US Mail/Email

June 15, 2010

Subject: Bank Encoding Errors
        Rejected Food Instruments and Cash Value Vouchers

Dear Store Manager/Corporate Contacts:

Within the past several months, the WIC Program has noticed a significant increase in the number of rejected items that are returned unpaid by Covansys (our banking contractor). These unpaid transactions are stamped with the error message “bank encoding error.” The purpose of this letter is to provide guidance to you on this issue, so you can better work with your depository bank, if and when you receive a rejected WIC food instrument/cash value voucher back with a “bank encoding error” message on it. A contributing factor to the increase is related to the redemption of cash value vouchers where numbers such as “0”, “6” and “8” are incorrectly being encoded by various banks of first deposit - BOFD. This is also a training issue; please remind your cashiers that all amounts written on deposited WIC food instruments and cash value vouchers should be clear and legible.

Enclosed is a resource that provides background on the issue, as well as outlines the corrective action that must be taken. Important: Unless your depository bank (BOFD) corrects the encoding error; your store will not get paid for these rejected food instruments/cash value vouchers.

If you contact your BOFD and get them to correct these previously rejected FIs/CVs and redeposit them (within 20 days of the last date to spend) then these transactions will be eligible for payment consideration. Any rejected FIs/CVs (with the “bank encoding error” message) that are received back from your bank after 20 days (based upon the last date to spend printed on the FI/CVV) can only be paid by sending these image replacement documents (IRDs) to the state WIC Office. As outlined in state regulations, 12VAC5-195-590 Reimbursement and Payment, paragraph E, section #3 which states:

“Food instruments or IRDs rejected for payment due to a processing error that originates either at the federal reserve or bank of first deposit (BOFD) may be considered for an exception payment. The food instruments or IRDs must be submitted to the state agency within 120 calendar days from the first date to spend printed on the food instrument. A bank representative must submit a written request with the unpaid food instruments or IRDs”.

In order to use this option, please note that a written request has to be submitted to the WIC Program, along with an EXCEL listing (both paper and electronic file) of the affected food instruments and cash value vouchers. The IRD images must accompany your request for a payment exception. For additional instructions on what information is needed, you can contact the WIC Program, prior to submitting your exception payment request.
I would encourage you to share this update and enclosure with any store personnel that handles/reconciles WIC food instruments/cash value vouchers deposits, e.g. office personnel, bookkeepers and accounting staff. Additionally, I recommend that you retain this enclosure in your Virginia WIC Program Vendor Manual – Reimbursement section as a reference.

If you have any questions about the recommended follow up, please contact Freda Bolling (Freda.Bolling@vdh.virginia.gov) or myself Sheila.Brewer@vdh.virginia.gov via e-mail or by phone at (804) 864-7800. Thank you in advance for your cooperation and attention to this matter.

Sincerely,

[Signature]

Sheila Brewer, Vendor Compliance Manager
Division of Nutrition, Physical Activity and Food Programs

Enclosure:
• Handling Return WIC Checks For Bank Encoding Errors

Pc: Independent stores with enclosures (US Mail)
 Corporate Contacts w/enclosure (email only)
 Donna Seward, State WIC Director w/enclosure (email only)
 Lori Townsend, Covansys w/enclosure (email only)
 Vendor Team w/enclosure (email only)
 Vendor Team/General Communications w/enclosures
USE OF MICR DATA AND IMAGES
The Check Clearing for the 21st Century Act (Check 21) was passed by the government to permit banks to truncate original checks and convert the items into a TIFF image for payment processing. Check 21 was signed into law October 28, 2003 and became effective on October 28, 2004.

These changes were made so "check processing" would not change for the Federal Reserve Bank and other institutions in the business of banking. The idea was to keep the settlement of the items presented for payment the same but replace the paper checks with electronic images and data.

The data required for check image exchange is the same as paper check processing. The images and data are sorted by the Federal Reserve Banking system to become the Image Cash Letters (ICLs), which are routed to the paying bank. The following data is used to create the electronic check which is transmitted in the ICL:

- Image of the check, front and back (black and white only, no gray scale)
- Capture of the MICR line data from the original check (the amount does not have to be printed on the check prior to imaging)
- The ICL file sends the image, MICR line data, settlement request and endorsement information in lieu of the original check

BANK ENCODING ERRORS
There are occasions when the item presented for processing has an incorrect dollar amount in the MICR data. Due to the changes associated with "all image" processing, the amount may not be printed on the check with MICR ink. Many times these differences occur at the time the check is converted to an image. We are unable to determine if the error occurred with the vendor or a processing bank.

If the depositor has had the correct amount credited to their account but the amount presented is incorrect, this error is associated to a bank processing error. In these cases, the check is returned with a return error message of "Bank Encoding Error". The Bank of First Deposit should make the correction to the amount then resubmit the item for payment. The check should not be charged back to the depositor.

If the depositor should happen to get one of these checks charged back to their account, the depositor should find the original deposit showing the correct amount then the bank is responsible for reversing the charges, correcting the check amount and resubmitting the check for processing.

In cases where the depositor has received the incorrect amount for credit with an original deposit, the item should be corrected by the depositor and redeposited. This correction should be communicated to the depositing bank so the amount can be updated on the MICR line of the IRD.

(Continued next page)
WIC BANKING - ENCODING ERRORS

To educate and assist state WIC personnel and vendors/stores accepting WIC checks or vouchers in resolving the questions which may arise from checks sent back with a “Bank Encoding Error” message, examples plus frequently asked questions (FAQ) are included.

FAQ: Frequently Asked Questions

Q: If a check was deposited into my account for $6.00 but the check was returned and charged back to the account for $6.06 with a “Bank Encoding Error” message – What should I do?
A: The bank which accepted the $6.00 check should find that the $6.06 is a Bank Encoding Error and the check should not be charged back to the account. The bank should make corrections to the IRD and resubmit the paper check image for processing. Any return check fees should be returned, since this was a banking error.

Q: If a check is listed in a deposit for a total of $4.89, however, the bank has given credit for $9.89, and then the check is returned for a Bank Encoding Error, who would be responsible for the error?
A: We are not able to speak to the agreements with individual banks. If the intent was to deposit $4.89 but a credit for $9.89 was received, the deposited amount would be incorrect. To receive credit for $5.00, the depositor or bank of first deposit should correct the IRD and resubmit it for payment. The possible return check fees would need to be discussed with the depositing bank.

Q: A check was charged back to our account as “Bank Encoding Error” and the amount MICR encoding is blank, how do we determine the amount of the check?
A: The data sent with the IRD has the actual amount of settlement, regardless of the amount written on the check. The IRD of the return check will have the amount on the MICR line. For example, if a check with a face value of $10.00 has been returned, the amount will be sent on the IRD (in the amount printed on the MICR line) and charge back details from the bank of deposit. In our example, the return could be totaling $10.80 when the check total should have been $10.00.

It is important for the amount to be clear and legible when written on the check, this will help reduce the error with amount presented for processing.

Below is an example of data and an image sent in an ICL for payment. Even though the paper check does not have the MICR amount printed on the actual check, the amount is sent with the TIFF file. The amount sent in the file is the amount that is used for settlement.

Below is an example of a check with the amount incorrectly printed on the check and returned for an “Encoding Error”. The amount printed on the check is the same as the data sent for processing.