




Volume No. 1—Policies & Procedures	TOPIC NO.	50445 - Cardinal
Section No. 50400—Deductions	TOPIC	Direct Deposit
	DATE	November 2021

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Overview

Introduction

Direct Deposit (also known as EFT, Electronic Funds Transfer) of payroll allows employees to have their pay electronically deposited in the following ways:

- Directly into their savings and/or checking account(s)
- Directly to a COVA Pay Card that will accept ACH credit transactions
- Distributed to Virginia College Savings Plans (VSCP) – with Tuition Track Portfolio (TTP), prepaid education (VPEP) and savings trust (VEST) investment options
- Applied to Virginia State Employee Loan Program loan payments

The program is a convenient way to pay employees at any Federal Reserve affiliated domestic financial institution. Direct deposit is the primary method of paying Commonwealth employees. All state employees are eligible to participate in the direct deposit program regardless of their frequency of pay and/or salaried or wage status. That is, salaried or wage employees paid monthly, semi-monthly, biweekly, and weekly may all participate in the program.

Employees must either enter their direct deposit information in Employee Self Service (ESS) or complete an **Employee Direct Deposit Authorization** form and submit it to agency payroll to be kept on file. In cases where the employee is not able to submit their direct deposit in ESS, payroll can enter or update the direct deposit information on behalf of the employee.

Benefits to Employees and Employers


Direct deposit benefits both the employee and the employer. Benefits to the employee include:

- No lost or stolen checks.
- No unclaimed or uncashed checks.
- Eliminates long banking lines and wasted time cashing checks.
- Assurance that payments will be automatically deposited while on vacation, sick leave, or out of town.

Financial institution service fees vary, but generally, direct deposit fees are lower than the cost of paper transactions. Direct Deposit reduces operating costs and improves productivity. Other benefits to the employer include:

- Reduced processing time and requirements for check reconciliation.
 - Enhanced cash management by increasing predictability of cash flows.
 - Elimination of forged, stolen, or lost checks.
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Direct Deposit Mandated for All Employees


4-601.e.2 of the *Appropriation Act* (Chapter 879, 2008 Session) authorizes the Comptroller to mandate payment of wages or salaries to state employee via electronic payments. Effective March 30, 2020, direct deposit or use of prepaid debit card became mandatory for all (see exceptions below) salaried and wage employees.

Global Exceptions to Mandate

Listed below are the only global exceptions to the direct deposit mandate. Some agencies have obtained agency specific exceptions due to a unique population of employees or work conditions. Exceptions other than those listed must be requested in writing to the Director or Assistant Director of State Payroll Operations (SPO). Agencies are required to document all exceptions granted or may be subject to a \$5 per compliance monitoring check charge as permitted by § 4-5.04g of Chapter 847.

- ✓ Employees in pre-note status
- ✓ Wage employees who *are unbanked and will only be employed one or two pay cycles.*
- ✓ Employees under the age of 18 cannot apply for the paycard nor open a bank account without a co-owner and therefore can be excepted until they reach the age of 18.
- ✓ Employees switching financial institutions can receive a pay check for one to two periods while establishing a new account.
- ✓ Direct deposit, including the paycard, cannot be enforced for those employees without a SSN and can be excepted until the SSN is obtained.
- ✓ Federal Work Study students are exempted from the mandate due to 34 CFR 675.16 which specifically prohibits employers from requiring FWS students to participate in direct deposit.

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Earnings Notices


Effective October 1, 2021, all employees **are** required to use Cardinal HCM ESS to obtain earnings information. W-2s will also be available in ESS.

Virginia Debit MasterCard

While direct deposit of payroll has been available since the early 1980s, not all employees maintain bank accounts. Therefore, a small percentage of “unbanked” employees still receive their earnings in the form of a paper check. In conjunction with the Department of Treasury, the Department of Accounts began a program to allow State employee payrolls to be deposited to a Debit MasterCard or “Pay Card” called the Way To Go card. This electronic payment option is ideal for those employees age 18 or over who currently receive a pay check or even those on direct deposit who wish to have a portion of their pay set aside on the pay card each pay day.

Note: Since the Way To Go card must be produced and mailed to the employee, the direct deposit deduction for this deposit should not be established by the agency until the employee has provided notice of receipt of the paycard.

