Notifications of Change—The Agency’s Perspective

Notification of Change (NOC) is a method available to financial institutions to notify a Federal agency to correct or change account information in an entry the Federal agency processed through the Automated Clearing House (ACH). In certain circumstances, a financial institution may receive a payment file with erroneous information on it; however, they are able to identify the payment and post it to the correct account. In such cases, the financial institution may issue an NOC to correct the erroneous information. A financial institution may also issue a NOC when it merges with another bank and a change in routing number results. NOCs are used for Federal government (both civilian and military) payments that are made on a recurring basis. Examples are:

- Social Security Administration
- Railroad Retirement Board
- Supplemental Security Income
- Department of Veteran Affairs
- Office of Personnel Management
- Federal salary
- Treasury Direct
- Vendor and miscellaneous

NOCs should not be used to change title/ownership of an account, change interest of the recipient or beneficiary in the account, change accounts from one financial institution to the other, or for one time payments, such as an IRS tax refund. In these circumstances, a new enrollment form must be processed and/or the payee should be directed to contact the agency directly.

The use of NOCs prevents delays often associated with returned ACH payments. If a financial institution is able to correct an error on an ACH payment file, they will often accept and post the entry as an exception item instead of returning the entry. The financial institution consequently sends the NOC, with the correct information needed for automated processing, back to the originating agency so that its master payment record can be updated with the correct bank information prior to the next payment.

Treasury has become aware that, in certain circumstances, federal agencies do not react timely to NOCs sent by financial institutions. According to Chapter 6 of FMS’ Green Book (Guide to Federal ACH Payments and Collections), “NOCs will be processed for the next ACH transaction. (Due to operation limitations, it may take two payment cycles for some NOCs to be processed).” Despite this guidance, a significant number of NOC requests are unaddressed by federal agencies and result in frustration for both the recipient and the financial institution. Ultimately, the financial institution is often forced to return payments that could otherwise have been posted had the Federal Agency acted timely upon the NOC, thereby causing a significant delay in recipients receiving their Federal payment.

Upon receiving an NOC, agencies should take measures to ensure that the erroneous payment file information is corrected before submitting the next payment by ACH. If your agency received an NOC, you should ensure that the party responsible for updating your accounts receivable records receives a copy. This is customarily staff that works in your agency’s accounting area or payment certification area. NACHA has an approved list of NOC change codes that indicate any changes that need to be made to your payment file, prior to the
Notifications of Change—The Agency’s Perspective (continued)

next payment cycle. Some of the more common codes are listed below:

C01—Incorrect Account Number
C02—Incorrect Routing Number (RTN)
C03—Incorrect RTN and Account Number
C05—Incorrect Transaction Code (Checking/Savings Account)
C09—Incorrect Individual Identification Number

For nearly all federal agencies, the NOC is provided on a paper report detailing a recently posted payment, with all of the necessary updates required for the next payment cycle. Below is an example of an NOC, with explanations for each of the fields located on the form:

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The Philadelphia Financial Center (PFC) has recently undertaken multiple initiatives to facilitate the improvement of the NOC process. First, PFC has developed a cover letter that will be included with subsequent mailings of the NOCs. This document provides guidance on how to handle the NOC appropriately. Secondly, PFC will be emailing an NOC Survey to their customer agencies to confirm several components of the process, namely the correct mailing address and point of contact for each agency, and also to provide a venue to offer feedback and suggestions on potential improvements to the process.

Additionally, it is important to note that agencies may have the option to receive these notifications electronically. If you are interested in exploring an electronic alternative to paper, or are receiving NOCs and are unsure how to address them, please contact Lisa Andre, Accredited ACH Professional (AAP), at (215) 516-8142. For more information on NOCs, please refer to the Green Book, Chapter 6, Notifications of Change at http://www.fms.treas.gov/greenbook. Specific questions regarding NOCs can be directed to the Philadelphia Financial Center’s Customer Service Branch Help Desk at 215-516-8154 or e-mailed to philly@fms.treas.gov.
Direct Express® — Continued Success in Direct Deposit

The Financial Management Service (FMS), a bureau of U.S. Department of the Treasury, is encouraging the approximately four million Social Security Administration (SSA) and Supplemental Security Income (SSI) benefit recipients who do not have a bank account to sign up for the Direct Express® card. These un-banked recipients currently receive benefits by check. The cashing of these checks causes considerable hardship and costs to the recipient while at the same time incurring costs related to the printing, processing and mailing of checks for the Federal Government.

