



# State of North Carolina Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

October 29, 2004

To: Chief Financial Officers  
University Vice Chancellors  
Community College Business Managers  
Local Education Authority Finance Officers

From: Robert Powell  
State Controller

Subject: Implementation of the "Positive Pay" Program

The recent occurrences of counterfeit checks using the bank routing and account numbers for several state agencies has prompted the need to ensure that all of the State's disbursing accounts are utilizing the "Positive Pay" program initiated by the Department of the State Treasurer in the fall of 2000. This program has proven to be an effective internal control in preventing the payment of counterfeit checks and has improved the month-end reconciliation process for participating state entities.

Through the "Positive Pay" program, check numbers and check amounts, as presented for payment, are validated against a database that has been pre-populated with the check number and check amount of the issued check. Any check presented for payment that does not match the check number and amount in the database is rejected and set aside for further review and follow-up. This process allows for timely return of counterfeit items through the Federal Reserve System and detects problems upfront, such as wrong check numbers and encoding errors, thereby minimizing the after-the-fact reconciliation process that agencies perform.

It is anticipated that the "Positive Pay" program will also minimize the risk associated with the Check Clearing for the 21<sup>st</sup> Century Act" (Check 21), which became effective on October 28, 2004. Check 21 allows financial institutions, on a voluntary basis, to exchange checks between each other electronically by creating "substitute checks." This means that the original check issued against a payor's bank account may never be presented to the payor's bank for payment. Instead, a "substitute check," which is a reproduction of the original check, may be presented to the payor's bank for payment. If not destroyed as required by law, there is a potential risk that the original check may be presented for payment at a later date.

In September, 2003 the Office of the State Controller and the Department of the State Treasurer issued a "State Date Policy for State Warrants." This policy may be accessed by clicking on the following link:

<http://www.treasurer.state.nc.us/NR/ronlyres/BE30ABA4-29F7-467A-9267-DAA667EF06C2/0/StateDatePolicy.pdf>.

This policy states, "With the State Treasurer's Core Banking System now making all disbursing and STIF accounts eligible to participate in the positive pay program, **all accounts are required to enroll in the program as soon as practicable.** Exemptions may only be granted by the State Controller's Office." Based on information provided by the Department of the State Treasurer, approximately 61% of the State's 696 disbursing accounts are currently using the

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Website: [www.osc.state.nc.us](http://www.osc.state.nc.us)

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3512 Bush Street  
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"positive pay" feature. To date, the Office of the State Controller has not received any requests for exemption from the State Date Policy for State Warrants.

In accordance with the stated policy requirements, all of the State's disbursing accounts are required to participate in this program. I am requesting that the Chief Financial Officer, for each state entity having disbursing accounts and not participating in the "Positive Pay" program, provide the Office of the State Controller with an outline of their enrollment plans. **Please submit your plans by November 24, 2004.**

For more information regarding the "Positive Pay" program and the file layouts required, you may visit the State Treasurer's web site by clicking on the following links:

<http://www.treasurer.state.nc.us/NR/rdonlyres/0AF7D65B-A37A-4C2C-95AE-674AD9B4A12A/0/PosPayDescription.pdf>  
and

<http://www.treasurer.state.nc.us/NR/rdonlyres/85C6C985-C642-473F-A1EB-854F4BF1E544/0/PositivePayLayout.pdf>.

If you have any questions or need additional information, please contact David C. Reavis, Assistant Controller – Banking Operations with the Department of the State Treasurer at (919) 508-5907 or Ben McLawhorn, Risk Mitigation Services Manager with the Office of the State Controller at (919) 981-5409.

cc: The Honorable Ralph Campbell, Jr.  
State Auditor

The Honorable Richard H. Moore  
State Treasurer