

GUIDANCE FOR AGENCIES IMPLEMENTING IAT RULES
North Carolina State Controller's Office
August 25, 2009

This document is intended to assist agencies subject to oversight governance of the North Carolina Office of the State Controller (OSC) in their efforts to comply with the new International ACH Transaction (IAT) rules that go into effect September 18, 2009. The IAT rules are explained more fully in the "IAT Rules Advisory" issued by the State Controller on July 28, 2009. The "IAT Rules Advisory" and the associated "Compliance with IAT Rules Policy" may be viewed at the following link.

http://www.osc.nc.gov/SECP/SECP_IAT_Rules.html

This guidance document addresses two types of payee databases: 1) Payroll databases; and 2) Vendor databases. The guidelines address the payees that are currently being paid by Direct Deposit, and those that may be enrolled in Direct Deposit in the future. The document is supplemented by various sample communications and forms found on the OSC's website as well.

An IAT payment is basically a direct deposit to a payee where *the entire payment amount* is subject to being transferred to a foreign bank, or the moneys funding the payment are from a foreign bank.

Payroll Databases

General Guidance

- Each payroll center (e.g., Beacon Payroll, Central Payroll, Retirement System, General Assembly, Universities, Community Colleges, Local Education, Agencies, etc.) is responsible for ensuring that applicable procedures and processes are implemented in accordance with OSC's policy.
- All employees currently being paid by Direct Deposit are to be notified of the new IAT rules. The completion of an "IAT Payee Status Affirmation" form (designed for vendors) is not necessary for employees.
- Unless otherwise informed by the employee, all current employees enrolled in Direct Deposit are presumed to be a "non-IAT payee."
- Individual payroll centers (including universities being serviced by OSC's Central Payroll) could elect to apply the same standard required of vendors (i.e., do specific inquiries of payees that meet the criteria/conditions for being considered a "potential IAT payee") if the center or university so desired.
- Should the payroll center or agency at any time become aware that an employee being paid electronically should be designated as an IAT payee, the payroll center and/or agency should act accordingly.
- Going forward, authorization/enrollment forms to be completed by employees/payees desiring to enroll in Direct Deposit must include language to ensure compliance with the IAT rules.
- Each payroll center is responsible for modifying its authorization/enrollment forms accordingly.
- Based upon how the employee completes the enrollment form, the agency should update the employee database to reflect if the employee is either an "IAT payee" or a "non-IAT payee."
- If IAT payees will not be eligible to continue to receive electronic payments, the database does not necessarily have to be modified to denote the payee's IAT status.
- Employees currently enrolled in a Direct Deposit program are not required to execute the new authorization/enrollment form, but must be informed of the new IAT rules and be requested to notify their human resources department if they are to be classified as an IAT payee.

- All employees identified as an “IAT payee” (regardless of which enrollment form they have executed, or will execute) should be paid using the new IAT-formatted ACH file, or be paid by paper check.
- Determination as to if whether employees identified as an IAT payee will be eligible to be paid by direct deposit going forward (or be paid by paper check instead), will be made by the agency that administers the payroll system, taking into consideration the payroll’s system capability to originate ACH payments in the new IAT format.
- For any employee identified as an IAT payee that also participates in an employee-related program administered by a third party (e.g., NC Flex administered by Aon), the payroll center must notify the third party. The third party will make the determination how the employee will be paid.
- Sample correspondence an agency may send to employees is available on OSC’s website.
- An explanation of the IAT rules specifically for employees may be viewed on OSC’s website.
- In the case of the Beacon Payroll System, the system will be modified in the near future to accommodate employees designated as an IAT payee, and those employees will continue to be eligible to be paid by direct deposit, but under the IAT format. See separate instructions received from Beacon.
- In the case of the Central Payroll System (which supports a number of the universities), the system will not accommodate employees designated as an IAT payee. See separate instructions received from Central Payroll.

