

CASH: UNCLAIMED AND UNCASHED CHECKS

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CASH: UNCLAIMED AND UNCASHED CHECKS

I. INTRODUCTION

This chapter contains general procedures for the disposition by accounting offices of unclaimed and uncashed checks. Sections III., IV., and VI., provide the accounting officer with considerable discretion in determining which procedures to adopt for his or her campus. A written standard (see example in Appendix I) should be prepared for any campus policies that deviate from the standards set forth in this chapter. In the absence of such a written standard, the standards in this chapter will apply.

As a matter of policy, the University attempts to contact payees of unclaimed and uncashed checks, in order to promote good internal control standards.

II. DEFINITIONS

- 1) Outstanding check: Any University check that has not cleared the bank, been canceled, or written off. Outstanding checks include both uncashed and unclaimed checks.
- 2) Uncashed check: A check mailed or delivered to the payee that has not been cashed.
- 3) Unclaimed check: A check held by any University office for issuance or delivery to the payee, including checks mailed to a payee that were returned to the University.
- 4) Outstanding check account: The account to which (a) old uncashed checks are credited and (b) unclaimed checks are credited when they cannot be delivered promptly. The timing for transferring checks to this account is detailed in section III. below.
- 5) Cancel: To rescind a check by debiting cash and crediting a clearing account, the outstanding check account, or the account originally charged. Checks may be canceled either by journal entry or through the system (disbursements or payroll) from which they were originally prepared.

- 6) Redraw: To change the name of the check payee to "The Regents of the University of California" and deposit the check in the University's bank account, with a debit to cash and a credit to any of the accounts listed in 5) above for cancellations. Redrawing a check is an alternative to canceling it when the accounting office has the check in its possession (provided the date is not stale).
- 7) Reverse: To remove a check completely from an account by reversing the original recording entry (i.e., by debiting cash and crediting the account originally charged); checks may be reversed either by cancellation or by redrawing, in cases where the payees are no longer entitled to receive payment.

III. FOLLOW-UP ACTION

A. TIMING

Generally, since payroll checks are cashed more promptly than vendor checks, earlier follow-up is required. However, early follow-up is essential for both vendor and payroll checks to insure that the payee can be located.

The time standard for following up on uncashed and unclaimed checks may be determined by the campus accounting officer or according to the following standard:

<u>Check Type</u>	<u>Unclaimed checks</u>	<u>Uncashed checks</u>
	Begin follow-up monthly on checks that have become	
Vendor	one	six
Payroll	one	three

month(s) old during the preceding month.

III. FOLLOW-UP ACTION (Cont.)

B. FOLLOW-UP EFFORT

The following guidelines should be used to determine the amount of follow-up effort needed to contact a payee. The dollar cut-offs may be adjusted by the accounting officer; however, the \$1,000 limit for the maximum effort must not be raised.

<u>Amount of Check</u>	<u>Effort to Contact Payee</u>
\$1,000 and over	Maximum effort, such as phone calls or letters to last known location (see Appendix II for sample letter), consultation with the department originating the transaction, consulting directories, etc.
\$100 to \$999	Moderate effort, including at least one attempt to contact the payee.
\$35 to \$99	Effort made as time permits.
Less than \$35	No effort made to contact the payee except in certain cases, as determined by the accounting office.

The above follow-up action guidelines apply to both unclaimed and uncashed checks.

C. CAMPUS PROCEDURES

The accounting officer should determine whether certain classes of payees are less likely than others to claim their checks and try to correct the procedures for issuing checks to ensure that such payees claim their checks.

The section of the accounting office that reconciles the bank accounts should notify the section that issues checks as soon as checks become outstanding, in accordance with the guidelines set forth in this chapter.