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Virginia Debit MasterCard Procedures

Agencies may distribute information about the Way to Go card to employees by either directing the employee to the internet address or printing from the website and distributing the information. The internet address is goprogram.com (choose Virginia from the dropdown box). All of the program details including the enrollment form can be found by clicking on “Program Material” and then “For Commonwealth Employees.”

Employees that opt to participate will complete the enrollment form and return it to their payroll office. The completed form should then be uploaded to the Department of Accounts (DOA) SPO SharePoint site for further processing. DOA will enter the information into the MasterCard system to establish the employee’s account. Upon completion, DOA will provide the banking information to the agency. Once the agency is notified by the employee that the Way To Go card has been received, the agency can establish the direct deposit account in HCM. At that time, the automatic prenote can be overridden. Please note that the number on the card is not the account number.

The bank routing number and account number should not be provided to the employee for use for any other purpose other than the paycard since direct deposit to this card is restricted to centralized state payroll, unemployment benefits, and Virginia child support payments.


Note: For newly hired employees, please do not upload the completed enrollment form to SharePoint until the employee record has been created in Cardinal HCM.

No Fixed DD if No Net DD

No employee is allowed to utilize fixed direct deposit deductions unless the employee is also having his net pay direct deposited as well. Each employee must identify a financial institution where the net pay will be deposited or cannot avail themselves of the convenience of the fixed direct deposit.

Note: Employees waiting for receipt of the Way to Go card are considered as participating in net direct deposit even though a physical check must be produced in the interim.

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Direct Deposit Security

Fraudsters continue to target businesses of all types, convincing payroll and human resources employees to change direct deposit banking information. The most common ploy is to send an email that appears to be from the employee. Scammers can generate fake email accounts by using free services so emails appear to come from actual employee email addresses. The request is brief, polite, and urgent, requesting that the direct deposit information be changed “before the next paycheck.” If you receive such a request, ALWAYS direct the employee to use the form provided on the Cardinal website. Do not email the form in the reply. As a reminder:

- Do not share the direct deposit form electronically.
- Never accept a direct deposit change received through email OR fax UNLESS you confirm directly with the employee, either in person or by phone (using a phone number already in your file).
- Always make sure that the most current version of the Commonwealth DD form is used. The form was revised as of 08/19 and earlier versions SHOULD NOT BE ACCEPTED.
- NEVER accept a direct deposit change form that is not completely filled out and signed by the employee.
- Agencies that are victims of direct deposit scams are liable for the funds that have been misdirected if they are not recovered AND are required to pay the affected employee as soon as is administratively possible.
- Encourage employees to review their direct deposit routing number (bank) and account number(s) in Cardinal ESS two (2) business days before payday. Early detection of changes NOT AUTHORIZED by the employee will substantially reduce direct deposit fraud

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Overview, Continued

**Promoting
Direct Deposit**

To increase participation, agencies are encouraged to promote the direct deposit program. Agencies with low participation rates are reported in the Comptroller’s Quarterly Report. To obtain promotional materials and other pertinent information, see www.directdeposit.org or call NACHA @ 1-800-487-9180.

**Rules Affecting
Direct Deposit**

State and Federal authorities share regulatory responsibility over direct deposit. Title IX of the Consumer Credit Protection Act and the Electronic Fund Transfers Act outline the basic requirements for Electronic Funds Transfers (EFT’s) including direct deposit. The Federal Reserve Board’s Regulation E explains and implements these laws.

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Direct Deposit Administration

Central Direct Deposit Administration

Direct deposit transactions are processed through the Automated Clearing House (ACH). DOA administers the program for agencies centrally by:


- Serving as the main contact for agencies using direct deposit and assisting in immediate problem resolution
 - Creating transmission files containing banking information for each direct deposit participant
 - Processing Notifications of Change (employee account changes)
 - Correcting errors and ACH Returns
 - Coordinating addition of new bank routing numbers
-

Agency Responsibilities

Agencies play a very important role in the initial employee direct deposit set-up process. Accurate direct deposit set-up is critical to the successful transfer of funds. Agencies:

- Collect and validate legitimacy of employee banking information on the direct deposit enrollment form.
 - Verify banking information with the selected financial institutions.
 - Establish direct deposit account information in Cardinal HCM.
 - Maintain copies of employee direct deposit enrollment applications.
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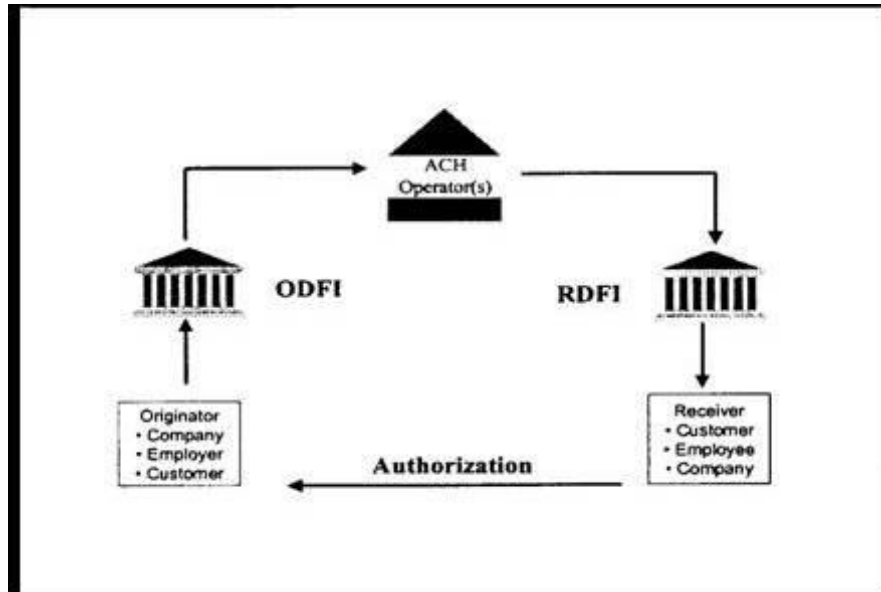
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Direct Deposit Administration, Continued

Operational Participants

As shown in the following illustration, five participants are involved in the administration of the direct deposit process. Each plays an important role in completing the process successfully.




Originator Responsibilities

In the Commonwealth of Virginia, originator responsibilities are divided as follows:

Responsible Party	Function
Agency	Collects and verifies banking information
	Sets up information in Cardinal HCM
	Maintains copy of direct deposit applications
Employee	Sets up information in Cardinal HCM ESS
	Notifies agency immediately of changes to account
Department of Accounts	Main contact for agencies using direct deposit
	Assists in immediate problem resolution and correction of errors
	Creates and transfers transmission files containing banking information for each direct deposit participant
	Coordinates addition of new routing numbers
Department of Treasury	Contracts with the originating bank
	Resolves float and timing issues

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ODFI Truist Bank is currently under contract by the Commonwealth as the Originating Depository Financial Institution. DOA sends payment information electronically to the bank where the data file is warehoused and subsequently forwarded to the ACH operator two days before the effective payment date.

ACH Operator The Federal Reserve Bank is the state's designated ACH Operator. The Federal Reserve is the central clearing facility that sorts all transactions by bank and releases payments no later than the opening of the business day that funds are scheduled to be available. The Federal Reserve sends the electronic transmission to the RDFI for final credit to employee accounts. If all information sent to the RDFI is correct, no further action is taken. If the information is incorrect, Notifications of Change and ACH Returns are sent back to the ODFI.

RDFI Receiving Depository Financial Institutions are employees' financial institutions that receive ACH entries for final distribution to accounts designated by their customer employees.

Employee/Receiver Employee/receivers are the payees who authorize their paychecks to be direct deposited to their financial institution and chosen bank account. The employee is responsible for notifying the payroll office of any changes in bank account information.

