



North Carolina Department of State Treasurer Bank Reconciliation Manual

December 2020

I. INTRODUCTION

The North Carolina General Assembly has established a centralized system for managing the flow of all monies collected and disbursed by the various departments, institutions, universities, community colleges, and agencies of the state (hereinafter referred to collectively as “agencies” for ease of reference). Rather than allowing individual agencies to establish and maintain deposit accounts with commercial banks independently, Article 6 of Chapter 147 of the North Carolina General Statutes authorizes the Department of State Treasurer (“DST” or “Department”) to assist state agencies with selecting their respective depositories (commonly referred to as “official depositories of the state”) and procuring any other banking-related services necessary for successful administration of the agencies’ respective financial operations. This centralized framework ensures that the state remains the primary beneficiary of all state funds flowing through the commercial banking system at any given time. DST performs its statutory banking function by and through its Financial Operations Division (“FOD”).

This Bank Reconciliation Manual (the “Manual”) has been prepared as a guide to assist agencies with resolving certain deposit-related issues that tend to arise in the course of conducting day-to-day banking-related business. Employees responsible for banking-related matters at the various state agencies should familiarize themselves with the information contained herein and use this Manual for future reference. The Manual is intended to supplement any other publications issued by FOD concerning deposit accounts, deposit-related procedures, the acquisition of ancillary banking services, or any other banking-related matter having implications for the statewide banking system. The information contained in this Manual is not exhaustive with respect to the topics covered. Accordingly, the content of this document should be read together with any other applicable guidance or policy issued by FOD. Agencies should consult DST’s website for the most current version of this document (www.nctreasurer.com).

Questions concerning any of the information contained in this Manual should be directed to FOD’s Bank Reconciliation Unit (“Bank Recon” or “Bank Recon Unit”) using the following contact information:

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II. TYPES OF DEPOSIT ACCOUNTS

The state has approximately 1,500 assorted deposit accounts held in the name of the State Treasurer, meaning DST is the legal owner of each such account. Nonetheless, DST maintains these accounts for the benefit of the various state agencies operating within the state’s banking system. Any monies deposited into an account owned by the State Treasurer are credited to the appropriate agency as explained in further detail below.

All state deposit accounts reside in financial institutions that have been formally designated as “official depositories of the state.” The state’s official depositories are made up of six “main” banks (the “Main Banks”) and numerous “non-main” banks (the “Non-Main Banks”) (see definitions for “Main Bank” and “Non-Main Bank” in the Glossary of Terms below). The deposit account types associated with Main Banks and Non-Main Banks, respectively, are discussed in further detail below.

A. Main Bank Accounts

Very generally, the Main Banks maintain four different account types, each of which is unique to Main Banks (insofar as state banking is concerned), and each of which serves a different purpose within the state’s banking framework.

(i) *Cash-in-Transit (CIT) Accounts*

Cash-in-transit accounts (“CIT Accounts”) are deposit accounts held by the Main Banks (one CIT Account per Main Bank) to accommodate the deposit activity of any state agency using that particular Main Bank as its official depository. Agencies may deposit funds directly into these accounts. Agency-specific location codes have been established within the state’s internal banking framework so that any funds placed on deposit in a CIT Account are credited to the appropriate agency. Depending on the circumstances, a single agency may use multiple location codes in association with the same CIT Account, which enables that agency to maintain separate, distinguishable “pots” of money within the single CIT Account. Location codes also allow agencies to view their deposit activity in the state’s Core Banking System (“CB\$”).

On every business day, a Banking Administration Institute file (“BAI File”) for each CIT Account is automatically transmitted to FOD. Each such file contains the details of all of deposit transactions made by state agencies at that particular Main Bank on the previous business day. In other words, CIT Account reconciliation is automated and performed daily, which is not the case with respect to Non-Main Accounts (see below).

Overnight on every business day, the balance of each CIT Account is “swept” down to \$0.00 and transferred to a separate “main account” within that Main Bank (this latter type of account is discussed in further detail below). For this reason, CIT Accounts are designated as “zero balance accounts” or “ZBAs,” since they only serve as temporary conduits of state funds (as the term “cash-in-transit” suggests) and should never post a balance in excess of \$0.00 on any given business day.

(ii) *“One-off” Accounts*

One-Off Accounts are established on a case-by-case basis to accommodate agency-specific needs, and each such account exists for the sole benefit of an individual agency (although the account is still held in the name of the State Treasurer). As with CIT Accounts, state agencies may deposit funds directly into One-off Accounts.

