



Subject: ACCOUNTING FOR PAYMENTS MADE USING THIRD-PARTY DRAFTS

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10-46-00 PURPOSE

This purpose of this chapter is to establish standard Department-wide accounting policy and procedures for payments made using third-party drafts. It focuses on Departmental policy and the accounting entries that form the framework for third-party draft systems/subsystems operated within the Department.

10-46-10 AUTHORITY

Third-party drafts are an acceptable alternative payment mechanism for small purchases including imprest fund transactions, and offer the following advantages over traditional cash payments:

- ! Permits a reduction in, or elimination of, cash held by imprest fund cashiers.
- ! Reduce the risk of holdup-theft-pilferage of cash.
- ! Provides for a sound audit trail by timely and regular reporting to an independent party.
- ! Limits the amount of funds subject to loss.

Treasury has amended the limitation amount of individual third-party drafts from \$2,500 to \$10,000 in TFM Bulletin No. 95-05 dated December 2, 1994. The authority for using third-party drafts is set forth in I TFM 4-3040.70 of ,the Treasury Financial Manual (TFM) which will be modified in accordance with TFM Bulletin No. 95-05. Changes to the limits are discussed in section 10-46-20.

10-46-20 DEPARTMENTAL POLICY

- A. Third Party Drafts versus Cash Payments - The general policy of the Department is that third-party drafts should be used to the maximum extent possible in place of making cash payments.
- B. Dollar Amount Limitations on Third-Party Drafts - In accordance with changes authorized by Treasury, the limitation on third-party drafts was increased from \$2,500 to \$10,000 in June 1994. Each agency may establish the maximum amount for which third-party drafts may be issued; however, the face value may not exceed \$10,000, and this limitation must be printed on the face of the draft. Further, the \$2,500 limit will stay in effect for third-party drafts issued for routine imprest fund transactions.

In addition, Treasury will consider, on an individual agency basis, the use of third-party drafts up to \$25,000 for small purchases. Agencies requiring a draft limit higher than \$10,000 must request a waiver from Treasury detailing demonstrated benefits and savings. Waiver requests must be directed to Treasury for review and approval as follows:

Director, Cash Management Policy and
Planning Division
Financial Management Service
Department of the Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

Also forward a copy of the waiver request along with the Treasury approval to the HHS Office of Finance at the following address:

Deputy Assistant Secretary, Finance
Department of Health and Human Services
HHH Building, Room 739H
200 Independence Avenue, S.W.
Washington, D.C. 20201-0001

- C. Payments to be Made by Third-Party Drafts - Initially use of third-party drafts were limited to imprest fund type transactions, but are now approved as an alternative payment mechanism for all type of payments. Third-party drafts may be used for vendor payments, all types of travel payments and for emergency employee payments. They are authorized for payment of small purchases subject to the Prompt Payment Act wherever they are operationally and cost effective and consistent with 31CFR Part 206, and when Electronic Funds Transfer or other standard

Treasury applications or the use of the Government Purchase Card do not meet the agency's needs.

10-46-30 ACCOUNTING OVERVIEW

Third-party drafts are an authorized payment mechanism. A Federal employee may issue a draft drawing upon a third-party draft vendor's account for certain Federal payments. The third-party draft vendor is reimbursed periodically for amounts disbursed and for services rendered. The net effect is to forego the need for maintaining imprest funds at an operating division or PHS agency thereby reducing the delay inherent with drawing a check on government accounts at the Treasury. As noted along with the following entries, this process requires additional accounting entries since once the third-party draft is drawn: (1) a new liability for payment due to the draft vendor(s) must be recognized and (2) an offset is needed to the (transactional) draw on agency cash caused by the liquidation of the initial liability. The actual draw on agency cash takes place with the reimbursement of the third-party draft vendor(s). For drafts directly issued and cleared for their organizations, paying offices follow the procedures in Section 10-46-40.

Accounting entries listed in Section 10-46-50 shall be used by those paying offices which issue and clear third-party drafts as a service for another component. These entries differ from those in Section 10-46-40 in that once the drafts are issued, the paying office records a receivable from the customer agency while the customer agency records an advance received from the paying office. Once cash is collected from the customer agency the paying office cancels the receivable, then pays the third-party draft vendor. Meanwhile, the customer agency cancels the advance received from the paying office.

Under some contractual agreements, an advance may be made to a third-party draft vendor for use as working capital. This is referred to as "compensating balances." All compensating balances issued to the vendor shall be recorded in General Ledger Account 1417N, Advances to Others - All Other, using Transaction Code 064.

**10-46-40 ACCOUNTING ENTRIES FOR PAYING OFFICES WHICH ISSUE
AND CLEAR THIRD-PARTY DRAFTS FOR THEIR ORGANIZATIONS**

A. At Time Third-Party Drafts Are Issued

At the time third-party drafts are created for payment of an obligation or an advance, the payment transactions currently in use (i.e., T/Cs 061, 181, 190, etc.) shall be generated and entered into the accounting system. Simultaneously, an additional transaction shall be prepared and entered into the accounting system as follows:

<u>Transaction Code</u>	<u>Entry Description</u>	<u>Fund Group</u>	<u>Object Class</u>
304	Drafts Issued for Third- Party Payments	000-599 900-999	61.7H

Dr. 1012 Disbursements (Other than Payroll)
 Cr. 2315N Advances through Third-Party Drafts

This transaction must have a CAN that will record the liability to the same appropriation used to pay the obligation or record the advance. The entry can be recorded at a summary level or at a detail level for drafts issued. Transactions shall be entered into the accounting system at the time drafts are issued.