IV. TRANSFER OF CHECKS TO OUTSTANDING CHECK ACCOUNTS

A. USE OF OUTSTANDING CHECK ACCOUNTS

Outstanding check accounts may be used in two ways: to transfer checks to such accounts on a set schedule, regardless of the follow-up status of individual checks, or to credit checks to one of the outstanding check accounts after all follow-up procedures have been completed. The second procedure serves to clear accounts of any checks that require further follow-up action. Under this procedure, it may be necessary to credit some unclaimed checks temporarily to a special liability account, if the checks are scheduled for cancellation but follow-up action has not yet been completed (see Section B below). Uncashed checks scheduled to be transferred, but on which follow-up action is not complete, can be left on the outstanding check list until such action is complete.

Whichever procedure is used, *follow-up effort depends on the age and amount of the checks.* (See Section IV.D. for the types of checks that can be transferred to outstanding check accounts.)

B. SCHEDULE FOR TRANSFERRING UNCLAIMED CHECKS

As an internal control measure, unclaimed checks should be canceled or redrawn one month after follow-up is begun (or should have been begun). For example, follow-up is required by section III. A. above at the beginning of the first month following the month in which unclaimed checks become one month old; thus, these checks should be canceled or redrawn at the beginning of the second following month, if the payee has not been located. Under this procedure, unclaimed checks are canceled or redrawn no later than 90 days after the check date.

Unclaimed checks may be transferred either to the outstanding check account or to a clearing account, as explained in Section A above.

UCRS unclaimed checks and write-off activities are the responsibility of the UCRS Office of the President accounting office.

IV. TRANSFER OF CHECKS TO OUTSTANDING CHECK ACCOUNTS (Cont.)

C. SCHEDULE FOR TRANSFERRING UNCASHED CHECKS

Checks may be transferred to the appropriate account at intervals convenient to the accounting office to prevent large numbers of old checks from accumulating on the outstanding checks lists. It is recommended that such transfers be made monthly, but the accounting officer may choose other intervals, consistent with the guidelines in this chapter.

D. CHECKS NOT TRANSFERRED

Checks listed under each fund in the chart below may not be transferred to an outstanding check account. Such checks are reversed out of the accounts completely, i.e., the credit is made against the account originally charged. *The purpose of this procedure is to insure that the funds listed below remain in active use; checks drawn on these funds should not be credited to General Funds because the checks have not been cashed or claimed.* At the time the transfer entry is made, the fund number for each check should be obtained to determine whether the check should be reversed out or reissued.

<u>Fund group or type of account</u>	<u>Fund or Account No.</u>	<u>Explanation</u>
Loan Funds	Funds 02200-03999	Payments from these funds are intended for students or employees (loans only) in need. If a check is not cashed promptly, the presumption must be that the need no longer exists (often because students fail to register). The accounting office, working with the office originating the payment, should reverse out the check rather than credit it to the outstanding check accounts.
Student Aid accounts	Accounts 77XXXX-79XXXX	

Endowment and Similar Funds Principal	Funds 04100- 09799 (except principal appropri- ated from these funds for current expenditures)	Checks are rarely drawn on endowment principal and then only by the Corporate Accounting Office. (If such a check is not cashed, campus accounting should notify the Endowment Section of the Corporate Accounting Office.)
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Once the accounting office has reversed out a Student Aid or Loan Fund check, it should not reissue the check without approval of the office that originated the payment.

E. TRANSFER ENTRY

- 1) Unclaimed checks. To transfer an unclaimed check to an outstanding check account, the check should be redrawn to The Regents and deposited (see Accounting Manual chapter [D-371-12](#), Disbursements: Cancellation and Redrawing of Vendor Checks, for an explanation of the procedures for redrawing and canceling checks). When a check is redrawn and deposited, it clears the bank in the normal manner; therefore, no adjustment is required to the controlled disbursements bank account or the outstanding check list. However, unclaimed checks also may be transferred by the cancellation process.
- 2) Uncashed checks. Since an uncashed check is not in the possession of the accounting office, it must be transferred to a check account through the cancellation process. The cancellation may be done either as a financial journal entry (form U Fin 288) or as a vendor check adjustment (form U Fin 100). If a financial journal entry is used, the total amount transferred must be manually deducted from the next controlled disbursements reimbursement request; this deduction serves to reduce the revolving fund bank balance by the amount of the checks that are being transferred (i.e., canceled). If a vendor check adjustment form is used, the entry is processed with local