One-off Accounts are most commonly established for the purpose of receiving electronic deposits made by way of credit card transaction, ACH transaction or electronic wire transfer. The entire balance of each One-off Account is “swept” daily into the associated CIT Account (held by the relevant Main Bank) and designated to the appropriate agency-specific location code.

(iii) Settlement Accounts

From time to time, DST will request a Main Bank to establish a Settlement Account for the specific purpose of accommodating a certain type of financial transaction. Such transactions include, but are not necessarily limited to, federal withholding tax payments, international wire transfers, and the direct deposit of payroll *if* the agency in question is responsible for funding the account before initiating the payroll disbursement.

(iv) Main Accounts

As alluded to previously, each Main Bank maintains a “main account” (“Main Account”) into which all funds received into the account types discussed above are transferred on a nightly basis by the bank. Funds transferred into the Main Account are then drawn down by FOD and transferred to the Main Account held at Wells Fargo (Wells Fargo being one of the state’s Main Banks). In this regard, the Main Account held at Wells Fargo serves a dual purpose. With respect to those agencies using Wells Fargo as their official depository, Wells Fargo’s Main Account serves the same cashflow function that the other Main Accounts serve. At the same time, the Wells Fargo Main Account serves as the final cashflow destination of *all* state funds placed on deposit across *all* official depositories of the state (both Main Banks and Non-Main Banks) on any given business day. With regard to this latter function, the purpose of routing all state funds placed on deposit on any given business day to the Main Account at Wells Fargo is to facilitate the investment of those funds by DST’s Investment Management Division.¹

B. Non-Main Accounts

Very generally, “Non-Main Accounts” refer to deposit accounts held at the state’s various Non-Main Banks (often referred to as “community banks”). Unlike Main Banks, Non-Main Banks do not aggregate all state deposits daily into a single account. Instead, each Non-Main Bank maintains a separate and distinct deposit account for any state agency using that particular Non-Main Bank as its official depository (with each such deposit account being held in the name of the State Treasurer). In the same way that agencies using Main Banks may establish multiple One-Off Accounts in association with the same CIT Account, or multiple locations codes in association with the same CIT Account, agencies using Non-Main Banks for depository services may have multiple deposit accounts set up at the same financial institution.

As alluded to above, Non-Main Banks do not aggregate funds into a single CIT Account for the purpose of having those funds “swept” down to a zero balance and transferred internally to a Main Account. Instead, FOD maintains “target balances” in all Non-Main Accounts in order to offset any analysis fees otherwise chargeable against those accounts by the banks. On a daily basis, FOD draws down any funds in excess of the applicable target balances so that DST may invest those funds in accordance with applicable law. FOD accomplishes this “daily drawdown” function by initiating ACH debits in the amounts necessary to achieve the appropriate target balances. Just as the funds drawn down daily

¹ As explained in the introductory paragraph, DST must ensure that the state remains the primary beneficiary of all state funds flowing through the commercial banking system at any given time. If excess funds were to remain on deposit from one business day to the next, presumably the state would not be maximizing the return on those funds, given the missed opportunity for investment.

from the Main Accounts are transferred to the primary Main Account at Wells Fargo, so too are the monies drawn down daily from the Non-Main Accounts.

With respect to reconciliation, the deposit details associated with Non-Main Accounts are entered manually on a monthly basis instead of daily through use of a BAI File (as is the case with Main Banks). FOD's Bank Recon Unit receives monthly account statements from each of the Non-Main Banks, the information from which it then enters into FLEXCUBE for reconciliation with the deposit amounts certified that month by the various agencies to whom the Non-Main Accounts "belong." Unlike the CIT Accounts held at the state's Main Banks, Non-Main Accounts are not available for viewing through CB\$.

III. RECONCILIATION OVERVIEW

Generally speaking, any time an agency deposits state funds into its official depository (regardless of whether the depository is a Main Bank or a Non-Main Bank), that agency is required to certify the deposit amount either to an agency-specific budget code or to a voluntary Short-Term Investment Fund account ("STIF Account") using the state's Cash Management Control System ("CMCS"). In turn, the official depository has an obligation to accept, process and record the agency's deposit, and to report the details thereof to FOD. Ideally, and as is usually the case, for every deposit an agency makes, the agency makes a corresponding certification that matches the deposit amount processed and recorded by the bank. At times, however, deposit errors and discrepancies in deposit amounts do occur, requiring some form of corrective action on the part of the state and/or the depository in question.

