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# AUTHORIZED USER GUIDE

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A NYSPRO Electronic Value Transfer Services Guide



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A DIVISION OF THE OFFICE OF GENERAL SERVICES

Contents

- CREDIT CARD AUTHORIZATION..... 2
  - Card Types..... 2
  - On-Line vs. Batch Authorization ..... 2
  - Typical On-Line Authorization, Non-Internet Payment Device..... 2
- CREDIT CARD SETTLEMENT..... 3
  - Host Capture vs. Terminal Capture ..... 3
  - Batch Balancing..... 3
  - Voiding Transactions..... 4
  - Settlement Process Flow..... 4
  - Interim Working Account..... 5
  - Designated State Account..... 5
  - Timeliness of Settlement ..... 5
  - Funds Availability ..... 6
- CREDIT CARD RECONCILIATIONS ..... 8
  - Reconciling Settled Transactions with Settled Funds ..... 8
- RECOMMENDED VISA/MASTERCARD/DISCOVER RECONCILIATION PROCESS..... 8
  - Recommended American Express Reconciliation Process ..... 11
    - Reconciling Invoices ..... 13
    - Verify the Number and Dollar Value of Credit Card Transactions..... 14
    - Verifying Credit Card Rates ..... 14
    - Verifying Other Charges..... 14
    - KMS's Invoices..... 15
    - American Express' Invoices ..... 15
- CREDIT CARD CHARGEBACKS ..... 16
  - Address Verification and Credit Card Security Codes ..... 16
  - Additional Information..... 18
  - Visa/MasterCard/Discover Chargebacks ..... 18
  - Fraud-related disputes..... 19
  - What Can You Do if You Disagree With a Chargeback Decision? ..... 19
  - Tools to Aid in Reducing and Responding to Retrieval Requests ..... 20
- REFUNDS ..... 20

## CREDIT CARD AUTHORIZATION

Authorization is the process by which card issuers either approve, refer (i.e., directs the agency to contact KMS or American Express for further instructions) or deny requests to accept transactions. Approval is based on a validation of the account number and expiration date to verify that a cardholder's account is open, and that the transaction will not place the account above any credit limit. Since most authorization requests are approved, the term "authorized transaction" refers to an approved authorization request.

### Card Types

Authorization requests for Visa, MasterCard, American Express and Discover can be transmitted to KMS, which routes the request to the appropriate card issuer. An exception to this would be an agency utilizing technology enabling them to directly connect with American Express.

### On-Line vs. Batch Authorization

Authorization can be performed either on-line (real-time) or in batch mode. The appropriate mode will be dependent upon the agency's specific program requirements. Authorization is typically performed on-line and completed in a matter of seconds. Under on-line processing, each transaction is authorized separately as it occurs, and the authorization status is returned immediately after the transaction is submitted for approval. If an on-line authorization is declined, the cardholder will immediately be made aware that their transaction was not completed with the card used for payment.

Batch authorization (off-line authorization) is used for a large number of transactions which are batched and transmitted to KMS on a scheduled basis, such as at the end of the day. Batch authorization is best suited for programs where the service or product is not provided to the customer at the time the card number is presented or when the cardholder is not directly communicating with the agency, such as a mail order transaction. In the event of a declined batch authorization, the agency must contact the customer to pursue authorization (e.g., using a different card) or inform them that their transaction will not be completed.

### Typical On-Line Authorization, Non-Internet Payment Device

The following diagram depicts the typical flow of an on-line authorization through a non-Internet payment device such as a point-of-sale terminal or a PC utilizing card processing software.

## CREDIT CARD SETTLEMENT

Credit card settlement is the process by which authorized transactions are submitted to card issuers for payment. Unlike authorization, which is typically performed in real time, settlement is a batch process.

Prior to settlement, payment information for authorized transactions is "captured" to create a settlement record for each authorized transaction. These captured transactions are stored on batch files either on KMS' system (termed "host capture") or on the agency's payment device or third party processor's device (termed "terminal capture"). Whether using host or terminal capture, batch settlement files are processed by KMS, which routes, or "outclears" these transactions to the appropriate issuing entity (i.e., Visa or MasterCard member banks or American Express or Discover) to initiate payment to the agency.

### Host Capture vs. Terminal Capture

Host and terminal capture, which refer to the location in which a settlement file is created, are described in the following table.

Attribute	Host Capture	Terminal Capture
Creating Settlement File	Batch settlement files containing authorized transactions are created on KMS' system.	Batch settlement files containing authorized transactions are created on the payment devices used by the agency (e.g., point-of-sale terminal).  In the case of an Internet application using any approved third party Internet payment gateway, KMS gateway or agency designed gateway, the gateway's server will act as the terminal storing transaction information for settlement.
Initiating Settlement	The mechanism for notifying KMS to outclear a settlement file to the card issuing entities can be either "merchant initiated" or "time initiated".  For <b>merchant initiated</b> settlement, the agency transmits the transaction totals (number of items and net dollar amount) to KMS. If the totals match, KMS outclears the transactions to the card issuing entities.  For <b>time initiated</b> settlement, KMS closes the batch and outclears the transactions at a predetermined time each day.	The agency can submit settlement files to KMS at its own discretion. Depending on the payment device used, settlement files can be manually submitted to KMS or the process could be automated.  If using an Internet payment gateway or other third party processor, time initiated settlement will typically be used.
File Size/Frequency of Submission	There is no limit to the size of the settlement file which can be created at KMS. Whether merchant initiated or time initiated, outclearing of settlement files typically occurs once per day.	Limitations to settlement file sizes will be determined by the particular payment device or third party processor. High volume programs which exceed file size limitations will need to make multiple submissions to KMS on a daily basis. Additionally, agencies may wish to make multiple daily submissions to support their business process (e.g., submitting at the end of each staff shift).