IV. TRANSFER OF CHECKS TO OUTSTANDING CHECK ACCOUNTS (Cont.)
E. TRANSFER ENTRY (Cont.)

checks through the accounts payable system; manual adjustment to the reimbursement request is required only if the total amount of the checks being canceled exceeds the offsetting total of local checks written. For each transfer entry, a list of checks being canceled must be sent to the bank reconciliation service with a request to remove these checks from the outstanding check list.

F. INCOME TAX REPORTING

For tax reporting purposes, accounting officers should consider uncashed and unclaimed checks to have been received and cashed by the payee. Uncashed checks should be canceled by journal entry or on a Vendor Check Adjustment form with a tax code of 0 (regardless of the original tax code) to ensure that the tax reporting data is not removed from the Data Processing Center (DPC) accounts payable file; unclaimed checks may be similarly canceled or may be redrawn. Such amounts are reportable as income because the payee has an indefinite claim on the funds remitted to him or her (see Section VII. below), and the University has no way of knowing when the payee might claim these funds. (The issuance of a tax reporting form might remind the payee that the University owes the payee money the payee has not claimed.)

V. ACCOUNTS

The following accounts are used for old outstanding checks:

115540 This account can be used for both vendor and payroll checks originally charged to non-Federal funds. If vendor and payroll checks are separated, this account should be used for vendor checks only.

115541 This account is used for payroll checks originally charged to non-Federal funds, if the accounting officer decides to keep such checks in a separate account.

- 115542 This account can be used for both vendor and payroll checks originally charged to Federal funds. If vendor and payroll checks are separated, this account should be used for vendor checks only.
- 115543 This account is used for payroll checks originally charged to Federal funds, if the accounting officer decides to keep such checks in a separate account.

The above accounts are controlled by the DPC by the reference number field, i.e., a separate subtotal prints in the ledger for each reference number.

VI. WRITE-OFF OF CHECKS FROM OUTSTANDING CHECK ACCOUNTS

A. TIMING

The purpose of holding checks in an outstanding check account, instead of crediting the checks back to the original fund source immediately, is to ensure that money is available to cover these checks if they are cashed by a payee. Checks are held in the outstanding check accounts for four years. Since a check is seldom claimed by the payee after this time, it can be written off; however, there is no legal significance to the four year period.

At campus option, checks of \$100 or less may be written off one year after they have been transferred to the outstanding check accounts.

B. NON-FEDERAL FUND SOURCE CHECKS

The procedure below governs the write-off or cancellation of old outstanding checks originally charged to non-Federal funds. In general, checks are credited back to the fund source from which they were originally drawn. However, certain checks of less than \$1,000 each (as specified in the chart below) may be credited to Miscellaneous Income--General Funds as a matter of accounting convenience.

VI. WRITE-OFF OF CHECKS FROM OUTSTANDING CHECK ACCOUNTS (Cont.)
B. NON-FEDERAL FUND SOURCE CHECKS (Cont.)

<u>Original Fund Source</u>	<u>Fund to be Credited</u>
Current Funds (19900-75999 and principal appropriated from 04100-09399) Plant Funds (00300-01599)	<u>Checks of \$1,000 or more:</u> Credit original fund source if still in existence. If not, credit either Miscellaneous Income--General Funds or a fund logically related to the original source, whichever best preserves the identity of the original source. <u>Checks of less than \$1,000:</u> Credit original fund source or, at campus option, Miscellaneous Income--General Funds. The campus may adjust the \$1,000 cut-off to a lower amount as a matter of local policy but not to a higher amount. The cut-off amount may be adjusted downwards either for all funds or for certain funds selected by the campus.
Agency Funds 00001-00299)	Credit original fund source in all cases.
UCRS Funds (90000-99995)	Credit UCRS Miscellaneous Income account J-130331.
Loan Funds (02200-03999) Endowment and Similar Funds Principal (04100-09399 except principal appropriated)	Checks drawn on these funds should not be credited to an outstanding check account, as provided in Section IV.D. above. Checks credited to such accounts in error should be credited back to the fund from which they were originally drawn.

