inventory at the Central Office draft payment site.

a. Ordering Draft Stock. The FPI Draft Account Manager shall handle all orders for check stock. The Draft Account Manager shall keep a record of the total number of checks ordered to verify the contractor's service charges and for compliance review purposes. All incoming shipments of orders will contain a copy of a blank draft with the starting number of the next supply of drafts.

Whenever the check stock level falls below 200, the Draft Account Manager shall initiate an order. All orders shall be placed in increments of 200. No more than a four-month supply of check stock shall be kept on hand at any time. Stock shall be ordered using the reorder plate included in the box with the previous order. The completed reorder form and copy of the blank draft with the starting number of the new supply shall be forwarded to:

Deluxe Financial Forms  
Forms Management  
2341 St Croix Street  
St Paul, MN 55113  
ATTN: Forms Management Coordinator

The drafts shall have printed in the upper right corner a continuous numeric, serialized, five position number, preceded by the numeric, three position location code the contract coordinator at the Finance Staff, Justice Management Division assigned to this payment site.

b. Receipt and Verification of Draft Stock. The Draft Account Manager shall receive all shipments of blank drafts; must verify that the correct location code, serial numbers, and account number are shown on the drafts; and that the draft microline is accurate. The microline is the series of numerals beginning on the bottom left-hand corner of the draft containing the location code, draft number, bank number, and account number. The Draft Account Manager shall keep a copy of the packing slip and shall store the original packing slip with the draft stock.

c. Verification of Draft Inventory. The Draft Account Officer or designee (an individual independent of the payment process) shall perform a quarterly physical inventory of draft stock, drafts issued, and draft stock on hand, using the TPC Draft Verification Form (Attachment A). This inventory shall be unannounced and in conjunction with a cash verification. The DT or Draft Disbursing Officer shall not perform this inventory.

10. ISSUING DRAFTS. The payment approval process for third party payments is essentially the same as that followed for U.S. Treasury checks. Invoices and requests for payment are received, vouchered, audited, and approved prior to actual third party payment processing. Verification of proper procurement documentation (e.g., purchase orders, blanket purchase agreements, and certified invoices) for goods and services ordered should be made for each voucher submitted for third party payment. (When the Approving Official and Disbursing Officer is the same individual, the approval may take place at the time of the actual third party payment processing.)

a. Prepayment Examination and Certification of Vouchers. An Approving Officer must examine and sign all vouchers. This prepayment examination is to attest that all administrative determinations have been made and that the payment is legal, proper, and accurate for payment by the Disbursing Officer. Administrative determinations to be made include:

(1) The payment is supported by basic payment documents. Payment documents should include an invoice, a signed and dated receiving report, or signed and dated receipt of goods statement on the invoice, and a purchase order or other authority to procure.

(2) The payment is permitted by law and in accordance with the terms of the purchase agreement.

(3) The required authorizations and approvals for the payment have been made.

(4) The amount of the payment and the name of the payee are correct.

(5) The goods received or services performed are in accord with the purchase agreement.

(6) The quantities, prices, and calculations are accurate and in accord with the purchase agreement.

(7) All cash, trade, quantity, or other discounts are taken and, if not, the reason is shown or readily apparent on the appropriate document.

(8) Prompt payment requirements have been followed and duplicate payments avoided.

Once the Approving Officer has determined that the payment is legal, proper, and accurate, the voucher shall be signed, certifying that it is proper for payment. The Disbursing Officer may disburse funds only when the Approving Officer authorizes a voucher.

b. Original Invoice. A draft should only be processed based on an original invoice and/or receiving report, not photocopies. Processing a payment with a photocopy of an invoice in lieu of an original increases the risk that a duplicate payment could occur. However, if the original is lost or destroyed, the technician should request a duplicate invoice from the vendor. The Approving Officer should stamp the duplicate invoice "**Duplicate Original Invoice Certified Proper for Payment,**" sign, and date it.

c. Reimbursement for Travel Vouchers and Travel Advances. The traveler completes travel vouchers. The traveler's immediate supervisor reviews and approves them before submission to the DT for third party payment processing. The travel voucher and/or travel advance and processed draft are routed to the Disbursing Officer who shall review the documents and sign the draft.

Since FPI maintains a separate and independent system from FMIS (FPI Management Control System), travel vouchers cannot be processed using the FMIS Travel Module. Therefore, travel advances and voucher reimbursements shall be processed through the FMIS Third Party Payment Module.

d. Draft Preparation. The FMIS Third Party Payment Module shall be used to process all third party payments. For payments made through the Electronic Certification System (ECS), guidance

is provided in the Treasury Financial Management Service's ECS Manual and other FPI accounting directives.