### Batch Balancing

The process of comparing settlement file totals (i.e., number of transactions and net dollars) to a separate file or log of authorized transactions is known as batch balancing. Batch balancing is performed

prior to settlement to verify that the settlement file contains the correct number and dollar value of transactions.

Agencies should work with KMS to develop batch balancing procedures for their payment program.

### Voiding Transactions

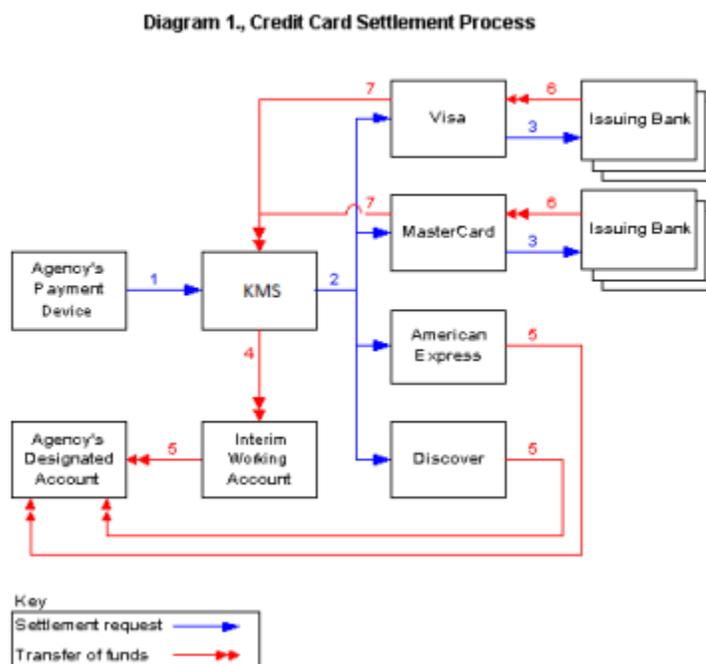
A void transaction is used to entirely back out a purchase transaction on a current batch which has not been submitted for settlement. These are commonly referred to as "same day voids" since they must be performed before the batch is submitted for settlement, which typically occurs at the end of each processing day. Agencies should be aware of the effect voids will have on a cardholder's "open-to-buy".

The open-to-buy amount applies to cards with credit limits, and is the amount of the credit limit minus both the amount of the credit limit used and the amount of authorized transactions. Since authorizations are valid for thirty days, the cardholder's open-to-buy will be lowered by the amount of the voided transaction for that thirty day period as the voided transaction does not reverse the authorization request.

Agencies should work with KMS or their Internet payment gateway to establish protocols and controls for voiding transactions.

### Settlement Process Flow

The following diagram depicts the settlement process from submission of the settlement file to receipt of funds in the agency's designated account.



1. The agency submits the settlement file to KMS (terminal capture) unless the settlement file has already been created on KMS system (host capture). Submission of settlement files typically occurs
1. at the end of each processing day.
2. KMS system outclears the settlement file, forwarding the transactions to the Visa and MasterCard associations and to American Express and Discover.
3. The Visa or MasterCard associations route the transactions to their member banks which issued the cards.
4. For agencies not opting to use an interim working account, KMS will deposit Visa and MasterCard funds directly into the agency's designated bank account. For agencies opting to use and interim working account, KMS will first deposit Visa and MasterCard funds into the interim working account and will then transfers the funds onto the agency's designated account.
5. Monies are received in the agency's designated account from the interim working account if used (for Visa and MasterCard transactions) and from American Express and Discover.
6. Visa and MasterCard issuing banks transfer funds to their parent association.
7. The two associations reimburse KMS for Visa and MasterCard transactions.

#### Interim Working Account

As seen in Diagram 1 above, funds for Visa and MasterCard transactions may first be transferred to an interim working account at Key Bank, a partner of KMS under the EVT Contract. While the interim working account is not a state account (the funds are not state monies until they are received in the designated state account) the agency will have inquiry capabilities into this account using KMS' software. This software is available through the EVT Contract with KMS. Use of the interim account is not mandatory for any user of the EVT Contract and there is a significant cost associated with its use.

#### Designated State Account

The agency must designate an account for receipt of settlement funds from:

- Visa and MasterCard funds (via transfers from the interim working account or via direct transfer from KMS)
- American Express (via direct transfer from American Express)
- Discover (via direct transfer from Discover).

While two separate accounts could be designated for each of these sources, using the same account for all sources will facilitate the reconciliation process. If the agency's designated account is at Key Bank, the agency will receive funds the same day they are deposited into the interim working account, which will generally be a day sooner than if the agency's designated account is at a different financial institution.

Also, Fedwire transfer fees, which are charged each time funds are transferred from an interim working account to a non-Key Bank designated State account, will not be incurred.

#### Timeliness of Settlement

Settlement of batch transactions should occur daily. For terminal capture, batches must be closed out and submitted to KMS for settlement by 3:00 a.m. EST in order to receive funds timely. (KMS suggests submission should occur by 2:00 a.m. EST to allow for any slippage in processing times at KMS). For host capture, settlement files will generally be closed out to meet KMS' 3:00 a.m. cut off. There are additional costs imposed on transactions which are not settled timely. Furthermore, delays in settling transactions

timely leads to a greater possibility of the transaction being denied for payment due to an account having been closed between the time of authorization and settlement.