*** In transferring checks to the original fund source, revenue accounts should be credited.

C. FEDERAL FUND SOURCE CHECKS

At least once a year, checks to be written off from accounts 115542 and 115543 (for outstanding vendor and payroll checks originally charged to Federal funds) must be totaled for each account; one check should then be prepared for the grand total. The check, made payable to the order of the United States Treasury, should be sent to:

Director
Division of Cost Allocation
Department of Health and Human Services
90 7th Street, Suite 4-600
San Francisco, CA 94103

VII. REISSUANCE OF WRITTEN OFF CHECKS

As a matter of policy, the University will reissue any check, regardless of age or amount, for which it can be determined from the outstanding check account, or from some other source, that the check was never cashed or previously reissued (except that Student Aid or Loan Fund checks should not be reissued without the approval of the originating office--see Section IV. D., above). Each reissuance should be charged to the fund credited in the write-off; the account to be charged must be determined by the accounting officer on a case-by-case basis. If the fund is no longer in existence, the reissuance should be charged to Miscellaneous Income--General Funds.

VIII. ESCHEAT OF UNCLAIMED CASH AND NEGOTIABLE PROPERTY

Escheat property is defined in GASB 21 as "the reversion of property to a government entity in the absence of legal claimants or heirs. For purpose of this Statement, escheat property also includes abandoned and unclaimed property. Abandoned and unclaimed property results from the failure of a person who is legally entitled to property to make a valid claim against the holder of the property within a prescribed period of time."

VIII. ESCHEAT OF UNCLAIMED CASH AND NEGOTIABLE PROPERTY (Cont.)

Section 1520 of the California Unclaimed Property Law provides that all tangible personal property located in the state and all intangible personal property, including any income that is held or owing and that has remained unclaimed by an owner for more than three years, shall be distributed as unclaimed by an owner for more than three years, and shall be escheated to the state. The University of California, however, is exempt from the provisions of the escheat statute pursuant to the California Code of Civil Procedure (§ 2080.8). All unclaimed cash and negotiable property which remain unclaimed after the procedures set forth in this chapter have been followed shall become the property of The Regents. Once an item has been sold or auctioned by the University pursuant to its authority under Civil Code section 2080.8, it has been reduced to cash, which may be retained by The Regents.

IX. INTERNAL CONTROL

A. ACCOUNTING OFFICE

Duties pertaining to the handling of checks should be divided within the accounting office. The following guidelines for the separation of duties should be followed to the extent possible: if it is not practicable to separate some duties, an alternative form of control or review must be instituted.

- 1) Persons who request issuance of checks should not be authorized to issue these checks to payees. In keeping with this rule, a person who reconciles the old outstanding check account should not have access to the checks that he or she requested to be reissued.
- 2) The person who reconciles the bank accounts should not also reconcile the outstanding check account and should not have access to unclaimed or other unpaid checks.
- 3) Transactions pertaining to checks, including both cancellations and requests for issuance, should be approved by at least one person other than the person originating the transaction.

B. DEPARTMENT

Each accounting officer should issue instructions to departments covering the proper internal handling of checks within the department. This may be done either in the campus policy and procedures manual or in some other appropriate format. The instructions should specify that unclaimed checks should be returned promptly to the accounting office.