(1) The designated Approving Officer (or traveler's immediate supervisor for travel vouchers) reviews and approves the voucher, as described above, at the third party payment site.

(2) After approval, the voucher is routed to the DT for processing. The DT verifies the approving signature, and if proper, logs onto the FMIS Third Party Payment Module for processing the payment.

Drafts may only be processed using the FMIS Third Party Payment Module via a personal computer (PC) and printer connected to the DT's PC. The Module prompts the information needed to process the payment. **Drafts must not be typewritten or written by hand and subsequently entered into the FMIS, but must be generated directly using the FMIS and the PC printer.** System security is provided through USERIDs and passwords. Operating guidelines for the automated FMIS Third Party Payment Module are available from the Draft Account Manager and shall be used in conjunction with this Program Statement.

Once the information is successfully entered into the FMIS, the DT shall deface the voucher with a "PAID" stamp, and annotate it with the check number and date.

e. Draft Certification and Distribution. The approved voucher and processed draft are routed to the Disbursing Officer for review and signature. The Disbursing Officer reviews the draft to ensure that:

- È the pre-printed draft number is in agreement with the draft number generated by the FMIS;
- È the amount of the check is in agreement with the amount approved for payment; and
- È proper supporting documentation is attached or available at the site.

**The Disbursing Officer shall verify that all copies of the draft are intact and that no alterations have been made to any of the copies.**

11. ACCOUNTABILITY AND CONTROL OF ISSUED DRAFTS. The Draft Account Officer shall be responsible to maintain control of issued drafts through the procedures outlined below.

a. Numerical Log. The Disbursing Officer is responsible for monitoring the issuance of all checks by maintaining a numerical log, by draft number, of all drafts signed or voided. The Disbursing Officer may use the Daily Issue File generated from the FMIS Third Party Payment Module as the numerical log. He or she must review and sign/initial this log each time he or she signs a draft, accounting for both signed and voided drafts. The

Disbursing Officer shall maintain this log. This serves to verify that drafts are being issued sequentially and that no draft is issued without the Disbursing Officer's knowledge. The DT shall maintain a second copy of this log. The DT's log need not contain the Disbursing Officer's signature/initial.

b. Numerical File. The DT shall maintain a numerical file of the second (pink) copy of all drafts issued at the payment site.

c. Supporting Voucher File. The DT shall maintain and file the first (yellow) copy of each issued draft with the supporting voucher in a central location at the third party payment site to facilitate timely retrieval. In addition, the supporting procurement documentation must be either filed with the voucher or referenced on the voucher to ensure that it can be easily identified and retrieved at the payment site.

d. Stop Payment. A Stop Payment is required when a draft has been issued and it is determined that payment should not be effected. Only the Draft Account Manager can make a Stop Payment and then only prior to a draft being cleared. The draft cannot be voided if it is no longer in the DT's control unless the draft is part of the automatic voiding of drafts outstanding after one year (see below). The Disbursing Officer shall notify the Draft Account Manager of the need to stop a payment.

e. Voiding Drafts. If errors are detected in the printed draft prior to signature and/or issuance or if a draft is damaged, the draft must be voided. A draft that contains an error shall be voided by stamping or writing "VOID" on the front of the original draft and the copies, preferably over the space provided for the signature. The Disbursing Officer shall verify the voided draft and all copies, record them in the numerical log, and then file the original and both copies in the numerical file for compliance review purposes. Any time a draft is voided, this action must be recorded within the FMIS Third Party Payment Module. The Draft Account Manager can reverse a system void if the Draft Technician has mistakenly voided a draft within the system but has not defaced the actual draft.

f. Lost or Stolen Checks. Once delivered, a draft, like cash, becomes the payee's responsibility and the Government's debt is considered to be liquidated. It is the payee's responsibility to notify the payment site that a draft was lost or stolen. When this occurs, the Draft Account Manager shall be notified immediately and a stop payment requested, accompanied by the following information:

E Draft number,  
E Draft amount,  
E Date issued,  
E Draft payee, and  
E Reason for stop payment.