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Direct Deposit Administration, Continued

Glossary


ACH Network	A funds transfer system governed by the rules of NACHA that provides the inter-bank clearing of electronic entries for participating financial institutions.
ACH Return	A type of Return in which funds that have already processed through the ACH are returned to the ODFI unposted.
Automated Clearing House (ACH)	The central clearing facility responsible for the transfer of direct deposit transactions from the State's bank account at the originating financial institution to the employee's financial institution(s) and account.
Authentication	A process of generating a message that can be used to positively identify the sender of the message and to protect the message from data insertion, modification, deletion or replay.
Available Balance	Funds available on the current day.
Authorization	A written agreement with the agency, signed by the employee, allowing payments to process through the ACH network.
Effective date	The date on which the receiving financial institution(s) credits the employee's account(s) for the amount of the direct deposit.
Exception Entry	Entries that require special attention. Examples include closed accounts, stop payments, notification of change or dishonored return claims of withdrawal (NOW) accounts at a savings and loan association.
Deletion	Stops erroneous direct deposit transactions during the period the ODFI still has the transmission file warehoused (must be requested at least three business days prior to effective date). The ODFI guarantees the direct deposit transaction will not be sent to the Federal Reserve Bank.
Direct Deposit	Employee's net pay, or a fixed amount of pay, is transferred, on payday, from a State bank account to the bank account(s) chosen by the employee without the use of paper checks.
Financial Institution (FI)	A bank, savings bank, federal- or state-chartered credit union.
Fixed Amount of Pay	Specified dollar amount of the employee's net pay.
Net Pay	The employee's gross pay less all taxes and mandatory and voluntary payroll deductions.
Notification of Change (NOC)	A type of Return sent by the RDFI to notify the ODFI that information for payee has become outdated or that the information contained in the pre-notification is erroneous.
Originator	Any company or entity that initiates entries into the Automated Clearing House (ACH) network.

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Direct Deposit Administration, Continued

Overdraft	Negative balances in employee's account at the end of business day.
Posting	The process of recording debits and credits.
Pre-notification (pre-note)	Zero dollar entry that may be sent through the ACH network to alert the receiving financial institution that a live dollar transaction will be forthcoming. Requires verification of the payee's account by RDFI.
Receiving Depository Financial Institution (RDFI)	The employee's financial institution(s) responsible for receiving the employee's direct deposit from the ACH and posting it to the employee's account(s) on payday.
Regulation E	A regulation promulgated by the Federal Reserve Board in order to ensure consumers of a minimum level of protection in disputes arising from electronic fund transfers.
Rejects	Any ACH batch file that has not been accepted by an ACH Operator but cannot be processed because of a technical error.
Returns	Any entry to the ODFI by the RDFI when the direct deposit transaction cannot be processed. Examples include closed account, incorrect account number, etc.
Reversals	ACH entries or files sent within required deadlines to correct previously originated entries or files.
Routing Number	Nine digit number (eight digits and a check digit) that identify a specific financial institution. Also referred to as the ABA number. Numbers are assigned by Thompson Financial Publishing and are listed in its publication, "Key to Routing Numbers."
Settlement Date	Date on which an exchange of funds with respect to an entry is reflected on the books of the Federal Reserve Bank(s).
Trace Number	A15- character code uniquely identifying each entry within a batch in the ACH file.
Transaction Code	Two-digit code in the ACH record that determines whether the entry is a debit or a credit to a savings or a checking account.
Uncollected funds	Funds that have not cleared the banking system.
Wire Transfer	Direct deposit manually sent to a financial institution using a system outside the ACH network.
Zero Balance Account (ZBA)	Checking accounts that have no balance at the close-of-business day.

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Bank Routing Numbers

Bank Routing Number

Routing numbers identify in numeric form the location at which the check, electronic transaction, or payment must be presented for payment. In simple terms, it is the bank address in numbers. The routing number is sometimes called the transit or American Bankers Association (ABA) number.

Routing Numbers use a nine-digit machine readable or magnetic ink character recognition (MCIR) format. Routing numbers are usually the first group of numbers at the bottom of the check. The digits are grouped as follows:

Digit	Purpose
1-4	Federal Reserve Routing Symbol
5-8	Identifies the institution
9	Check symbol

Key To Routing Numbers


Larger banks may have several assigned routing numbers depending on their location. Routing numbers for credit unions and savings and loans start with the number 2. Depository banks start with 0 followed by a number from 1 to 9. If an error message is displayed when an agency attempts to enter a bank routing number that is not in the database, the agency should submit a request to SPO to have the routing number added. SPO will coordinate with Post Production Support to have the routing number added.

Account Numbers

Account numbers are the second group of numbers at the bottom of the check. Account numbers can have as many as 17 digits and are unique to each employee. Dashes and spaces are not a part of account numbers and should not be entered in Cardinal HCM as part of the direct deposit account information.