X. SUMMARY OF ACCOUNTING OFFICER'S RESPONSIBILITIES

A. UNCLAIMED CHECKS

Ensure that unclaimed checks are returned promptly to the accounting office from campus distribution points, in accordance with campus instructions (see Section VIII. B. above). Promptly cancel, or otherwise dispose of, undelivered checks and checks mailed out and returned to the accounting office.

B. FOLLOW-UP ON OLD OUTSTANDING CHECKS

Reconcile bank accounts promptly and distribute lists of outstanding checks to the appropriate personnel for follow-up.

C. CHECK DISTRIBUTION PROCEDURES

Note any deficiencies in campus procedures that result in a disproportionately high number of checks of a particular type or from a particular office that do not reach the payee. Change campus procedures as necessary to correct any deficiencies found.

D. ACCOUNTING

Transfer outstanding checks from the cash account to the appropriate outstanding check account and clear out such account in conformance with this chapter and campus policy.

Since the responsibilities pertaining to the issuance of checks are divided among different accounting office units for internal control reasons, the accounting

X. SUMMARY OF ACCOUNTING OFFICER'S RESPONSIBILITIES (Cont.)
D. ACCOUNTING (Cont.)

officer should designate one person to act as coordinator for outstanding checks. The coordinator's role is not to supervise individuals, but to insure that the overall system is functioning as intended.

XI. REFERENCES

Accounting Manual Chapter:

[C-173-15](#) Cash: Check Stock Control

[D-371-12](#) Disbursements: Cancellation and Redrawing of Vendor Checks

California Civil Code § 2080.8

University Counsel Lundberg, Opinion Letter Regarding the University's Exemption from the Unclaimed Property Law, March 17, 1998

University Counsel Barnes, Opinion Letter Regarding the University's Exemption from the Unclaimed Property Law with Respect to Cash and Negotiable Instruments, August 5, 2003.

Coordinator Turek, Memorandum to Medical Center Finance Directors Regarding Credit Balance Refunds, August 8, 2005.

Historical note: Accounting Manual chapter first published 10/1/72. Revised 8/1/77, 6/15/84, 8/17/90, 3/31/96, 6/30/00, 6/30/01, 12/31/03, 6/30/06, and 9/30/07; analyst--John Barrett.

APPENDIX I: SAMPLE OF LOCAL POLICY ON OUTSTANDING CHECKS (see Sections I. and IX.)

Accounting Office
Campus Name

ACCOUNTING OFFICE PERSONNEL:

University procedures concerning unclaimed and uncashed checks are provided in Accounting Manual chapter C-173-78, Cash: Unclaimed and Uncashed Checks. These procedures have been modified as follows for our campus:

Section III--Follow-up action:

- A. Timing
- B. Follow-up effort

Section IV--Timing of transfer to old outstanding check account

Section VI--Fund to be credited when checks are written off from old outstanding check account

In other areas, we will follow the procedures set forth in the aforementioned chapter.

I have appointed _____ as the accounting office coordinator for unclaimed and uncashed checks. This person is responsible for the overall system of handling these checks and for ensuring that all responsibilities are clearly assigned; (he/she) will help to resolve any jurisdictional problems or disputes.

Accounting Officer

APPENDIX II: SAMPLE FOLLOW-UP LETTER (see section III-B)

Accounting Office
Campus Name
Address

Name and address
of payee

A review of our records indicates that our check no. _____, dated _____, payable to you in the amount of \$_____ is still outstanding as of _____. This check was in payment of_____.

Please complete the section below and return this letter to me. If you have this check, please return it for reissuance; do not cash the check, as it will not longer be honored by our bank. If you do not have this check, we will reissue it upon receipt of the appropriate certification below.

_____ for the Accounting Officer

I certify that the above payment is proper and is still due and payable.

Check one:

- The original check is enclosed; please reissue.
- The original check was never received; please stop payment on it and reissue.
- Other (explain):

_____ Signature

_____ Date

Address (if different from above):