



Reporting and Remitting Irregularities and How to Correct Them

This section is designed to assist agents who may be experiencing financial and/or reporting difficulties in complying with section VIII of the Agent Reporting Agreement ("agreement"). The section lists some of the frequent problems that agents and ARC have previously identified as having affected an agents' ability to comply with the reporting and remitting terms of the agreement and some of the common corrective actions that agents have adopted to remedy those problems. General comments concerning agents' responsibilities, problems, corrective actions, etc., are also included.

This material is intended for general guidance of agents and is in no way intended either to alter the terms of the agreement or to be an exhaustive list of problems or corrective actions. Agents should become familiar with the language of the agreement and of the handbook for their specific responsibilities. If you have questions regarding this section, please contact the staff of Contract Compliance at 703-816-8126.

Most Frequent Remitting Problems

1. Inadequate investment capital; operations conducted on too thin a margin.
2. Over extension of credit to clients, particularly commercial accounts.
3. Faulty deposit practices: Funds deposited too infrequently, to the wrong account or not in sufficient time to prevent an overdraft. These include deposits made the day the ARC draft is scheduled to be presented, as well as deposits made to a different bank branch office than that to which the ARC draft is presented.
4. Dependence on uncollected funds, i.e., assuming funds are immediately available upon deposit to meet ARC obligations when, in fact, there has been insufficient time for clearance and collection by the agent's bank.
5. Mixing of ARC and general agency funds; conflicting demands may arise.
6. Assignment of essential agency duties exclusively to a specific employee, so there are no alternatives provided in the event of that employee's unavailability.
7. Breakdown of arrangements with a bank under which the bank would accommodate the agent by notifying the agent of an overdraft situation so that funds may be transferred or deposited before the draft is dishonored.
8. Failure to maintain adequate funds in the ARC account to meet delayed drafts.
9. Dishonored clients' checks, resulting in an agent's overdraft on an ARC draw.
10. Errors in the performance of assigned duties and misinterpretation of the agreement by agency employees.

11. Failure to notify ARC of an intention to change bank accounts (the notice must be received by ARC at least one week prior to the beginning of the affected sales period and must indicate the first sales period ending date to which the bank change applies). This particularly is a problem when coupled with an ownership change or when the agent's bank has merged with, or has been bought by, another bank and the transit routing number has been changed.

Most Frequent Reporting Problems

1. Assignment of essential agency duties exclusively to a specific employee, so there are no alternatives provided in the event of that employee's unavailability.
2. Exclusive use of a CRS/GDS for authorizing and submitting weekly sales reports, so that there is no alternative if the CRS/GDS is down or if no one is in the agency to submit the report, e.g., vacations, etc.
3. Failure to submit "No Sales" reports.
4. Errors in the performance of assigned duties and misinterpretation of the agreement by agency employees.
5. Failure to report tickets in the period in which validated.
6. Failure to report tickets in any sales period.
7. Voiding agent's and auditor's coupons of a ticket upon receipt of advice from an agency client that the ticket will not be used, without waiting for the actual return of the unused flight coupons to the travel agency. This also applies to manually voiding a paper ticket from the IAR report and/or improperly voiding an electronic ticket. Should the client fail to return the ticket and/or use it for transportation and/or exchange or refund, the ticket will be unreported.

Common Corrective Actions for Remitting Problems

1. Increase investment capital.
2. Place an additional amount of funds in the ARC account to increase the margin of safety.
3. Reduce overhead and unnecessary expenditures.
4. Restrict credit policies generally to cash, certified checks, approved credit cards, or personal checks (but only where sufficient time is available for collection before delivery of tickets). Reduce billing and payment period.
5. Adopt procedures governing deposits to assure that they are (a) made on a regular and frequent basis to the proper branch; (b) verified as placed in the correct account; and (c) deposited early enough in the banking day to be credited on that date.