Check Numbers

Check numbers are the last group of numbers at the bottom of the check. They are easier to identify because they are also shown on the top right hand corner of the check. Check numbers should not be included when entering account information in Cardinal HCM.

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Pre-Notes

Overview

Prenotes are zero-dollar payment amounts sent through the ACH network. Prenotes allow the RDFI to verify the accuracy of the bank account information in order to prevent direct deposit disbursements to incorrect bank accounts. Prenotes contain the same information as live direct deposits with the exception of the amount.

All new account submissions will go through the prenote process. In addition, changes to account information will also be prenoted. Changes to deposits going to existing accounts will not be pre-noted. It may take up to two payroll cycles before the prenote is complete.


ACH Processing and Returns

ACH Cycle

Following agency payroll confirmation, the direct deposit cycle starts and DOA assumes direct deposit processing responsibilities. Agency involvement ceases unless DOA must contact the agency pursuant to receipt of a Notification of Change or the agency must submit a stop payment request. A high-level summary of DOA's ACH processing schedule follows:

Timeframe	Activities
Day 1 – Immediately following confirmation process the ACH/Checks process will be initiated	Payments to employees are processed. Check and ACH reports and transmission files are created.
Day 2 - Morning following confirmation.	DOA receives all reports and transmission data for final review and releases transmission files to the ODFI.
Day 2 - Afternoon following confirmation	ODFI confirms ACH transmission and warehouses the information until two (2) days before the effective payment date.

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ACH Processing and Returns, Continued

Returns


DOA receives NOCs and ACH Returns online from the ODFI. Pertinent information is downloaded for immediate corrective action. Standard change codes are assigned by the RDFI for NOC or ACH Returns designating the reason the ACH transaction rejected. Returns are categorized as follows:

Code	Description
C0	Partial rejection – these transactions can be, and usually are, manually posted by the RDFI with a possibility of a one-day delay in posting to the employee’s account.
R0	Total rejection – these transactions are returned within 3 business days to DOA.

Corrective Action

Descriptions of selected standard reject codes and the actions taken by DOA to correct these errors follows:

Reject code	Description	Action Taken by DOA
C01	Incorrect RDFI Routing Number Check Digit	Replace the last digit of the routing number on the applicable bank information line in Cardinal HCM.
C02	Incorrect Routing Number	Replace the 9-digit routing number with the information provided on the NOC.
C05	Incorrect Transaction Code	Change deduction number set-up from checking to savings or vice versa.
C06	Incorrect account number	Replace the corresponding account with the information provided on the NOC.
R01	Insufficient Funds	Notify agency that agency charges will be made accordingly. Pursuant to late reversals.
R02	Closed accounts	Call agency to request disposition, rewire to another account or void.
R03	No account, unable to locate account	Call agency and wire funds to agency petty cash fund or suspense account so agency can prepare a check for employee. Pursuant to successful ACH Returns.
R04	Invalid account #	
R06	Returned per ODFI request	DOA processes voids from reversals.

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Cardinal HCM Direct Deposit Set-up

Direct Deposit Accounts

An employee's net pay can be deposited into a Checking account, Savings account, a COVA Paycard or certain other pre-paid cards, distributed to a Virginia College Savings Plan, or applied to Virginia State Employee Loan Payments (VSELP).

Employees are limited to a total of ten (10) direct deposit distributions. If the employee is enrolled in the Virginia College Savings Plan, the setup of each child's account is considered a separate Direct Deposit distribution.

Employees with multiple jobs, whether within the same company or across multiple companies, will only have one set of distributions for Direct Deposit setup.


Refer to the "Entering and Updating Direct Deposits" Job Aid for detailed information.

Cardinal HCM Direct Deposit Reports

Reports

Agencies can use the following reports to verify direct deposit information.

Report	Description
RPY199, Direct Deposit Register	Hard copy of the online transmission file sent to the ODFI. Lists the employee name and employee number, banking information, type of transaction and trace number. This report provides information needed for Stop Payment requests Pay Period Report listing all direct deposits for employees in each company in the organization. Report includes: Employee Name, EmplID, Business Unit, Department ID, Check Date, Advice Number, Source, Net Pay, Check Amount, and Deposit Detail: Type Transit #, Account Number, IAT, Amount.
RPY200, Payroll Advice Register	Reports payroll amounts paid directly into the employee's bank account as direct deposits.
RPY468, VACU Direct Deposit to Goal	Query generates a report that compares VA Credit Union loan deductions to the goal amount.