The Bank Recon Unit is responsible for reconciling (1) the deposit amounts recorded and certified by the agencies, with (2) the deposit amounts recorded by the banks and reported to FOD. This process enables FOD to detect discrepancies and irregularities in the handling of deposits by agency and bank personnel. Agencies must place a high priority on resolving any such discrepancy whenever notified to do so by FOD. If an item remains unresolved 30 days following such a notification, Bank Recon may clear that item by adjusting the initial entry made in CMCS (whether to a budget code or voluntary STIF Account) and notifying the relevant agency of having taken such action.

IV. REVERSING A CERTIFICATION

In order to reverse a certification, agencies must submit a *negative* certification for the exact amount of the original certification. The circumstances most commonly necessitating a certification reversal are described below.

- **Discrepancy Between Deposit Amount and Certification Amount:** Sometimes an agency will certify funds in an amount that differs from the amount processed and recorded by the bank, usually as the result of human error (see Section V below). In such cases, the amount processed and recorded by the bank is presumed to be the "correct" amount. Unless the agency in question intends to dispute the discrepancy, it must reverse its initial certification by submitting a negative certification for the exact same amount. The agency must then submit a *new* certification for the correct amount—i.e., the amount processed and recorded by the bank.
- **Duplicate Certifications for Single Deposit:** Duplicate certifications occur when an agency submits more than one certification to match a single deposit. To correct this type of error, the agency in

question must submit a negative certification to reverse the duplicated certification, leaving *only* one certification in place to correspond with the agency's *single* deposit.

- **Recurring Deposits for Same Amount:** Certain state agencies often make recurring deposits for the exact same amount. Each such deposit requires a corresponding certification for the amount in question. Agencies should never submit a single certification for multiple deposits or submit multiple certifications for a single deposit. Each individual deposit requires an individual, corresponding certification.
- **Unsupported Certifications:** At times, an agency will submit a certification even though the deposit to which the certification corresponds has not yet been made. Usually, this circumstance arises where the agency in question is anticipating an electronic deposit of some sort in the very near future (i.e., within 1-2 business days). In such cases, the agency should coordinate with Bank Recon to confirm that the funds in question have been received. If the funds have not been received by the anticipated time of arrival, the agency must promptly reverse its certification, contact the sender and take any other measures reasonably necessary to obtain the funds that should have been deposited.

V. ERRORS REQUIRING ADJUSTMENT

An "adjustment" refers to a debit or credit to an agency deposit account for the purpose of resolving a discrepancy between the deposit amount reflected in an agency's deposit records (i.e., what the agency intended to deposit or thought it was depositing) and the deposit amount processed and recorded by the bank. More specifically, a *credit* adjustment is necessary when the agency has recorded a lesser deposit amount than the amount processed and recorded by the bank, and a *debit* adjustment is necessary when the agency has recorded a greater deposit amount than the amount processed and recorded by the bank.

Assuming the agency in question has already submitted a certification for the mistaken deposit amount (whether the incorrect amount is higher or lower than the amount actually deposited), the agency must reverse the erroneous certification and submit a new certification reflecting the correct deposit amount (see Section IV above).

A discrepancy between the agency's deposit records and the deposit amount processed and recorded by the bank is usually the result of human error, including, but not limited to, the following:

- **Errors in Calculation:** An "error in calculation" simply refers to the circumstance in which an agency miscalculates a deposit amount and records the incorrect amount on its deposit slip. Not surprisingly, this creates a discrepancy between the deposit amount reflected in the agency's deposit records and the deposit amount processed and recorded by the bank.
- **Listing Errors:** Listing errors occur when cash or checks are inadvertently omitted from the other items submitted for deposit, or when an item submitted for deposit (cash or check) is not accounted for in the list of items recorded on the agency's deposit slip. This also creates a discrepancy between the agency's deposit records and the deposit amount processed and recorded by the bank.
- **Clerical Errors:** A "clerical error" is simply an error made on a check (as written or typed by the payor) or deposit slip (as completed by the agency). Such errors are often the cause of discrepancy between an agency's deposit records and the deposit amount processed and recorded by the bank. With specific regard to checks, if the numerical value specified on a check differs from the value written

out in words, the bank will honor the amount written out in words, not the numerical value. See N.C.G.S. § 25-3-114 (“If an instrument contains contradictory terms, typewritten terms prevail over printed terms, handwritten terms prevail over both, and words prevail over numbers.”)