### Funds Availability

Funds for Visa and MasterCard transactions can, at the option of the agency, be either (1) transferred directly into their designated account or (2) transferred into an interim account from which funds will be transferred to their designated account. The availability of Visa and MasterCard funds will, under either option, depend on whether or not the agencies designated account is with Key Bank. The following tables provide the anticipated days; funds will be received into agencies' designated accounts depending on whether or not an interim account is used and whether or not a Key Bank designated account is used.

<b>Visa and MasterCard Funds Availability</b>				
Processing Day [1]	Day funds are deposited into Interim Account	Day funds are initiated for transfer to designated account [2]	Day funds are received into designated account [3]	
			KMS account [4]	Non-KMS account [5]
<b>Using Interim Working Account</b>				
Monday	Tuesday	Wednesday	Wednesday	Wednesday
Tuesday	Wednesday	Thursday	Thursday	Thursday
Wednesday	Thursday	Friday	Friday	Friday
Thursday	Friday	Monday	Monday	Monday
Friday	Monday	Tuesday	Tuesday	Tuesday
Saturday	Monday	Tuesday	Tuesday	Tuesday
Sunday	Monday	Tuesday	Tuesday	Tuesday
<b>Not Using Interim Working Account</b>				
Monday	N/A	Wednesday	Wednesday	Friday
Tuesday	N/A	Thursday	Thursday	Monday
Wednesday	N/A	Friday	Friday	Tuesday
Thursday	N/A	Monday	Monday	Wednesday
Friday	N/A	Tuesday	Tuesday	Thursday
Saturday	N/A	Tuesday	Tuesday	Thursday
Sunday	N/A	Tuesday	Tuesday	Thursday
<b>Notes</b>				
<ol style="list-style-type: none"> <li>1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS'. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time.</li> <li>2. KMS is obligated to initiate transfers by 6:00 a.m. each business day (excluding bank holidays).</li> <li>3. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: KMS is only obligated to meet the timeframe for initiating transfer to designated accounts and not the timeframe for receipt of funds.</li> <li>4. For agencies with designated accounts at Key Bank, the transfer is performed internally at Key Bank.</li> <li>5. For agencies with designated accounts at financial institutions other than Key Bank, funds are transferred via Fedwire if an interim account is used or via ACH if an interim account is not used.</li> </ol>				

Under the EVT Contract, KMS offers a pre-funding service for Visa and MasterCard settlement amounts. Under pre-funding, settlement amounts will be transferred from the interim working account one day sooner than that shown in the table above. An interest fee is assessed for this service.

Funds for American Express transactions will be transferred directly by American Express to an agency's designated depository account. The following tables provide the anticipated days funds will be received

into an agency's designated account assuming they are using KMS as their processor.

<b>American Express Funds Availability (using KMS as Processor)</b>			
Processing Day [1]	Transmitted by KMS to American Express [2]	Day funds are initiated for transfer to designated account[3]	Day funds are received in designated account [4]
Monday	Tuesday	Thursday	Monday
Tuesday	Wednesday	Friday	Tuesday
Wednesday	Thursday	Saturday	Wednesday
Thursday	Friday	Monday	Wednesday
Friday	Saturday	Tuesday	Thursday
Saturday	Sunday	Wednesday	Friday
Sunday	Monday	Wednesday	Friday

**Notes**

- 1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time.
- 2. KMS will transfer settlement file to American Express by 6:00 p.m. on each day.
- 3. American Express is obligated to initiate transfers by 6:00 p.m. each day (excluding Sundays and bank holidays) for transactions received by 6:00 p.m. on the adjacent day in the previous column (e.g., transactions received by 6:00 p.m. on Tuesday must be initiated for transfer by 6:00 p.m. Thursday). Funds will be transferred via ACH.
- 4. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: American Express is only obligated to meet the timeframe for initiating transfer to designated accounts.

Funds for Discover transactions will be transferred directly by Discover to an agency's designated depository account. The following tables provide the anticipated days; funds will be received into an agency's designated account assuming they are using KMS as their processor.

<b>Discover Funds Availability (using KMS as Processor)</b>			
Processing Day [1]	Transmitted by KMS to Discover [2]	Day funds are initiated for transfer to designated account[3]	Day funds are received in designated account [4]
Monday	Tuesday	Wednesday	Friday
Tuesday	Wednesday	Thursday	Monday
Wednesday	Thursday	Monday	Wednesday
Thursday	Friday	Monday	Wednesday
Friday	Saturday	Monday	Wednesday
Saturday	Sunday	Tuesday	Thursday
Sunday	Monday	Tuesday	Thursday

**Notes**

1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS'. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time.
2. KMS will transfer settlement file to Discover by 6:00 p.m. on each day.
3. Discover is obligated to initiate transfers by 7:00 p.m. each day (excluding Sundays and bank holidays) for transactions received by 7:00 p.m. on the adjacent day in the previous column (e.g., transactions received by 7:00 p.m. on Tuesday must be initiated for transfer by 7:00 p.m. Wednesday). Funds will be transferred via ACH.
4. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: Discover is only obligated to meet the timeframe for initiating transfer to designated accounts.