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Exception Processing

Stop Payments Direct deposits affected by overpayments caused by agency error, unanticipated leave without pay, notification of employee death or employees changing accounts after payroll certification may need to be recalled or reclaimed using stop payment procedures.

The timing of a request for stop payment of a direct deposit affects the ability to intercept the funds prior to distribution. To aid in understanding of how timing affects the stop payment, some general guidelines are provided.

- Requests received by DOA by 3:30 PM will be processed the same day. Those received after 3:30 will not be processed until the following business day.
- Requests received the day after confirmation and up to three State business days prior to the check-date (effective date) will be **deleted** from the transmission. That is, the initial transaction is never transferred to the Receiving Financial Institution (RDFI).
- Requests received after that time and up to five business days after the date of deposit will be processed as a **reversal**. The initial transaction cannot be deleted; therefore, a reversing transaction must be created and remitted to the RDFI. As the funds related to the initial transaction may no longer be available in the employee's account, it is possible that the reversing transaction may be rejected. For that reason, DOA cannot guarantee the success of the reversal. Once the reversal has been accepted and the funds have been returned to the state, DOA will process the corresponding void transaction in Cardinal HCM. A void is not complete until it is seen on the payroll register.
- Requests received more than five business days after the effective date of the payment will be returned to the agency for collection.

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Exception Processing, Continued

In order to ensure the timely return of the direct deposit credits, stop payment requests must be submitted as soon as possible. See CAPP Topic 50515, *Special Payments*, for guidelines on when to request stop payments due to employee death.

As an alternative to voiding a direct deposit, direct deposits can be routed to another account, such as one for the affected employee or an agency suspense, petty cash or local account. However direct deposit transactions cannot be converted to a negotiable instrument (i.e., check).

In the event the full amount of the payment to the employee is not returned, the agency will be required to continue collection efforts and if necessary, submit a request to DOA SPO for a balance adjustment for the amount that was returned.


Stop Payment Documentation The Direct Deposit Stop Payment form can be found on the DOA website at http://www.doa.virginia.gov/Payroll?Forms?Payroll_Forms_Main.cfm.

To request a stop payment, complete the Direct Deposit Stop Payment form and submit it to the DOA Payroll Production Coordinator by uploading it to the Stop Payment folder in SPO SharePoint. DOA will submit the stop payment request to the bank and notify the agency regarding the results.

Be sure all of the required fields have been completed on the form and that it has been signed by the Agency Fiscal Office or Proxy.

Internal Control

Internal Control Agencies must ensure direct deposit payments are made to the correct employee bank account. Make sure that proper verification is in place before Direct Deposit accounts are established or terminated.

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Records Retention

Time Period Retain direct deposit enrollment forms until the employee changes accounts and/or 6 years after separation from employment. Retain stop payment requests to DOA and ODFI banks for five and six years respectively.

Contacts

DOA Contacts Direct Deposit Coordinators
 Voice: (804) 371-4883; (804) 371-8385
 E-mail: Payroll@doa.virginia.gov

Payroll Support Analyst/Trainer
 Voice: (804) 786-1083
 E-mail: Payroll@doa.virginia.gov


Subject Cross References

References NACHA National Automated Clearing House Association- www.nacha.org
 ABA American Bankers Association- www.aba.com
 DD/DP Direct Deposit/Direct Payment- www.electronicpayments.org

CAPP – Topic No. 50515, *Special Payments*

Refer to suggested job aids and training information for data entry and processing on the Cardinal website: <http://www.cardinalproject.virginia.gov/>

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Subject Cross References, Continued

**Suggested
Additional
Resources**

The following can be found on the Cardinal Website, under Learning –
Job Aids:

PY 381 Entering and Updating Direct Deposits

The following can be found on the Cardinal Website, under Resources >
– Forms:

- Direct Deposit Authorization for Employees
 - Direct Deposit Stop Payment Form (PR-1)
-