



Subject: LETTER-OF-CREDIT PROCEDURES

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10-45-00 PRELIMINARY

The proposal and a detailed draft outline of the system specifying the program involved and the accounts, reports, and procedures to be employed will be submitted to the Office of the Comptroller, DHEW.

10-45-10 IMPLEMENTATION

Upon initial clearance preliminary negotiations to secure the assent, cooperation, and required signature cards from the grantees or contractors involved, will be conducted by the Agency or Bureau involved. The proposal and procedures will be put in final draft form and resubmitted to the Office of the Comptroller for appropriate arrangements with Treasury Department. At this point evidence will be submitted to the effect that grantees or contractors included in the system have been fully and clearly informed of the terms, conditions, procedures, and objectives of the system. The final draft proposal and procedures will be accompanied by requests for designation of authorized certifying officers in accordance with the provisions of Chapter 1-20 of the Voucher Audit Manual, DHEW. The signature cards (Exhibit 10-45-2) prepared for the authorized certifying officers designated will specify "Letter-of-Credit" as the class of vouchers to be certified and the place of payments as "Federal Reserve Bank". Monthly limits and amounts to be drawn will be established from cash forecasts and schedules prepared by the grantee, contractor, or an appropriate program official.

10-45-20 LETTERS-OF-CREDIT

A letter-of-credit under this procedure, certified by an officer of DHEW to whom such authority has been specifically delegated, specifies a monthly dollar limit available to a designated payee (see Exhibits 10-45-3 and 10-45-4). Certification is to the Commissioner of Accounts, Treasury Department. A general outline of the operating procedure prescribed is charted in Exhibit 10-45-1 attached. The letter-of-credit will be issued in favor of the Treasurer or other officer designated by the recipient organization to receive funds. For payments to States, this will be the State Treasurer or other

officer designated by the legislative authority (or by the Governor in the absence of a designation by the legislative authority) to receive grant-in-aid and other funds. In addition, the letter-of-credit must specify the title of the bank account which will be credited when a payment voucher is drawn. Both the designee (e.g. Treasurer, State of Alabama) and the account to be credited (e.g. Public Assistance Account) must be shown identically on (a) the Letter-of-Credit (in the space provided), (b) the payment voucher Signature Card (in the space following the word "Letter-of-Credit issued in favor of:"). and (c) Payment Voucher (in the space labeled "DRAWER").

10-45-30 PAYMENT VOUCHER

- A. A payment voucher drawn (see Exhibit 10-45-5), pursuant to the term of a Letter-of-Credit, is subject to payment through a designated Federal Reserve Bank or branch. It is intended that payment vouchers be drawn only in accordance with the grantee's or other recipient's actual immediate or current need for cash for Federal activities. It is also contemplated that payment vouchers ordinarily will not be drawn for amounts less than \$10,000 or for more than \$1,000,000. When the monthly expenditures of the recipient amount to less than \$10,000 in any calendar month, only one payment voucher will be drawn during the month to cover the amount needed. In other than the Public Assistance and Office of Education programs, payment vouchers will in no case be drawn for more than \$5,000,000. In the Public Assistance or Office of Education programs, vouchers may be drawn for larger amounts. However, in any State where it is necessary for individual payment vouchers to exceed \$5,000,000, the letter-of-credit will be annotated "Vouchers in excess of \$5 million are authorized." The grantee or contractor is required to immediately send a copy, to the designated agency accounting point, of each payment voucher presented for payment.
- B. A letter-of-credit is irrevocable to the extent funds have been obligated by a recipient organization and, therefore, can be considered the equivalent of cash. Until such time as the Standard Form No. 1193 (Exhibit 10-45-3) is revised to include a statement as to its irrevocability, agencies should type the statement on the form as shown in the exhibit.

10-45-40 GRANTEE-CONTRACTOR REPORTS

Operating agencies should coordinate grantee-contractor reports relating to the use of cash required under letter-of-credit procedures. If separate reports are required, the reports relating to use of cash should be uniformly simple.

Each operating agency should periodically review its overall grantee-contractor reporting requirements for the purpose of eliminating duplication, consolidating reports wherever feasible, simplifying the reports required, and eliminating any unnecessary detail.

**10-45-50 MONTHLY REPORTS TO BUREAU OF ACCOUNTS,
TREASURY DEPARTMENT (SF-224)**

Agencies will submit a separate Standard Form 224, statement of transactions confined to payment vouchers transactions under letter-of-credit procedures (Exhibit 10-45-66). Separate Agency station symbols are assigned by Treasury for this purpose. The due date for these reports is noon of the fifth working day following the end of the report month. The SF-224 will be prepared in the usual manner except for:

1. Caption of item 1, Section II will be changed to read, "Payment vouchers on Letter-of-Credit". Show total of Payment Vouchers by issue month (Date Drawn).
2. Section II, issue month totals will be supported by a listing, in duplicate, of the Payment Voucher copies received from grantees or contractors and entered in the accounts.

**10-45-60 SUMMARY OF LETTER-OF-CREDIT PROCEDURE
(See also Exhibit 10-45-1.)**

The following are the major steps in applying the letter-of-credit technique:

- A. Program agency makes the award and records the obligation in the agency accounts.
- B. The recipient organization selects a commercial bank which agrees to receive payment vouchers drawn on the Treasurer of the United States and to forward such vouchers to the applicable Federal Reserve Bank or branch, or to the Cash Division, Office of the Treasurer of the United States. The term "Federal Reserve Bank or branch" as used in this chapter, and on the prescribed letter-of-credit forms, is defined to include the Cash Division, Office of the Treasurer of the United States, when the commercial bank in which the recipient organization has its account is located in the District of Columbia. The recipient organization will advise the program agency of the title of the bank account and of the location of the applicable Federal Reserve Bank or branch.