Upon receiving the request, the Draft Account Manager shall initiate the stop payment. Once the stop payment is issued, the DT shall verify the status of the draft using the FMIS Third Party Payment Module. It is critical that a stop payment be requested as soon as the need becomes apparent. A stop payment cannot be issued once the draft has cleared.

g. Check Disposition. The Disbursing Officer shall retain the pink copy (numerical file) and yellow copy (with supporting voucher) of all drafts issued for a period of two years. After expiration of this two-year period, the numerical file copy may be discarded. Voided drafts and supporting voucher files may be forwarded to a Federal Records Center. Pursuant to the National Archives and Records Administration General Records Schedule Transmittal Number 4, GRS Number 6 (April 24, 1992), these Accountable Officers files may be destroyed six years and three months after the close of the fiscal year in which they were issued.

12. INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS. The IRS requires that payments made to individuals or organizations, excluding corporations and governmental organizations, for commissions, fees, rents, and other forms of compensation of \$600 or more in a calendar year be reported to an IRS Service Center. These reports are made on IRS Form 1099, Statement for Recipients of Miscellaneous Income, and summarized on IRS Form 1096, Annual Summary and Transmittal of U.S. Information Returns.

Payments to reportable organizations via third party payments must be reported on IRS Form 1099 in the same manner as required for payments via U.S. Treasury checks. The Approving Officer shall ensure that information related to vendors subject to IRS Form 1099 reporting is accurately identified on the invoice so the DT can enter the necessary Taxpayer Identification Number (TIN) data into the FMIS Third Party Payment Module. The system will prompt the DT for the required information, such as the TIN and whether a payment is subject to IRS Form 1099 reporting.

13. REVIEW OF OUTSTANDING DRAFTS AFTER ONE YEAR. Third party payment drafts not cashed within one year from the date of issuance shall be reviewed and voided in the FMIS Third Party Payment Module. Twice a year, the Draft Account Manager shall run a report and review such drafts, coordinate research with the Disbursing Officer, and take the appropriate action to void, stop, and/or reissue such drafts. Upon notification from the Draft Account Manager, the DT shall annotate "AUTOMATIC VOID" on each voided draft file copy. Voiding one year old uncashed drafts helps to ensure the TPDPS integrity.

14. ACCOUNT MANAGER RECONCILIATION WITH THE TPC. The FMIS Third Party Payment Module automatically identifies drafts presented to the TPC which do not agree with the associated issue record in the FMIS Third Party Payment Module. These mismatched drafts are saved in a file and reported daily on the FMIS Daily Presented

Rejected Transactions Report. The Draft Account Manager shall research and correct all items on this report via the FMIS Third Party Payment Maintenance Facility.

A mismatch is accessed using the TPC Audit Number assigned to the third party payment transaction. The FMIS Maintenance Facility allows the Draft Account Manager to make certain changes to the FMIS data base which allow drafts routed to the FMIS mismatch file to be cleared. The FMIS Maintenance Facility can be accessed via the Account Manager's Menu by selecting the option entitled "Daily Mismatch Report Resolution" which will present the Draft Account Manager with a detailed menu for correcting both TPC and system errors. The reconciliation process is:

a. Drafts Presented. Each morning by 10:30 A.M., the Accountant the Draft Account Manager designated shall access the TELECASH network and download information related to drafts presented for payment through the banking system the previous day. The FMIS automatically matches this information with the issue information related to the draft record number.

b. Matched Drafts. Drafts presented which match draft issue information form the basis for the payment to the contractor.

c. Draft Refusals. The Draft Account Manager shall then identify the cause for all mismatched drafts.

(1) The Draft Account Manager must notify the TPC, by telephone, of the decision to refuse payment on the mismatched drafts. The TPC then updates its files to indicate that the draft was "Refused by Maker." A credit for each refused draft should be reflected on the TPC's TELECASH reports within two to three working days.

(2) If the TPC is not notified by 5:00 P.M. of the decision to refuse mismatched drafts, the TPC transmits payment to the bank where the draft was negotiated. At this point, the account will not be given credit for the refused draft.

15. REIMBURSEMENT TO THE CONTRACTOR. Each morning, the Accountant the Draft Account Manager designates shall access the on-line TELECASH network, download a file of all drafts presented for payment on the previous day, and obtain a Final Disbursement Summary Report. The TPC must be reimbursed daily for all drafts presented on the prior day. The FMIS Third Party Payment Module automatically compares the TELECASH detail file to the FMIS file of draft records processed within the FMIS. Reports are available to assist the Draft Account Manager, via the FMIS, for audit purposes (see Section 16). The Accounts Payable Supervisor is responsible for reimbursing the contractor through the ECS before 2:00 P.M. to effect same-day payment.

