

Reclamation Procedures for Erroneous Enrollments

Financial Institution Liability for Erroneous Enrollments and Notifications of Change (COR)

The Fiscal Service will hold financial institutions liable for providing incorrect automated clearinghouse (ACH) enrollment information to a Federal agency resulting in an erroneous or fraudulent payment and subsequent loss to the Government. Financial institutions found liable for submitting an erroneous enrollment or ACH change via Notification of Change (COR) may be liable for the total amount of payments lost as a result of the erroneous enrollment and/or ACH change. This liability can result from any enrollment option where a financial institution provides a payment recipient's banking information or corrected financial information for direct deposit to a checking, savings, and/or prepaid card. This includes erroneous information in an automated enrollment (ENR) file, completion of a Direct Deposit enrollment form where the institution provides the banking information, and Notifications of Change (COR). Financial institutions, therefore, should carefully review all banking information associated with a direct deposit enrollment or change before submitting it to a Federal agency. Furthermore, the financial institution must properly verify the identity of the recipient to ensure payments are not misdirected to an incorrect account.

Section 210.4(a) lists the requirements for authorization including that the agency or the Receiving Depository Financial Institution (RDFI) that accepts the recipient's authorization shall verify the identity of the recipient. The Fiscal Service applies the foregoing requirement to the financial institution that submits an ENR, paper enrollment or COR to a Federal agency, the Originating Depository Financial Institution (ODFI) of the ENR. Most financial institutions submitting an enrollment or ACH change to the Federal government (i.e., the ODFI) will also be the institution receiving the resulting payment(s) (i.e., the RDFI). The Fiscal Service is aware that in some circumstances the ODFI of an enrollment or ACH change may not be the RDFI. For example, a prepaid card provider may arrange a processor and subsequent ODFI that will submit an ENR on behalf of the provider and its RDFI. In such a case, The Fiscal Service will hold the ODFI liable for any losses resulting from an erroneous enrollment or ACH change, regardless of whether that financial institution is also the RDFI of the resultant credit entries or is working on behalf of the RDFI. This guidance was also specified in the NACHA Operations Bulletin 2012-1 published in September 2012.

Section 210.8 (b)(2) states that, “An institution that accepts an authorization in violation of §210.4(a) shall be liable to the Federal Government for all credits or debits made in reliance on the authorization. An institution that transmits an authorization to an agency containing an incorrect account number shall be liable to the Federal Government for any resulting loss, up to the full amount of a payment or payments made on the basis of the incorrect number. If an agency determines, after appropriate investigation, that a loss has occurred because the institution transmitted an authorization or notification of change (COR) containing an incorrect account number, the agency may instruct the Fiscal Service to direct a Federal Reserve Bank to debit the institution’s account for the full amount of a payment or payments made on the basis of the incorrect number. The agency will notify the institution of the results of its investigation and provide the institution with a reasonable opportunity to respond before initiating such a debit.”

Payments Subject to Reclamation of Funds Due to Erroneous Enrollments or CORs Resulting in a Loss to the Government

Any Federal government ACH payment that is delivered to the wrong account because the institution provided incorrect or fraudulent ACH information in an enrollment or COR is subject to reclamation.

Fiscal Service Process for Reclamation of Payment Losses Due to Erroneous Enrollments and/or CORs

Federal payment recipients who do not receive their ACH payment on the expected pay date will customarily contact their paying agency to determine the status of the payment and file a non-receipt claim. Most non-receipt claims, including those from the Social Security Administration, are submitted to the Fiscal Service for investigation on behalf of the customer agency. If the Fiscal Service determines the recipient's funds were lost because the ODFI submitted incorrect or fraudulent banking information as part of an enrollment or EFT change, the Fiscal Service will mail an ACH claim form to the recipient. The recipient will complete the ACH claim form in order to verify that they DID NOT authorize delivery of the payment or payments to the account on record, thereby indicating that their payment or payments were lost because the ODFI submitted erroneous information as part of an erroneous/fraudulent enrollment or EFT change.