Sample Language for Enrollment Forms – Payroll and Other Consumer Payments

I acknowledge that electronic payments to the designated account must comply with the provisions of U.S. law, as well as the requirements of the Office of Foreign Assets Control (OFAC). Check one of the following:

*___ I affirm that, regarding electronic payments the State of North Carolina may remit to the financial institution for credit to the account that I have designated, the entire payment amount **is not** subject to being transferred to a foreign bank account.*

*___ I affirm that, regarding electronic payments the State of North Carolina may remit to the financial institution for credit to the account that I have designated, the entire payment amount **is** subject to being transferred to a foreign bank account. I understand that any electronic payments that may be remitted to me may be labeled with “IAT” as the standard entry class. I acknowledge that availability of funds credited to the account will be subject to my receiving financial institution’s policies and procedures.*

Vendor Databases

General Guidance

- Each agency maintaining a database for vendors is responsible for ensuring that applicable procedures and processes are implemented in accordance with OSC’s policy.
- All vendors currently being paid by Direct Deposit are to be notified of the new IAT rules.
- Requirements for vendors are generally more stringent than for employees. The current database of vendors being paid electronically is to be examined to determine if any of the

vendors being paid by Direct Deposit meet any of the criteria/conditions established by the State Controller to be considered as a potential IAT payee.

- For vendors considered to be a “potential IAT payee,” a specific inquiry of the vendor regarding their IAT payee status should be made, requesting the vendor to complete an “IAT Payee Status Affirmation” form.
- If the specific inquiry made to a potential IAT payee is not responded to after a given period of time, the vendor is presumed to be an “IAT payee,” and the agency should act accordingly.
- Any current vendor not meeting the criteria/conditions to be considered a potential IAT payee is presumed to be a “Non-IAT payee.”
- Should the agency at any time become aware that a vendor being paid electronically should be designated as an IAT payee, the agency should act accordingly.
- Going forward, authorization/enrollment forms to be completed by payees/vendors desiring to enroll in Direct Deposit must include language to ensure compliance with the IAT rules.
- Based upon how the vendor completes either the Enrollment Form or the IAT Payee Status Affirmation Form, the agency should update the vendor database to reflect if the vendor is either an “IAT payee” or a “non-IAT payee.”
- Agencies that maintain their own vendor database (i.e., other than NCAS) should adopt language for use in its enrollment form, as appropriate for the agency and the type of payees.
- Agencies that maintain their own vendor database may elect not to enroll vendors that have been identified as an IAT payee in Direct Deposit, but pay the vendor by paper check instead. This decision should be based upon the agency’s capability to originate IAT-formatted ACH file, as well as the volume of IAT payees contained in its database.
- If IAT payees will not be eligible to continue to receive electronic payments, the database does not necessarily have to be modified to denote the payee’s IAT status.
- Vendors currently enrolled in a Direct Deposit program are not required to execute the new authorization/enrollment form. They are however to be informed of the new IAT rules, and those that meet the criteria as a potential IAT payee are to complete the IAT Payee Affirmation Status Form.
- Individuals receiving benefit payments are to be treated as deemed appropriate (as either a vendor or an employee) by the individual agency responsible for administering the benefit program, with the agency establishing its own set of due diligence criteria.
- Vendor payments could be to companies (corporate payments) or to individuals (consumer payments).
- In the case of vendors maintained in OSC’s NC Accounting System (NCAS) (both Trade and Non-trade), see guidelines for NCAS Vendors.
- Sample correspondence an agency may send to vendors is available on OSC’s website.
- An explanation of the IAT rules specifically for vendors may be viewed on OSC’s website.

NCAS Vendors Guidance

In the case of vendors maintained in OSC’s NC Accounting System (NCAS):

- Authorization/Enrollment Forms provided by OSC should be used.
- In the case of NCAS Trade Vendors (enrollment performed by OSC), OSC updates the vendor database. OSC is responsible for providing and obtaining the completed enrollment form from all vendors in the Trade Vendor database.
- In the case of NCAS Non-Trade Vendors (enrollment performed by each agency), the agency updates the database. Each NCAS agency is responsible for providing and obtaining the completed enrollment form from all vendors in the Non-Trade Vendor database.

- Regarding notifying the vendors of the IAT Rules, OSC will notify the Trade vendors, and each agency is to notify their particular Non-Trade vendors.
- OSC has elected, at least initially, for vendors that have been identified as an “IAT payee,” for the State not to pay the vendor (trade or non-trade) by direct deposit, but to pay by paper check instead.
- A current vendor presumed to be an IAT payee and converted to paper check can be reinstated to receive payments electronically by completing a new authorization/enrollment form, affirming the entire payment amount is not subject to being transferred to a foreign bank account.
- NCAS may at some point in the future be modified by OSC to contain a field to denote a vendor that has been determined to be an IAT payee.