1. Detailed data (i.e., transaction level data) is passed from the agency's payment device (e.g., Point-of-Sale terminal, Internet application, etc.) to KMS' processing system. This data will pass through an Internet payment gateway if the agency's payment device is an Internet application. As indicated by the inquiry point labeled "a", the agency has inquiry capability into transaction level data at the Internet payment gateway if one is used.
2. On a daily basis, the agency's payment device should be capable of creating both summary reports (i.e., reports containing transaction totals such as the number of transactions and the dollar value of those transactions) and detail reports (i.e., reports containing transaction level data). These reports can be in either a paper or electronic format. The summary reports will be the basis for performing the reconciliation function since they provide the dollar totals which are ultimately expected to be deposited into the agency's designated account. Note: The dollar totals will be the gross amount of activity and will **not** be net of discount fees associated with the credit card transactions.
3. On a daily basis, KMS' system out clears transactions (submitting batches for settlement) to Visa/MasterCard and Discover for settlement. Visa's and MasterCard's system will transmit a confirmation of the transactions and will transmit data back to KMS. As indicated by the inquiry point labeled "b", agencies have inquiry access into KMS' system through KMS Merchant Connect which is their Web-based transaction information management tool.
4. KMS provides for the deposit of Visa/MasterCard and Discover funds into the interim working account, if one is used, or directly into the agency's designated account. KMS instructs their financial institution to transfer this money from KMS' account in anticipation of reimbursement from Visa/MasterCard and Discover. If an interim working account is used, funds will be transferred from this account to the agency's designated account. The Visa/MasterCard/Discover funds availability table in the Credit Card Settlement page can be used by agencies to determine the expected timing of receipt of these funds.
5. KMS' system forwards transaction level data if a Key Bank interim working account is used. As indicated by the inquiry point labeled "c", agencies using an interim working account have inquiry capability into this information using KMS software product.
6. The agency's bank will provide a bank statement noting deposits to the agency's designated account. This statement could be either a paper document or an electronic inquiry system.
7. Visa/MasterCard and Discover transfer funds to KMS, reimbursing them for having funded agencies' accounts.

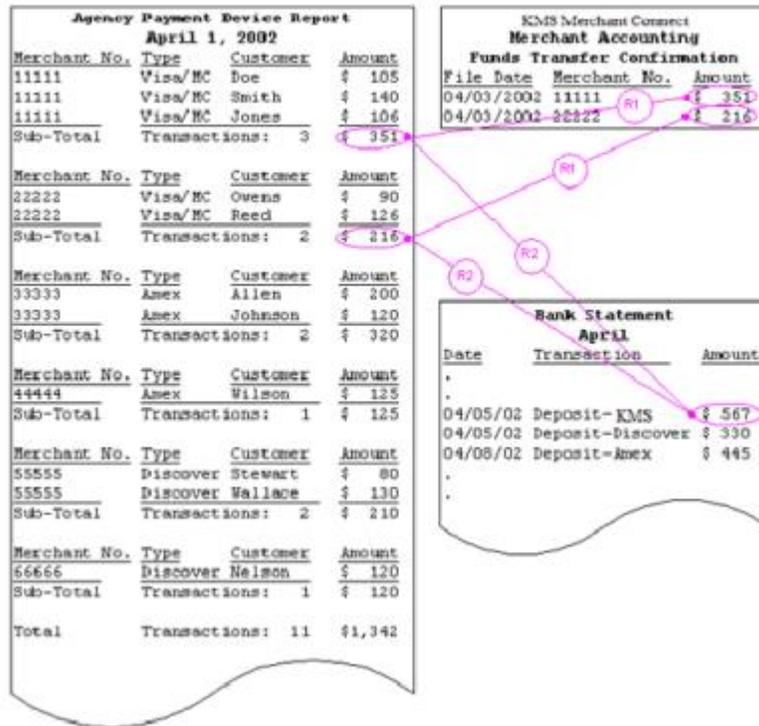
R1 Reconciliation Step 1. Agencies should compare the total dollars from the summary report produced by their payment device with the total dollars KMS has initiated for transfer to the agency's account for that batch. Agencies have visibility into the amounts KMS has initiated for payment through KMS Merchant Connect. Agencies can use the Visa/MasterCard/Discover funds availability table to determine when the information will be available on KMS Merchant Connect for each daily batch submitted.

R2 Reconciliation Step 2. Agencies should compare the total dollars from the summary report produced by their payment device with the total dollars deposited into their designated depository account for each day's activity. Agencies have visibility into the amounts deposited into their designated account through their bank statements. Agencies can use the Visa/MasterCard/Discover funds availability table to determine when funds will be deposited into their designated account. Note: the exact date on which the funds will be deposited may vary slightly from the funds availability table based on the processing timeframes of the payment networks involved and the practices of the agency's depository banks. KMS is only responsible for initiating payments within the time frame set forth in the funds availability table.

The following diagram provides a simplified example of the process of reconciling the dollar totals from an agency's payment device report with both funds initiated for transfer by KMS (Reconciliation Step 1) and with the agency's bank statement (Reconciliation Step 2). Note: this example uses KMS Merchant Connect Funds Transfer Confirmation online report. Agencies should familiarize themselves with the

other online reports available from KMS Merchant Connect, some of which may better suite their particular reconciliation process.

Diagram 2., Example of Visa and MasterCard Reconciliation Process



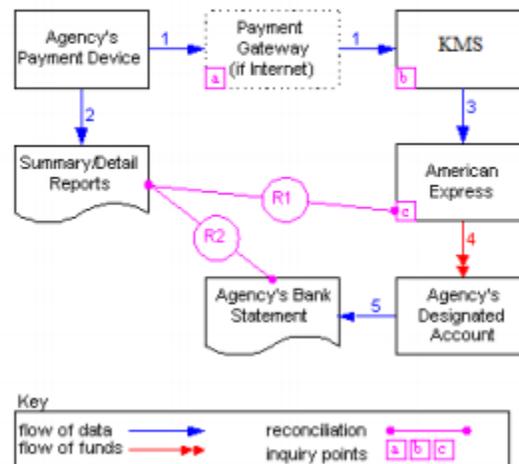
R1 Reconciliation Step 1. In this example, the agency's payment device's summary report (which includes detailed transaction level data for the purpose of this example) indicates that on April 1st three Visa and MasterCard transactions totaling \$351 were submitted for settlement for one of their merchant numbers, and two Visa and MasterCard transactions, totaling \$216 were submitted for settlement for their other Visa and MasterCard merchant number. Note that while the report contains American Express transactions, those amounts will need to be reconciled separately (See Recommended American Express Reconciliation Process). Based on both the funds availability table in the Credit Card Settlement Guidelines and on their own experience, the agency would anticipate that KMS would initiate transfer of these funds on April 3rd, which they could view through KMS Merchant Connect.