16. DRAFT REPORTS. The Draft Account Manager shall generate, through the FMIS Third Party Payment Module, the Monthly Draft

Report to maintain a numerical list of all drafts issued. He or she shall review this report to determine that drafts were issued in numerical sequence and all drafts are accounted for. The Draft Account Manager shall explain any missing drafts on the report. He or she shall then sign the report as certification that the above steps have been completed and shall maintain the original. A copy of the certified Monthly Draft Report shall be filed with the draft numerical file.

Other reports are also available through the FMIS Third Party Payment Module for the Draft Account Manager's use to monitor draft activity.

17. ACCOUNTING ENTRIES AT THE CENTRAL OFFICE. Each day the FMIS Third Party Payment Module automatically generates transaction information to quantify the dollar amount of drafts that cleared the contractor. The Accounts Payable Supervisor shall use this information to make appropriate daily accounting entries into the MCS Accounts Payable Module.

18. THIRD PARTY PAYMENT COMPLIANCE REVIEW REQUIREMENTS. The Draft Account Officer shall ensure that annual reviews of third party payment sites are performed. In addition, the Finance Staff, Justice Management Division (JMD), may, at their discretion, conduct an annual compliance review of FPI's TPDPS.

The review must verify that FPI's TPDPS operates according to guidelines established in the Treasury Financial Manual, this Program Statement, and the established standards for auditing vouchers. **A compliance review must be performed no less frequently than annually.**

Any employee assigned responsibility for approving, processing, or signing third party payments at the review site may not perform the compliance review. Copies of the Compliance Review Report must be submitted to the Director, Finance Staff, JMD. See Attachment B for the Compliance Review Guide and accompanying Third Party Payment Compliance Review Reports.

\s\  
Kathleen M. Hawk  
Director

DATE \_\_\_\_\_ TPC DRAFT VERIFICATION

Drafts on hand -  
(verify from previous verification dated \_\_\_\_\_)

<u>Inclusive Numbers</u>	<u>Quantity</u>	<u>Packing Slip Number</u>
--------------------------	-----------------	----------------------------

_____ to _____	_____	_____
_____ to _____	_____	_____

Total: 1. \_\_\_\_\_

Drafts received since previous verification:

_____ to _____	_____	_____
_____ to _____	_____	_____
_____ to _____	_____	_____

Total Drafts Received: 2. \_\_\_\_\_

Drafts issued since previous verification: Monthly Draft Report

_____ to _____	_____	_____
_____ to _____	_____	_____
_____ to _____	_____	_____
_____ to _____	_____	_____

Total Drafts Issued: 3. \_\_\_\_\_

Total Drafts Currently on Hand  
(Line 1 + 2 - 3) 4. \_\_\_\_\_

Physical count of drafts on hand:

_____ to _____	_____	_____
_____ to _____	_____	_____
_____ to _____	_____	_____

Physical Count Total: 5. \_\_\_\_\_

Difference: (Line 4 - 5) 6. \_\_\_\_\_

Explanation of any difference:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Compliance Review Guide For  
Third Party Payment Site

1. PRELIMINARY EVENTS PRIOR TO THE REVIEW. The Draft Account Officer, or his or her designee, shall select an individual or individuals to perform the review. This person can be selected from among payment site personnel other than those involved in the third party payment process. All individuals participating in the review must be knowledgeable in the area of voucher review, auditing, and payment processing. Each member of the team shall be familiar with all applicable policies and procedures relative to draft usage and preparation.

a. The Draft Account Officer shall notify the Draft Account Manager of the dates, members of the review team, and any documentation required to be available. The Draft Account Officer, at the time of the review, shall submit the names of all Draft Disbursing Officers, Draft Account Manager, Approving Officials, and Draft Technicians to the review team.

b. The Draft Account Manager shall provide the review team with the following reports from the FMIS Third Party Payment Module:

(1) Report of All Drafts Over \$1,750 by Payee. This report reflects only those drafts which were issued in excess of \$1,750. It is useful in highlighting drafts which may have been issued, when combined, in violation of ceiling limitations.

(2) Report of All Drafts Issued By Payee. This report shows draft payment activity sorted by payee. It can be used for selecting and highlighting those drafts to be reviewed against vouchering and audit requirements.

(3) Report of Potential Duplicate Drafts By Location. This report shows drafts issued to the same payee in the same dollar amount and is used to detect those drafts which may be duplicate payments issued in error.

(4) Report of Drafts in Draft Number Sequence By Location. This report provides a listing of all drafts issued, in numerical sequence. This report is useful in highlighting any gaps in draft numbers.