Agencies should be mindful that, under applicable law (and as explained in Section IV above), the deposit amount processed and recorded by the bank is presumed to be the “correct” deposit amount. Accordingly, Bank Recon will honor the bank’s request to adjust an agency’s deposit account *unless* the agency in question notifies Bank Recon that it is disputing the adjustment. To succeed with such a dispute, the agency must be prepared to furnish supporting documentation establishing that the amount recorded by the agency was the actual or “correct” amount of deposit. To that end, each agency should keep a thorough record of any and all deposit activity, irrespective of the form or type of deposit.

VI. OTHER DEPOSIT ERRORS

The deposit errors identified below differ from the deposit errors discussed in the preceding section in that they do not involve a discrepancy between the deposit amount reflected in an agency’s deposit records and the deposit amount processed and recorded by the bank. As such, the errors identified below do not require “adjustments” to account balances, but they do require some other form of corrective action.

- **Incorrect Deposit Slips:** On occasion, an agency will inadvertently deposit funds into a different agency’s account or designate funds to the wrong location code as the result of having used the wrong deposit slip. In such event, the agency in question should notify Bank Recon immediately upon learning of the error. Use of the correct deposit slip is of critical importance for all agencies. Accordingly, agency personnel should always verify that they are using the appropriate deposit slip prior to making a deposit.
- **Missing Money:** Sometimes an agency will make a deposit using an over-the-counter deposit slip, which requires agency personnel to write in the appropriate account number and location code on the deposit slip. Failure to include the correct account number or location code may result in a deposit to the credit of an unidentified account. In such cases, the certification process will be delayed until the owner of the account into which funds were incorrectly deposited, or the agency associated with the location code to which funds were incorrectly credited, can be identified and the funds can be recouped. An error of this sort is likely to create a lag between the agency’s receipt of funds and its actual deposit of those funds, making compliance with the state’s daily deposit and reporting requirements very difficult (see N.C.G.S. § 147-77).

VII. RETURNED ITEMS

Deposited items returned as “non-collected” could be the result of insufficient funds, stop payments or incorrect endorsements (just by way of example). Following the initial return, such items are typically presented through the banking channels for a second collection attempt. Where the item is not paid upon the second collection attempt, the bank in question should present the item to the depositing agency as a “cash item,” with a request for direct and immediate reimbursement. Thereafter, the agency has five business days to reimburse the bank for the amount in question, as provided in the State Treasurer’s Banking Handbook. The agency should either mail the reimbursement to the branch holding the cash item or else deposit the reimbursement directly into a designated “returns account.” The specific method of return will depend on the agency involved. FOD Banking Operations is available to

answer any questions that agencies may have regarding the appropriate process to follow when dealing with returned items.

***NOTE:** Agencies should be mindful that banks are prohibited from unilaterally debiting a state agency's deposit account to reimburse itself for a returned item, even though it may be able to do so with respect to other commercial clients.

VIII. GLOSSARY OF TERMS

Adjustment – A debit or credit to an agency deposit account for the purpose of resolving a discrepancy between the deposit amount reflected in an agency's deposit records (i.e., what the agency intended to deposit or thought it was depositing) and the deposit amount processed and recorded by the bank. More specifically, a *credit* adjustment is necessary when the agency has recorded a lesser deposit amount than the amount processed and recorded by the bank, and a *debit* adjustment is necessary when the agency has recorded a greater deposit amount than the amount processed and recorded by the bank.

Automated Clearing House ("ACH") – An electronic funds transfer network run by the National Automated Clearing House Association (more commonly referred to as "Nacha") which provides for electronic payments such as payroll, direct deposit, bill payments, etc.

Bankers Administration Institute ("BAI") File – An electronic file downloaded daily by Banking Operations from each of the six Main Banks (one BAI File per main bank). Each such file contains the details of all of deposit transactions made by state agencies at that particular Main Bank on the previous business day (as distinguished by agency-specific location codes). Banking Ops uses the information from these files for reconciliation purposes.

Bad Check – Any check dishonored by a paying bank for wrong endorsement, lack of endorsement, insufficient funds, account closed, stale date, etc. Also referred to as a "return item."

Bank Account Reconciliation Unit – Organizational unit within DST's Financial Operations Division responsible for reconciling the various depository bank accounts maintained in the name of the State Treasurer. The unit researches and resolves deposit discrepancies between deposit amounts reported by the agencies through CMCS and those reported by the depository banks.

Cash Management Control System ("CMCS") – Statewide cash management system operated by the North Carolina Office of State Controller. CMCS is the mechanism by which state agencies certify their deposit amounts, requisition funds for disbursement, and transfer funds between budget codes. DST interfaces with CMCS daily, which allows the various transactions of the day to post in CB\$ / FLEXCUBE. Banking Operations maintains CMCS's database of depository bank accounts.