R2 Reconciliation Step 2. Based on the Visa and MasterCard funds availability table and their own experience, the agency in this example would anticipate that the \$351 and the \$216 would be consolidated and that \$567 would be deposited into their designated account on April 5th (note: this assumes the agency is not using either an interim account or an Key Bank designated account, if either were used, the funds would be anticipated on April 3rd and they have chosen to have their payment consolidated into one deposit). If there were a discrepancy between the funds deposited into the designated account and the amount that was anticipated, the agency should attempt to identify the discrepancy using the inquiry points identified in Diagram 1, Overview of Recommended Visa/MasterCard/Discover Reconciliation Process above or by contacting KMS.

## Recommended American Express Reconciliation Process

The following diagram depicts the flow of both the data and funds involved in the American Express reconciliation process for agencies passing American Express transactions through KMS. The diagram also identifies the points in this process which should be used to reconcile transactions sent for settlement to funds received and the inquiry points which can be used to trace discrepancies should the amount of funds received disagree with what was anticipated.

**Diagram 3., Overview of Recommended American Express Reconciliation Process**



1. Detailed data (i.e., transaction level data) is passed from the agency's payment device (e.g., Point-of-Sale terminal, Internet application, etc.) to KMS' processing system. This data will pass through an Internet payment gateway if the agency's payment device is an Internet application. As indicated by the inquiry point labeled "a", the agency has inquiry capability into transaction level data at the Internet payment gateway if one is used.
2. On a daily basis, the agency's payment device should be capable of creating both summary reports (i.e., reports containing transaction totals such as the number of transactions and the dollar value of those transactions) and detail reports (i.e., reports containing transaction level data). These reports can be in either a paper or electronic format. The summary reports will be the basis for performing the reconciliation function since they provide the dollar totals which are ultimately expected to be deposited into the agency's designated account. Note: The dollar totals will be the gross amount of activity and will **not** be net of discount fees associated with the credit card transactions.

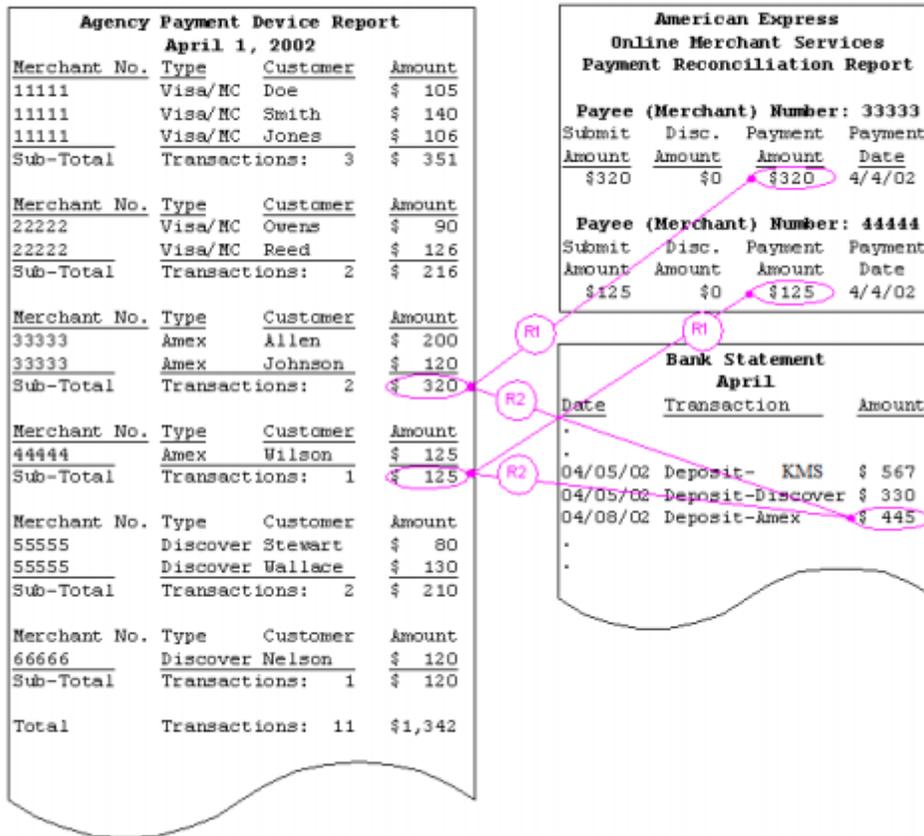
3. On a daily basis, the agency's payment device should be capable of creating both summary reports (i.e., reports containing transaction totals such as the number of transactions and the dollar value of those transactions) and detail reports (i.e., reports containing transaction level data). These reports can be in either a paper or electronic format. The summary reports will be the basis for performing the reconciliation function since they provide the dollar totals which are ultimately expected to be deposited into the agency's designated account. Note: The dollar totals will be the gross amount of activity and will **not** be net of discount fees associated with the credit card transactions.
4. American Express provides for the deposit of American Express funds into the agency's designated depository account. The [American Express funds availability table](#) in the Credit Card Settlement Guidelines page can be used by agencies to determine the expected timing of receipt of these funds. As indicated by the inquiry point labeled "c", agencies have inquiry access into American Express' system through their Online Merchant Services tool.
5. The agency's bank will provide a bank statement noting deposits to the agency's designated account. This statement could be either a paper document or an electronic inquiry system.