In 2007, a one year long pilot debit card program was conducted by FMS in Chicago and rural Illinois with JP Morgan Chase as the financial agent. A telephonic customer satisfaction survey of this pilot program revealed a high level of satisfaction and acceptance among users. In the January, 2008, FMS selected Comerica Bank as the financial agent to manage the debit card program because of its experience with the prepaid card services for state government benefit recipients.

The Direct Express® card program was first introduced April 2008 in 10 states (Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina and Texas) where there is a high incidence of un-banked check recipients. The Direct Express® marketing initiative has since been rolled out on a nationwide scale. To date, over 207,000 recipients have enrolled for this new FMS product. Recipients may sign up for the card by calling toll-free 1-877-212-9991 or visiting www.USDirectExpress.com.

When a recipient enrolls in Direct Express®, they will receive a debit MasterCard® with a Direct Express® logo. Payments will be automatically deposited to the benefit recipient’s Direct Express® card account each month. The recipient will then have immediate access to these funds. The cardholder will also have access to live or interactive voice response (IVR) customer service for accessing balance and transaction history.

The goal of the Direct Express® program is to provide a safer, more reliable, cost effective payment option to un-banked federal benefit check recipients. The Direct Express® card is expected to be a low cost alternative to receiving a check for benefit recipients, especially when they are educated on how to avoid fees and surcharges by using the card efficiently. Additionally, FMS estimates considerable annual savings for the Government by converting current check recipients to the Direct Express® card.

Benefits of the Direct Express® card:

- Federal benefit payment funds are FDIC-insured up to the maximum amount allowed by law, and afforded the consumer protections of Regulation E and MasterCard Zero Liability.
- Cardholders may use their cards to make over the counter debit purchases, as well as to make cash withdrawals at automated teller machines (ATMs).
- The Direct Express® card has personal identification number (PIN) protection which is required for all ATM transactions and cash back at the point of sale.
- Cardholders may use the debit card in a variety of places, including grocery stores, convenience stores and virtually anywhere MasterCard® debit is accepted.
- Eliminates the cost of printing, processing and mailing checks.
- Account transaction history is available online or by phone.
- Direct Express® assesses no fees for account maintenance and over the counter debit transactions. Cardholders are allowed one free ATM cash withdrawal per deposit.

Beginning September 29, 2008, the Social Security Administration (SSA) made changes to its enrollment process to allow beneficiaries to sign up for the Direct Express® card when first applying for federal benefits. As of October 31, 2008, SSA has enrolled approximately 25,000 people in Direct Express®, averaging over 1,100 enrollments per day. There are currently over 207,000 people enrolled in Direct Express®.

For more information about the Direct Express® card, please visit: http://www.fms.treas.gov/directexpresscard or contact the project lead, Nevelyn Jones, at 202-874-9602.

Financial institutions can utilize the Automated Clearing House (ACH) system to return electronic Federal benefit payments back to federal agencies. Financial institutions return ACH payments that cannot be posted to a recipient’s account for a variety of reasons, for example, if a recipient’s account is closed or the recipient is deceased. The ACH system is governed by the National ACH Association (NACHA), who regulates the use of ACH transactions and sets guidelines for proper system usage. The Financial Management Service’s (FMS) Green Book (Guide to Federal ACH Payments and Collections), Chapter Four, Returns, outlines proper usage of the ACH Return function as it relates to Federal payments.

FMS is committed to educating financial Institutions on the proper use of ACH return reason codes. The ACH return reason code assists federal agencies, such as the Social Security Administration (SSA) or the Veterans Administration (VA), in determining how to update a recipient’s payment information. Utilizing acceptable ACH return reason codes plays a critical role in an agency being able to reissue a payment in a timely fashion by correcting or updating data in their payment file.

Statistics revealed that in 2007 financial institutions frequently returned Federal ACH payments with return codes that are not appropriate for the Federal Government. These included both Receiving Depository Financial Institution (RDFI) return reason codes, as well as codes reserved only for ACH Operators. Although the FMS system has the capability of accepting all NACHA approved return reason codes, financial institutions are encouraged to use only those codes prescribed in the Green Book, Chapter 4 (Returns), Section 2, so that agencies can make the appropriate changes to their payment file records. Listed below are the codes that are deemed acceptable by the Federal Government:

- **R02 – Account Closed:** A previously open account has been closed by the customer or the RDFI.
- **R03 – No Account/Unable to Locate Account:** The account structure is valid but does not correspond to the individual or company listed on the entry, or the account number indicated is not a valid account.
- **R04 – Invalid Account Number:** The account number structure is not valid or may contain an incorrect number of digits.
- **R06 – Returned Per Originating Depository Financial Institution (ODFI) Request:** When the RDFI agrees to return the ACH credit at the request of the ODFI, Article Six of the NACHA Operating Rules states that the ODFI must indemnify the RDFI by providing a R06 letter.
- **R14 – Representative Payee Deceased or Unable to Continue in that Capacity:** The representative payee is the person or institution authorized to receive payments on behalf of one or more persons. The person they represent may be a legally incapacitated adult, or a minor. The representative payee is either deceased, or alive, but unable to continue in that capacity.
- **R15 – Beneficiary or Account Holder (Other than a Representative Payee) Deceased:** The beneficiary who may or may not be an account holder is the person entitled to the benefits and is deceased; or the account holder who is a non-representative payee is an owner of the account and is deceased.
- **R16 – Account Frozen:** Access to the account is not allowed because of specific action taken by the RDFI or by legal action.
- **R17 – File Record Edit Criteria (Specify):** Some fields that are not edited by the ACH Operator are edited by RDFI. If the RDFI cannot process the entry, the fields that are causing the error must be indicated in the addenda record information field of the return.
Spotlight on Debt Collection: Administrative Wage Garnishment

Administrative Wage Garnishment (AWG) is an effective resource available to federal agencies to collect non-tax delinquent debt owed to the Federal Government. AWG is a process in which an employer withholding amounts from an employee’s wages and pays those amounts to the employee’s creditor agency in satisfaction of a withholding order. The Debt Collection Improvement Act of 1996 (DCIA) provides federal agencies the authority to garnish up to 15 percent of the disposable pay of a delinquent debtor (non-Federal Employee) without having to receive a court order. Employers are obligated to comply with AWG, and under federal law cannot terminate, refuse to employ, or take any disciplinary action against a debtor because their wages are being garnished.

In the event that a debtor contests the debt or the terms of the proposed garnishment, the agency is obligated to hold a hearing and issue an associated decision within 60 days of the date of dispute. In order to implement AWG through FMS, agencies are required to either adopt Treasury’s rules for conducting AWG hearings or develop their own regulations that ensure due process to the debtors. After these rules are established, the agency must update their agency profile with FMS to indicate that they will permit AWG. Agencies are required to review requests from debtors to modify the terms of the garnishment based on claims of financial hardship due to a material change in circumstances, such as disability, divorce, or catastrophic illness. Unless the agency receives information that justifies a delay or cancellation of the withholding order, the agency will send a withholding order to the debtor’s employer with the ample information for the employer to comply with the order, for example, where withholding payments should be sent.

AWG is a tool available to agencies for debt collection of wage earning debtors who are unwilling to meet their federal non-tax debt obligations voluntarily. AWG has been found to be a successful and a cost-effective tool for participating agencies. For more information about AWG, please contact Debbie Davenport at 202-874-6653.

ACH Returns (Continued)

A review of Fiscal Year 2007 statistics revealed the following issues with ACH returns coding:

- 11,827 out of 743,979 SSA returned ACH payments contained unacceptable return reason codes such as Customer Advises Not Authorized (R10), Credit Entry Refused by Receiver (R23), Duplicate Entry (R24), and Corporate Customer Advises Not Authorized (R29).
- 5,693 out of 376,887 IRS returned ACH payments contained unacceptable return reason codes such as Insufficient Funds (R01), Invalid ACH Routing Number—Reserved for ACH Operator (R13), Non-Transaction Account (R20), and Invalid Individual Name/Company Name—Reserved for Federal Government Agency (R45).
- 2,600 out of 133,467 VA returned ACH payments contained unacceptable return reason codes such as Uncollected Funds (R09), Account Sold to Another Depository Financial Institution (R12), and Credit Entry Refused by Receiver (R23).

Financial institutions are encouraged to review the Green Book, Chapter 4 (Returns) for proper codes. FMS will continue to review returned ACH payments for improper codes and conduct outreach to educate the financial community on the appropriate usage of return reason codes for Federal payments. For additional information, please contact Lisa Andre, Accredited ACH Professional (AAP), at (215) 516-8142 or Lisa.Andre@fms.treas.gov.

The Philadelphia Financial Center Newsletter entitled PFC Journal is presented by the Customer Service Branch and addresses a variety of topics of interest to individuals in the Federal financial community.

The PFC Journal is available exclusively on our website.