Sample Language for Enrollment Forms – Vendor Payments

I acknowledge that electronic payments to the designated account must comply with the provisions of U.S. law, as well as the requirements of the Office of Foreign Assets Control (OFAC). Check one of the following:

*___ I affirm that, regarding electronic payments the State of North Carolina may remit to the financial institution for credit to the account that I have designated, the entire payment amount **is not** subject to being transferred to a foreign bank account.*

*___ I affirm that, regarding electronic payments the State of North Carolina may remit to the financial institution for credit to the account that I have designated, the entire payment amount **is** subject to being transferred to a foreign bank account. I acknowledge that any electronic payments that may be remitted to me may be labeled with “IAT” as the standard entry class. I acknowledge that the State of North Carolina alternatively may elect to remit such payments to me via check instead of via electronic payment. I acknowledge that availability of funds credited to the account will be subject to my receiving financial institution’s policies and procedures.*

Sample Language for Enrollment Forms – Direct Payments (ACH Debits / Bank Drafts)

(For agencies offering a program where the enrolled payor’s bank account can be drafted.)

I acknowledge that origination of electronic payments against the designated account must comply with the provisions of U.S. law, as well as the requirements of the Office of Foreign Assets Control (OFAC). Check one of the following:

*___ I affirm that, regarding electronic drafts the State of North Carolina may submit to the financial institution for debit against the account that I have designated, the account **is not** funded by moneys received from a foreign bank account.*

*___ I affirm that, regarding electronic drafts the State of North Carolina may submit to the financial institution for debit against the account that I have designated, the account **is** (or may be) funded by moneys received from a foreign bank. I acknowledge that any ACH debit transactions that may be submitted against the account may be labeled with “IAT” as the standard entry class. I acknowledge that the State of North Carolina alternatively may elect not to originate ACH transactions against the account, but require an alternate form of payment instead.*

	Payroll Payees	Vendor Payees
Rules Applicability	All payroll centers. All employees currently receiving direct deposit, or desiring to enroll in direct deposit	All agencies. All vendors currently receiving direct deposit, or desiring to enroll in direct deposit
Notification of IAT rules sent to payees	Required, but only to those receiving payments via direct deposit. All others optional.	Required, but only to those receiving payments via direct deposit. All others optional.
Specific Inquiry of payees as to whether they send their entire payment to a foreign bank	Not necessary for Beacon. Optional for all other payroll centers as the center deems appropriate, using same standard for vendors.	Only for those that meet the criteria/conditions specified in OSC's policy for a "potential IAT payee."
Completion of "Affirmation of IAT Status Form"	Only if a specific inquiry is being made to a potential IAT payee.	Only if a specific inquiry is being made to a potential IAT payee.
Status of Current Payee	Presumed to be a "non-IAT payee" unless informed by the employee otherwise	Presumed to be a "non-IAT payee" unless informed by the vendor otherwise. Exception: Those deemed to be a "potential IAT payee" to be sent an inquiry. If no response to inquiry, presumed to be an "IAT payee."
Required completion of New Direct Deposit Enrollment Forms	Not for current employees. Required for newly enrolled employees after Sept. 2009	Not for current vendors. Required for newly enrolled vendors after Sept. 2009
Responsibility for modifying Enrollment Forms	OSC provides form for Beacon and Central Payroll. All other payroll centers use language provided by OSC.	OSC provides form for NCAS (Trade and non-trade vendors). Non-NCAS agencies use language provided by OSC.
Database required to have flag for IAT payee	Only if the payroll center will continue to pay employees identified as an IAT payee by direct deposit	Only if the agency will continue to pay vendors identified as an IAT payee by direct deposit
How to pay an IAT payee	Pay by check, unless the payroll center has the ability to originate an IAT-formatted ACH file	Pay by check, unless the agency has the ability to originate an IAT-formatted ACH file
Can OSC originate the new IAT format?	Beacon will in the near future Central Payroll cannot	NCAS cannot
Does Aon have to be notified if an employee is an IAT?	Yes. Aon relies upon ACH enrollment received by the agency	N/A
Sample correspondence and info for the payee	Available on OSC's website	Available on OSC's website
Benefit payments	Criteria for compliance determined by the administering agency	Criteria for compliance determined by the administering agency