R1 Reconciliation Step 1. Agencies should compare the total dollars from the summary report produced by their payment device with the total dollars American Express has initiated for transfer to the agency's account for that batch. Agencies have visibility into the amounts American Express has initiated for payment through their Online Merchant Services, American Express' Web-based management tool. Agencies can use the American Express funds availability table to determine when the information will be available on Online Merchant Services for each daily batch submitted.

R2 Reconciliation Step 2. Agencies should compare the total dollars from the summary report produced by their payment device with the total dollars deposited into their designated depository account for each day's activity. Agencies have visibility into the amounts deposited into their designated account through their bank statements. Agencies can use the American Express funds availability table to determine when funds will be deposited into this account. Note: the exact date on which the funds will be deposited may vary slightly from the funds availability table based on the processing timeframes of the payment networks involved and the practices of the agency's depository banks. American Express is only responsible for initiating payments within the timeframe set forth in the funds availability table.

The following diagram provides a simplified example of the process of reconciling the dollar totals from an agency's payment device report with both funds initiated for transfer by American Express (Reconciliation Step 1) and with the agency's bank statement (Reconciliation Step 2). Note: this example uses Online Merchant Services' Payment Reconciliation online report. Agencies should familiarize themselves with the other online reports available from Online Merchant Services, some of which may better suite their particular reconciliation process.

Diagram 4., Example of American Express Reconciliation Process



**R1 Reconciliation Step 1.** In this example, the agency's payment device's summary report (which includes detailed transaction level data for the purpose of this example) indicates that on April 1st two American Express transactions totaling \$320 were submitted for settlement for one of their merchant numbers, and one American Express transaction totaling \$125 was submitted for settlement for their other American Express merchant number. Note that while the report contains Visa and MasterCard transactions and Discover transactions, those amounts will need to be reconciled separately (See [Recommended Visa, MasterCard and Discover Reconciliation Process](#)). Based on both the funds availability table in the Credit Card Settlement Guidelines and on their own experience, the agency would anticipate that American Express would initiate transfer of these funds on April 4th, which they could view using American Express' Online Merchant Services.

**R2 Reconciliation Step 2.** Based on the American Express funds availability table and their own experience, the agency in this example would anticipate that the \$320 and the \$125 would be consolidated and \$445 would be deposited into their designated account on April 8th. If there were a discrepancy between the funds deposited into the designated account and the amount that was anticipated, the agency should attempt to identify the discrepancy using the inquiry points identified in [Diagram 3, Overview of Recommended American Express Reconciliation Process](#) above or by contacting American Express.

## Reconciling Invoices

KMS and American Express issue monthly invoices to each agency to bill them for the services, utilized and products acquired during the previous month (if net billing option not chosen). If the net billing option was selected an invoice will be sent with KMS fees netted out and the invoice will show payment

card activity and related costs for the month. Agencies should develop procedures to reconcile invoices to validate the accuracy of KMS' and American Express' monthly statements.

In reconciling invoices, agencies should verify the following as applicable:

- the number and dollar value of credit card transactions for which they are being billed,
- the rate at which they are being billed for credit card transactions, and
- the validity of other charges (e.g. chargeback fees, rental of point-of-sale terminals, etc.).

#### Verify the Number and Dollar Value of Credit Card Transactions

Fees for credit card transactions are indicated by card brand and type. In reconciling their invoices, agencies should verify that the number of credit card transactions and the dollar value of the transactions included in an invoice are accurate.

In verifying the number and dollar value of credit card transactions, agencies should be aware of deposits-in-transit. These are transactions that have been processed by the agency during a particular period but have not settled through the vendor in that period. These transactions would take place typically at the end of the month. This transaction activity may not be included on the vendor's current period invoice but will be included on the next period's invoice.

#### Verifying Credit Card Rates

Rates for Visa and MasterCard processing fees are initially established in Form EVTA-2, KMS Work Order for each agency's merchant numbers. Agencies should verify that the rates included in their invoice are their current rate for Visa and MasterCard transactions.

All agencies are charged the same rate for American Express transactions. Agencies should verify that they are being charged the statewide discount rate established in Appendix C of the American Express Contract.

#### Verifying Other Charges

Agencies should verify both the validity of the charges for other services and products and the rates being charged. The following table provides a list of some of the other charges which might appear on their invoices from KMS and American Express:

Vendor	Category	Rate Source	Typical Charges
KMS	Card Processing	KMS Contract Appendix D	AMEX Processing American Express transactions.
			DISC Processing Discover transactions.
	Equipment	KMS Contract Appendix D	EQUIPMENT PURCHASE Purchase of point-of-sale terminals or other equipment (where EQUIPMENT equals the make and model of the equipment purchased.)
			EQUIPMENT RENTAL Rental of point-of-sale terminals or other equipment (where EQUIPMENT equals the make and model of the equipment rented.)
WARRANTY FEE Extended warranty fee.			
Software	KMS Contract Appendix D	Merchant Connect Premium Additional user fees.	

### KMS's Invoices

KMS will mail invoices (entitled "Credit Card Merchant Statement") to the address specified by the agency in Form EVTA-2, KMS Work Order. A copy of KMS' invoice is also available from KMS Merchant Connect at the beginning of each month. For agencies with multiple payment programs, a separate invoice will be issued for each merchant number. In addition to fees for card processing services and other applicable KMS charges, the agency's invoice will also include any applicable fees, including the Internet payment gateways and Key Bank, if applicable.