Certification – An electronic document prepared and submitted by state agencies through CMCS "certifying" that funds have been deposited with an official depository. The certification specifies both the bank account/location code the funds were deposited into and the budget code or STIF account to which the funds are to be credited.

Chargeback – Refers to a credit card transaction that has been refused by the cardholder's bank, resulting in the merchant's bank debiting its customer's bank account. Chargebacks for disputed transactions can be made up to 90 days after the initial credit.

Core Banking System (“CB\$”) – Refers to the online banking component of DST’s in-house banking software used by agencies to view statements, initiate wire transfers, and send Positive Pay and stop pay files.

Daily Deposit and Reporting Law – Refers to N.C.G.S. § 147-77, requiring all state agencies to deposit and report on a daily basis their receipt of state funds.

Electronic Federal Tax Payment System (“EFTPS”) – Refers to the system provided by the IRS allowing taxpayers to remit their federal tax payments to the IRS electronically. The system utilizes the ACH debit payment method, providing the taxpayer the ability to communicate with the IRS’s third-party data collection center to authorize an ACH debit against its bank account.

Endorsement – In general, “endorsement” (sometimes spelled “indorsement”) refers to a signature that alone or accompanied by other words is made on an instrument (usually a check) for the purpose of (i) negotiating the instrument, (ii) *restricting payment on the instrument*, or (iii) incurring liability on the instrument. See N.C.G.S. § 25-3-204. In the context of state banking, endorsements are most often made for the purpose of restricting payment on a check or state warrant made payable to the depositing agency. All checks and state warrants made payable to a state agency should bear a *restrictive* endorsement that states the following: “For Deposit Only – N.C. State Treasurer – By [name of agency].” Endorsements are governed by the Uniform Commercial Code (see Article 3 of Chapter 25 of the North Carolina General Statutes) and by federal Regulation CC (see 12 C.F.R. part 229).

FLEXCUBE – Software system installed by DST serving as the official Banking System utilized by DST. The agency online banking component is referred to by the agencies as “CB\$.”

Legal Amount – The amount specified on a check (or state warrant) as written out in words, not the amount reflected in the numerical figure. If the numerical value specified on a check differs from the value written out in words, the bank will honor the Legal Amount, i.e., the amount written out in words. See N.C.G.S. § 25-3-114 (“If an instrument contains contradictory terms, typewritten terms prevail over printed terms, handwritten terms prevail over both, and words prevail over numbers.”)

Main Bank – An official depository of the state that provides a cash concentration service whereby deposits are aggregated daily into a single CIT Account. Each CIT Account is swept down to a zero balance and transferred to the Main Account at Wells Fargo on a nightly basis. Because CIT Accounts only serve as temporary conduits of state funds (as the term “cash-in-transit” suggests) and never post a balance in excess of \$0.00, the state pays analysis fees to the Main Banks for their cash concentration services.

Non-Main Bank – An official depository of the state that does not aggregate deposits daily into a CIT Account. Instead, target balances are maintained in each deposit account in amounts sufficient to offset any analysis charges otherwise chargeable against those accounts. FOD “draws down” any funds in excess of the applicable target balance so that DST may invest those funds in accordance with applicable law.

Over-The-Counter Deposit – A deposit made at a bank branch location during normal business hours using the bank’s teller window or counter, usually consisting of cash and/or checks accompanied by a bank deposit slip. Such deposits are not actually “posted” to the account until the nightly posting cycle takes place. Generally, over-the-counter deposits made prior to 5:00 P.M. will be part of that night’s posting cycle, meaning they will “post” on that same business day.

Return – A bank transaction involving an item deposited or presented through the banking channels that is returned due to non-collection. A return item could be the result of insufficient funds, stop payment or an improper endorsement (just by way of example). Returns are governed by the Federal Reserve Bank’s Circular 3.

Settlement Accounts – Accounts established for the specific purpose of accommodating a certain type of financial transaction. Such transactions include, but are not necessarily limited to, federal withholding tax payments, international wire transfers, and the direct deposit of payroll *if* the agency in question is responsible for funding the account before initiating the payroll disbursement.

Zero Balance Accounts (“ZBAs”) – Accounts maintained by DST at official depositories to accommodate the state’s cash flow needs (see Section II above). State funds are aggregated into ZBAs and then “swept” down to \$0.00 on a nightly basis to ensure that a zero balance carries forward from one business day to the next.