In a small number of cases, agencies may investigate a non-receipt claim or recipient complaint on their own, determine that funds were lost due to an erroneous enrollment or change by the ODFI, and ask Fiscal Service to mail an ACH claims form to the respective individual. Additionally, the Fiscal Service and several benefit agencies have implemented, or are in the process of implementing, fraud mitigation techniques and may become aware of enrollment fraud independently.

Upon receipt of the ACH claim form, the Fiscal Service will verify that a payment or payments were lost because incorrect account information and/or a fraudulent enrollment was submitted by an ODFI through one of the following means:

- 1.) The ENR was submitted with incorrect account information for the recipient and/or the ENR was submitted for an unauthorized recipient resulting in a loss to the Federal government
- 2.) The copy of an I199A was completed by an institution on behalf of their account holder that included incorrect account information
- 3.) An agency received a COR with incorrect account information

If the Fiscal Service determines that a recipient's ACH payment was misdirected because an institution (the ODFI) submitted incorrect banking information as part of an enrollment or COR, or because the ACH payment or payments were misdirected because of a fraudulent enrollment, the Fiscal Service will submit a Notice of Direct Debit (Fraudulent Payment Enrollment) to the ODFI. The Notice will specify the payment or payments misdirected because of an erroneous enrollment or COR, identify the date and method of the erroneous enrollment and/or ACH change, and list payments and payment amounts for which the ODFI is liable. It will

also identify the amount of each payment or payments; trace number, and the intended recipient's unique masked identification number (usually their social security number). Upon receipt of the Notice, the ODFI has 30 days to return the full amount of the payment or payments via ACH using the R06 return reason code. If the full amount of the payment or payments the ODFI is liable for is not available for return via ACH, the Fiscal Service will debit the ODFI's Federal Reserve account.

Additionally, if an ODFI fails to respond to the Notice within 30 days of the date of the reclamation, the Fiscal Service will debit the ODFI's Federal Reserve account for the amount of a payment or payments lost or stolen due to the ODFI's erroneous enrollment or COR.

Protests

If the ODFI receives a Notice of Direct Debit but believes that an error has occurred and it was not liable for an erroneous enrollment or COR, the ODFI must respond to the Notice within 60 days of receipt and attach documentation that supports their claim that they are not liable for the lost or stolen payment or payments. The ODFI's letter of protest should describe, in detail, why it believes the payee received or benefited from the payment (for example, authorized ATM withdrawals and/or purchases at a Point-of-Sale location), or authorized the delivery of the payment or payments to the account. Examples of evidence that the Fiscal Service may consider includes, among other things, copies of signed statements from the payee or others, signature cards, proof the payee benefited from the payment or payments, account statements, FRB reports of ENR activity, and CORs. The Fiscal Service will complete its investigation within 30 days of the ODFI's response and notify the ODFI of its decision. If the Fiscal Service determines that the ODFI was responsible for the losses resulting from the submission of incorrect ACH information, it will debit the ODFI's Federal Reserve account.

Debits of an ODFI's Federal Reserve Account

When there is a liability for an ACH reclamation payment by the ODFI, the ODFI will receive a debit to their Federal Reserve Account. The reclamation ticket number will appear on the FI's Statement of Account. This ticket number is the same number as identified on the original Notice of Direct Debit to the ODFI.

The Notice of Direct Debit to the ODFI provides the reclamation ticket number in the top right box of the form to the right of the date. It is important that the financial institution retain a copy of the original reclamation notice until the associated case is closed. All financial institutions should be capturing and storing the reclamation ticket number with the reclamation information. This ticket number should be used to identify debits resulting from a reclamation. Coordination between the ACH reclamation area and the financial institution's accounting department is critical to the reconciliation of your Statement of Account. A debit for an ACH reclamation for an erroneous enrollment can be differentiated from a debit for an ACH reclamation for a post death payment by the description "ENR followed by 4-6 numeric characters".