### American Express' Invoices

American Express will mail invoices (entitled "Credit Card Merchant Statement") to the address specified by the agency in Form EVTA-2, KMS/AMEX Work Order. A copy of American Express' invoice is also available from the American Express merchant web site at the beginning of each month. For agencies with multiple payment programs, a separate invoice will be issued for each merchant number. In addition to fees for card processing services and other applicable American Express charges.

## CREDIT CARD CHARGEBACKS

### What is a Chargeback?

A chargeback is a reversal of previous sales transaction resulting when a cardholder or card issuer disputes a charge posted to their account. Chargebacks generally occur after the established dispute resolution process has been completed and is found in favor of the cardholder or card issuer. Examples of situations that can result in a chargeback include:

- a cardholder failing to recognize the transaction description or amount on their credit card statement,
- the same transaction appearing multiple times on a cardholder's statement,
- an incorrect account number being captured, resulting in a transaction being posted to the wrong account, or
- a transaction being processed for an incorrect amount.

To minimize the instances of chargebacks, agencies should ensure that the descriptor appearing on cardholders' monthly statements clearly identifies the transaction from the cardholders' perspective. The descriptor should include the name of the agency or program as well as a description of the item being charged. Note: agencies should work with the EVT Contractors to develop this descriptor when completing Form EVTA-2.

To minimize the instances of chargebacks, agencies should build adequate edits and validations into automated systems to prevent erroneous transactions. Examples include:

- preventing customers from erroneously submitting the same transaction multiple times,
- eliminating the need for customers to enter payment amounts and preventing them from modifying payment amounts computed by automated systems,
- utilizing card number check digit routines, and
- utilizing address verification and credit card security codes.

### Address Verification and Credit Card Security Codes

Address verification and verification of credit card security codes are services available for Visa, MasterCard, American Express and Discover cards enabling agencies to reduce the risk of fraudulent transactions. For many government programs the risk of fraud is already minimized since customer identifiable information is often tied to the payment. For other programs, which are more similar to retail environments in which identifying information is not obtained, the risk of fraud is greater.

Address verification services (AVS) is required, however, for agencies to receive the lowest possible interchange rate for Visa transactions accepted through non-face-to-face programs. Failure to utilize AVS will result in substantially higher rates. For example, a hypothetical Internet application accepting payments for \$50 permits would be eligible for a 1.694% rate from Visa and MasterCard transactions if AVS was used, this may increase to 2.005% for Visa transactions if AVS was not used. Agencies accepting Visa cards through non-face-to-face programs should utilize address verification services to receive the lowest possible rate.

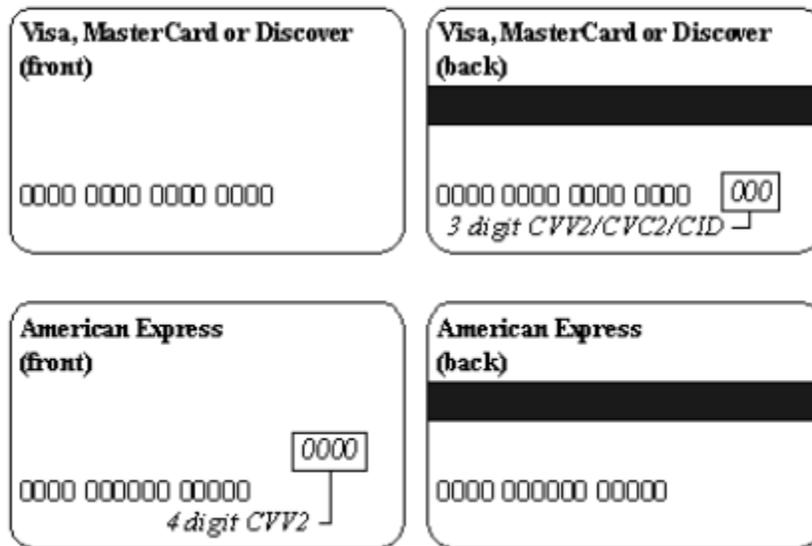
Address verification matches the billing address or zip code provided by the cardholder against the address files of the Visa and MasterCard issuing banks and American Express' and Discover's processing systems. Address verification is most useful for non-face-to-face transactions (i.e., mail order, telephone order and Internet order). Address verification is performed at the time the transactions are being authorized, and may result in the declination of the address verification, but approval of the transaction itself.

Agencies utilizing address verification will need to decide upfront whether they wish to accept or reject transactions which are approved through the authorization process but fail address verification. Security codes are printed on the cards, but are not part of the account number, and can be compared against the values on file with the MasterCard and Visa issuing banks and American Express' and Discover's processing systems. These numbers are sometimes used for Internet payment as a fraud prevention measure to verify the customer has physical position of the card being used. Following are the names and abbreviation of these codes for the different card types:

Card	Security Code	Abbreviation
Visa	Card Verification Value 2	CVV2
MasterCard	Card Validation Code	CVC2
American Express	Card Verification Value 2	CVV2
Discover	Customer Identifier	CID

The location of these codes, which appear in reverse italic, are represented in diagram 3.

**Diagram 3., Location of Credit Card Security Codes**



Like address verification, this service is most useful for non-face-to-face transactions and is also performed during authorization.

Agency's processing transactions in a non-face-to-face environment which could be exposed to fraud, should consider utilizing address or security code verification.

Agencies will not receive a lower rate if security code verification is used

### Additional Information

The following addresses the specific chargeback process for Visa/MasterCard/Discover chargebacks. Agencies which are implementing EVT programs using the KMS and American Express contracts should also familiarize themselves with the chargeback sections of these vendor's Card Acceptance Guides found within each contract or via each vendor's website. (KMS/Elavon Operating Guide, American Express Operating Guide).