- C. The agency obtains specimen signatures of (1) officials of the recipient organization designated to authorize signatories, and (2) the officials of the organization authorized to sign payment vouchers; forwards certified letter of credit and specimen signatures of persons authorized to sign payment vouchers to the Treasury Department; establishes accounting control and necessary subsidiary accounts for the letter-of-credit being issued.
- D. After verification of authenticity of signature of Government certifying officer, the Treasury Department forwards, by transmittal letter, the letter-of-credit and specimen signatures to the appropriate Federal Reserve Bank or branch. Responsibility for the correctness of the dollar amounts and other information entered on letters-of-credit and signature cards rests entirely with the certifying officer.
- E. As funds are needed, recipient organization prepares and submits payment voucher to the commercial bank for transmission to appropriate Federal Reserve bank or branch (copy sent to Federal agency at this time); the commercial bank may, if agreed upon between recipient organization and bank, credit the account of recipient organization at this time with the amount of funds being drawn down.
- F. The Federal Reserve Bank or branch reviews the payment voucher for signatures and determines that the amount is within the available balance of the letter-of-credit; credits the reserve account of the commercial bank (and advises the commercial bank of acceptance of the payment voucher) and charges the account of the Treasurer of the United States.
- G. The agency uses a copy of the payment voucher (sent by the recipient organization at the time the payment voucher is submitted to commercial bank) to record the expenditure (advance); makes appropriate entries in the letter-of-credit control and subsidiary accounts.
- H. At the end of the month the agency reports to the Treasury Department the expenditures relating to letter-of-credit transactions; supports the reported amount with the detail of payment vouchers received having an issue (drawn) date in the month covered by the report or a prior month.
- I. The Treasury Department periodically proves the payment vouchers reported by the agency against the related charges in the account of the Treasurer of the United States.

E X H I B I T S

10-45-1	Illustrative Letter-of-Credit Procedure	
10-45-2	Standard Form 210	Signature Card for Certifying Officer
10-45-3	Standard Form 1193	Letter-of-Credit
10-45-4	Standard Form 1194	Authorized Signature Card for Payment of Vouchers on Letter- of-Credit
10-45-5	Form TUS 5401	Payment Voucher on Letter of Credit
10-45-6		Attachment to Standard Form 224, Statement of Transactions

ILLUSTRATIVE LETTER OF CREDIT PROCEDURE		
AGENCY	GRANTEE	BUREAU OF ACCOUNTS TREASURY DEPARTMENT
<p>1.(a) Makes award and records obligation in its accounts, (b) advises grantee or contractor of award and provides application, forms, signature cards and complete instructions on letter of credit policies, conditions, and procedures.</p> <p>4.(a) Prepares and certifies letter of credit in favor of grantee to designated Federal Reserve Bank or branch.</p> <p>(b) Enters letter of credit issued in accounts.</p> <p>(c) Forwards Letter-of-Credit and Payment Voucher Signature Cards to Treasury Bureau of Accounts for transmittal to Federal Reserve Bank.</p> <p>(d) Forwards letter of credit issuance advice and payment voucher forms to grantee.</p> <p>(e) Includes forecast schedule of withdrawals in agency consolidated expenditure plans.</p> <p>6. Records disbursement (advances) upon receipt of Payment Voucher copy from grantee. Checks conformity with forecast provided by program officials or grantee.</p> <p>8. Prepares SF-224 (special agency station account symbol) AT MONTH END TO Bureau of accounts, Treasury Department. SF-224 accompanied by duplicate <u>listing</u> of Payment Voucher copies received from grantees.</p>	<p>2. Establishes grant receivable in its accounts.</p> <p>3.(a) Selects commercial bank or banks. (b) Completes application and signature cards and forwards to agency. (c) Prepares forecasts of cash needs and withdrawal schedules for individual and consolidated grants covered by Letter-of-Credit.</p> <p>5.(a) Prepares Payment Vouchers on Letter-of-Credit as funds are needed and presents voucher at commercial bank for collection in accordance with scheduled needs. (b) Promptly forwards copy of Payment Voucher by Air Mail to agency accounting point designated. (c) Records funds as received or credited. (d) Accounts for expenditures in the prescribed format.</p> <p>10. Periodically prepares report of expenditures and status of funds by grants in the form required for program accounting and administration (at least quarterly).</p>	<p>7. Records paid vouchers received from Federal Reserve System.</p> <p>9. Reconciles paid vouchers to SF-224 and listing received from agency letter-of-credit accounting point.</p>

STANDARD FORM 210

SIGNATURE CARD FOR CERTIFYING OFFICER

NOT AVAILABLE IN ELECTRONIC FORMAT

STANDARD FORM 1193, LETTER-OF-CREDIT

NOT AVAILABLE IN ELECTRONIC FORMAT

STANDARD FORM 1194

**AUTHORIZED SIGNATURE CARD FOR PAYMENT OF
VOUCHERS ON LETTER-OF-CREDIT**

NOT AVAILABLE IN ELECTRONIC FORMAT

FORM TUS 5401

PAYMENT VOUCHER ON LETTER-OF-CREDIT

NOT AVAILABLE IN ELECTRONIC FORMAT

**ATTACHMENT TO STANDARD FORM 224,
STATEMENT OF TRANSACTIONS**

NOT AVAILABLE IN ELECTRONIC FORMAT