B. At Time the Draft Is Cleared

When the third-party draft vendor presents a bill for the drafts paid, the bill shall be verified for correctness and a Payment Voucher will be prepared for Treasury disbursement. This payment shall be recorded as follows:

<u>Transaction Code</u>	<u>Entry Description</u>	<u>Fund Group</u>	<u>Object Class</u>
305	Payment to Third- Party Draft Vendors for Drafts Honored	000-599 900-999	61.7H

Dr. 2315N Advances through Third-Party Drafts
 Cr. 1012 Disbursements (Other than Payroll)

This transaction must have a CAN that will direct it to the same appropriation associated with the obligation or advance transactions for which the drafts were issued. The entry can be recorded at a summary level for each appropriation or at a detail level for each draft.

The purpose of this transaction is to reduce the outstanding third-party advance and increase disbursements. The balance in GL Account 2315N shall equal the amount of the outstanding drafts. Total disbursements recorded in document level records shall be equal to the balance in GL Accounts 1012 and 2315N.

10-46-50 ACCOUNTING ENTRIES FOR PAYING OFFICES WHICH ISSUE AND CLEAR THIRD-PARTY DRAFTS FOR ANOTHER COMPONENT

A. At Time of Draft Issuance

At the time a third-party draft issuing office creates and issues a draft for another component (herein referred to as Customer Agency) for payment of an obligation or an advance, the following transactions shall be generated and recorded in the appropriate accounting systems (i.e., draft issuing office and Customer Agency). The draft issuing office shall generate and furnish the accounting entries to the Customer Agency via electronic media (i.e., telecommunications, magnetic tape, etc.).

1. Third-Party Draft Issuing Office Transaction

<u>Transaction Code</u>	<u>Entry Description</u>	<u>Fund Group</u>	<u>Object Class</u>	<u>F/NF Code</u>
307	Third-Party Drafts Issued for Another Agency	000-599 900-999	61.7H	2

Dr. 1314 Advances & Reimbursements Receivable-Unbilled
 Cr. 2315N Advances through Third-Party Draft

This transaction is to record funds due from the Customer Agency for the drafts issued on their behalf (GL Account 1314) and to establish liability to the third-party draft vendor for the drafts paid on behalf of the Government (GL Account 2315N).

The draft issuing office shall establish Suspense CANs for each Customer Agency that they service and use the CAN for billing and collection activity.

2. Third-Party Customer Agency Transactions

- (a) Accounting transactions to record the advance or payment made by the third-party draft issuing office (i.e., T/Cs 061, 181, 190, etc.), and

(b) <u>Transaction Code</u>	<u>Entry Description</u>	<u>Fundl Group</u>	<u>Object Class</u>	<u>F/NF Code</u>
306	Third-Party Drafts Issued by Another Agency	000-599 900-999	61.7H	2

Dr. 1012 Disbursements (Other than Payroll)
 Cr. 2313N Advances - All Other

The purpose of transaction A2(b) is to offset the disbursement entries (GL Account 1012) that were generated in the payment/advance transaction in A2(a) above and also to establish a liability for the drafts issued by another agency (GL Account 2313G). This transaction must also have a CAN that will record the liability to the same appropriation used to pay the obligation or record the advance as shown in A2(a) above.

The accounting transactions in A2(a) and A2(b) shall be entered into the system at the same time and as close as possible to the time the drafts are issued.

B. At the Time of Collection

The draft issuing office will receive reimbursement of funds through its SF 224, Statement of Transactions, by citing the Customer Agency's appropriation. The amount charged will be the amount paid to the third-party draft vendor for drafts issued on behalf of the Customer Agency. The draft issuing office will send a copy of their SF 224 showing the amount charged to the Customer Agency.

The following transactions shall be generated and recorded in the appropriate agency accounting system:

1. Third-Party Draft Issuing Office Transaction

<u>Transaction Code</u>	<u>Entry Description</u>	<u>Fund Group</u>	<u>Object Class</u>	<u>F/NF Code</u>
308	Third-Party Drafts Collections	000-599 900-999	61.7H	2

Dr. 1012 Disbursements (Other than Payroll)
 Cr. 1314 Advances & Reimbursements Rec - Unbilled

This transaction is to record the receipt of funds from the Customer Agency as reported on the SF 224 and to reduce the Accounts Receivable.

2. Third-Party Customer Agency Transaction

<u>Transaction Code</u>	<u>Entry Description</u>
306 (Reverse)	Third-Party Drafts Issued by Another Agency

This transaction is to liquidate, or reduce advances previously established for the third-party drafts and to record the actual disbursement of funds charged by the draft issuing office on its SF 224.

C. At Time Third-Party Drafts Are Cleared

When the third-party draft vendor presents a bill for the drafts paid, the bill shall be verified for correctness and a Payment Voucher will be prepared for Treasury disbursement. For payments applicable to customer agencies, the following transaction shall be generated and recorded in the draft issuing office's accounting system.

Third-Party Draft Issuing Office Transaction

<u>Transaction Code</u>	<u>Entry Description</u>	<u>Fund Group</u>	<u>Object Class</u>	<u>F/NF Code</u>
305	Payments to Third-Party Draft Vendor for Drafts Honored	000-599 900-999	61.7H	2

Dr. 2315N Advances through Third-Party Drafts
 Cr. 1012 Disbursements (Other than Payroll)

The purpose of this transaction is to reduce the outstanding advance to the third-party draft vendor and reflect a disbursement of funds. The payments pertaining to the Customer Agencies shall be recorded citing the Suspense CANs used to record the receivable (T/C 307).