### Visa/MasterCard/Discover Chargebacks

**Dispute Resolution Process** The process for handling disputed transactions is stipulated by the Visa, MasterCard and Discover associations and was developed to comply with federal cardholder's rights legislation. The typical steps in the Visa, MasterCard and Discover dispute resolution process is as follows:

1. A cardholder not recognizing a charge on their credit card statement contacts the bank that issued their card.
2. The issuing bank creates a retrieval request containing all the pertinent information related to the disputed transaction.
3. The retrieval request is sent to the applicable card association (i.e., Visa, MasterCard and Discover), which, in turn, sends the request to KMS.
4. KMS reviews the retrieval request to determine if the disputed transaction was valid and if KMS has already responded to the request. In some instances KMS will respond directly to the retrieval request, otherwise the request is forwarded to the agency for response. In forwarding retrieval request to an agency, KMS may include additional information to aid the agency in researching the dispute (see below for a sample of retrieval request forwarded from KMS to an agency). An agency may request whether they want to have retrieval requests mailed or faxed to them. KMS will also provide a timeframe for when a response is required back from the agency.
5. The agency performs research to verify both that the transaction occurred and that it occurred for the appropriate amount and provides supporting documentation back to KMS. For point-of-sale programs, supporting documentation would be a copy of a signed sales receipt. For automated programs (e.g., Internet applications) supporting documentation might be a reproduction of the electronic record of the disputed transactions. Agencies should reply by fax whenever possible to expedite the process.
6. KMS will image the documentation and will forward the data back to the issuing bank through the appropriate association. Note: if responses to retrieval requests are not returned to the issuing bank in the specified timeframe, the dispute will automatically be found in favor of the cardholder or card issuer. Response timeframes vary depending upon the reason for the dispute.
7. The issuing bank will make the determination as to whether the documentation has adequately substantiated the dispute. If it has, the issuing bank will contact the cardholder with the necessary information. If the issuing bank rules that a chargeback is required, the issuing bank will deduct the reimbursement by netting the amount out of the next day's settlement to KMS.

At month-end, KMS will invoice the agency for the chargeback.

Sample Retrieval Request Letter from KMS

03/17/94  
**ABC Inc.**  
 1577 N.E. Expressway  
 Atlanta, GA 30329

**Attention:**  
 We have received requests for copies of credit card sales drafts which are stored at your location. Listed below is information to assist in retrieving the drafts from your files. Please fax or mail copies of these drafts along with this letter to the numbers or address below.

It is extremely important that these items be received by 03/27/94 to prevent a possible debit to your account. If you are mailing, please allow 4 days' delivery time. If you have any questions, please call Betty Lawson at 404-728-2078 (9:00 to 5:00 EST) or Lorraine Flamer at 404-728-2080 (9:00 to 5:00 EST). Thank you for your prompt attention to this routine matter.

**Return Address:**  
 NDPS/Card Acceptance Services -  
 P.O. Box 740154  
 Atlanta, GA 30374  
 Attention: Retrieval Department

**Merchant/Chain:** 1234567890  
**Method:**  
 Fax to 404-728-3445 or 404-728-3280

NDPS Control Information		Account Number	Date	Amount	MCOM	RC
Your Location - Reference/Control Number		Information				
5407000178	03/11/94	4003010123456780	03/08/94	168.18	E	41
		/ARN: 804421354867999911491857				
		BATCH TOTAL:		OTL: 94067164752		

Fraud-related disputes

If the dispute is fraud-related, the issuing bank will not create a retrieval request but will send an affidavit to the cardholder who will document the circumstances, sign it and return the affidavit back to the issuing bank. If the dispute becomes a chargeback, the agency will receive a copy of the affidavit.

It should be noted that fraud-related chargebacks have been historically low for government agencies. Low chargeback levels among agencies have been due to the nature of goods and services provided. Since licenses, tax payments, fees and fines are traceable, fraudulent use of someone else's credit card for payment should be infrequent.

What Can You Do if You Disagree With a Chargeback Decision?

If an agency receives a chargeback but disagrees with the decision, they may:

1. Challenge the decision by re-submitting their response with additional information justifying a reversal of the decision (this action is referred to as representation).
2. Request arbitration, where for a fee that's paid by the agency, a group of individuals will review the case.
3. Contact the cardholder directly.

## Tools to Aid in Reducing and Responding to Retrieval Requests

The following Design Considerations will assist agencies in reducing the number of retrieval requests and in responding to retrieval requests. For face-to-face and automated programs (e.g., Internet applications) clearly state your return policy and identify what the payment is for. For example, is a license fee for the license itself or for processing the license and is the fee refundable if the license is denied.

For face-to-face programs, retain copies of sales drafts for at least three years (this is required by federal cardholder right's legislation). KMS' on-line reporting tool provides details and summary information regarding retrieval requests and chargebacks. This information can be used to manage responses to retrieval requests to ensure timely responses.

Agencies should dedicate adequate resources to respond to retrieval requests in a timely manner.

## REFUNDS

Generally, state agencies will utilize their normal refund process to credit cardholders for overpayments. Such overpayments can result from erroneous transactions (e.g., a cardholder entering an incorrect amount on an Internet payment application) or from reversed transactions (e.g., returning previously purchased goods).

Some entities, such as local governments, may be able to utilize the industry standard method of submitting credit transactions to KMS to reimburse cardholders for previously overpaid transactions. Entities which will be processing credit transactions must indicate so in the Unique Terms and Conditions Section of Form EVTA-2.

Agencies should develop procedures for tracking refunds issued to cardholders through their normal refund process. Agencies should utilize this information when responding to retrieval request to verify that a refund has not already been issued for the particular transaction in order to prevent both a chargeback and a refund being issued to a cardholder.