The reviewer shall review these reports and list any unusual items, such as possible duplicate payments, missing or out-of-sequence draft numbers, unusual payees, or drafts to the same payee on the same day which, when totaled, will exceed the authorized limit.

2. DRAFT COMPLIANCE REVIEW PROCEDURES. While performing the following procedures, the review team shall bring to the Draft Account Officer's attention any suspected irregularities to solicit feedback or explanations which may help clarify issues of compliance.

a. Internal Controls. Assess the degree of internal controls and ensure that a separation of responsibilities exists between the Draft Technician's duties and the disbursing and approving functions.

b. Security of Office. Assess the safeguards and security of the office area in which the unused drafts are kept. Determine the following:

(1) Are the drafts kept in a locked, fireproof safe or file cabinet?

(2) Who has access to the unused drafts?

(3) Are the drafts left in the printer when not in use?

c. Check Stock Verification.

(1) Conduct a physical count of unused drafts in inventory, verify the Location Code and microline, and compare draft numbers to the drafts ordered through the Draft Account Manager. Document any break in the draft numbers.

(2) Confirm that all new draft stock was verified and that quarterly counts of draft stock were conducted by reviewing the file documenting the quarterly counts. Ensure that verifications were performed by an individual independent of the payment process. The Draft Technician or Disbursing Officer cannot perform quarterly counts.

d. Numerical Log. Ensure that the Disbursing Officer maintains a numerical log of all drafts signed to serve as a verification that drafts are being issued in sequential order and that no draft is issued without the knowledge of the Disbursing Officer. If the maintenance of the numerical log has been delegated to the Draft Technician or Accounts Payable Supervisor, ensure that the Disbursing Officer signed the log each time drafts were signed.

e. Voided Drafts. Ensure that voided drafts are filed in the numerical draft file with all three copies attached and "VOID" is written or stamped on the face of the original, preferably over the space provided for the signature.

f. Invoice and Voucher Review. Select a minimum of 60 processed third party payments from the "Report of Drafts in Draft Number Sequence by Location" for review. Obtain copies of the drafts and all related documentation. Determine if the following requirements were satisfied. Any discrepancies shall be documented in the work papers.

(1) Ensure that one copy of the draft is filed with supporting documentation. The other copy of the draft should be filed numerically.

(2) Ensure that the draft was issued via the FMIS Third Party Payment Module and was printed by a printer directly connected to a PC.

(3) Ensure that the draft contains the complete address of the payee unless the draft is issued to an employee for travel reimbursement.

(4) Verify that the signature on the draft is one provided by the Draft Account Manager as an authorized Disbursing Officer.

(5) Ensure that the draft amount corresponds to the amount approved as proper for payment.

(6) Ensure that the third party payment does not exceed the authorized limitation per invoice.

(7) Ensure that an authorized Approving Officer has signed the invoice or a voucher cover document in order to attest that the payment is legal, proper, and accurate.

(8) Ensure that the invoice was effectively marked or stamped "PAID" and annotated with the draft number and the date paid to prevent resubmission for a duplicate payment.

(9) Ensure that the third party payment documentation accurately identifies if the vendor is subject to IRS Form 1099 reporting and collection of necessary TIN data.

(10) Ensure that drafts were issued only for authorized uses.

3. DRAFT COMPLIANCE REVIEW REPORTS. At the completion of the review activities, the team leader shall document the findings and conclusions in a "Compliance Review Report."

a. Content. The report should contain the following:

(1) A discussion of the scope of the review, including steps taken during the course of the review.

(2) Findings, corrective actions, and citations.

b. Addressees. The Compliance Review Report shall be addressed to the Draft Account Officer. The Draft Account Officer shall forward a copy of the report to the Director, Finance Staff, Justice Management Division.

4. WORK PAPERS. Work papers are the records kept by the review team of the procedures followed, tests performed, information gathered, and the conclusions reached pertinent to the review.

The review team leader is responsible for assimilating all work papers relating to the review. The work papers shall be forwarded to the Draft Account Officer along with the final Compliance Report. The work papers shall consist, at a minimum, of the following documents:

- a. Copy of written procurement authority.
- b. Voucher listing and notations pertaining to invoice preparation, audit, and approval.
- c. Draft listing and notations pertaining to draft preparation, signature, and filing.
- d. Other documentation pertinent to the conduct of the review, i.e., FMIS Third Party Payment Module Reports.
- e. Copies of supporting documentation for all "questionable" transactions.
- f. Copy of the Compliance Review Report.
- g. Any follow-up responses.