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6. Allow sufficient time for clearance and collection of checks from clients before relying upon such funds as being available to meet ARC obligations.
7. Maintain a separate account for the sole purpose of safeguarding and remitting ARC funds.
8. In matters of financial and administrative management, provide for review of deposits and disbursements of funds by more than one person.
9. Reduce all banking arrangements to writing.
10. A commonly used corrective measure is a written overdraft protection agreement that the agent keeps in force for a period of one year. This overdraft protection agreement provides for automatic overdraft coverage, either by means of a line of credit or transfer of funds arrangement, in an amount equal to approximately twice the agent's average weekly sales period draft, plus an undertaking by the agent to replenish within five working days any credit drawn upon from the credit line of funds transferred to cover an ARC draft. Pursuant to such an arrangement, the bank agrees in writing to the agent to pay ARC drafts automatically, without the need for prior reference to, or approval from, the agent, by drawing on the agent's credit line or transferring funds from another account maintained by the agent. Additionally, the agent uses the account to which the automatic line of credit or transfer of funds agreement is tied solely for payment of its ARC drafts. The use of a written overdraft protection agreement for at least one year allows time for some of the other financial and administrative corrective actions taken by an agent to work to prevent overdrafts. (For a sample of an overdraft protection agreement, see Attachment A.)
11. Another frequently used corrective measure is a financial cushion arrangement. The terms of such an arrangement are as follow: the agent promises to dedicate its account exclusively to the payment of ARC drafts (dedicated account); the agent deposits in the dedicated account a sum of money equivalent to approximately twice the amount of its average weekly sales draft (the cushion); the cushion is above and beyond the agent's normal deposits of proceeds from cash ticket sales; the agent promises to maintain the cushion of funds in its account for a minimum period of one year and promises to replenish, within five working days, any moneys used from the cushion to cover an ARC draft. As with the overdraft protection agreement, the agent's commitment to the cushion arrangement for a period of one year allows time for other corrective actions taken by the agent to work in such a way as to remove the need for a cushion account arrangement. (For a sample of a cushion arrangement, see Attachment B.)

Common Corrective Actions for Reporting Problems

1. Do not void, or manually void, and remove tickets from the sales report unless the unused flight coupons from that ticket set are first returned by the client to the agency and/or an electronic ticket has been properly voided (*Industry Agents' Handbook*, Section 5).
2. Obtain and install IAR Internet Access software to provide an alternative to submitting your reports during times of CRS/GDS unavailability (e.g., down time or vacation).
3. Pull the auditor's and agent's coupons from paper or hand written tickets when validated to preclude the likelihood of out-of-period reporting. Keep the auditor's coupons from tickets validated during the week in a central place so that none will be overlooked when the weekly report is prepared. Also, key handwritten/manual tickets, MCOs, TO's and PTA's into your IAR report on a daily basis so that none will be overlooked when the weekly report is submitted.
4. Check your IAR report daily for any error so that they can be quickly corrected.
5. Be certain to change the validator date at the beginning of each day. The issue date shown on the ticket, and the actual date that the ticket is issued, must always correspond.
6. In the preparation of weekly sales reports, assign to one individual the responsibility of accounting for all tickets to be included in the report, and assign a second individual the responsibility of verifying the inclusion of all tickets. Provide for replacements of such personnel in times of their absence.

General Comments

1. An agent is required, pursuant to section VIII of the agreement, to remit on a weekly basis for the sales made on behalf of its principals. This remitting obligation is not excused by the agent's inability or failure to collect its accounts receivable. Consequently, every agent must tailor its credit policies in such a way that they will not interfere with the agent's duty to make full and prompt remittance.
2. It is the agent's responsibility to have sufficient collected funds on deposit when its ARC drafts are presented, or alternatively, to have an established line of credit or similar agreement with its bank that will operate automatically to provide the agent with overdraft protection, without the necessity for prior notice to, or approval by, the agent. While it is not required that such automatically operating banking arrangements be pursuant to written agreement, written agreements are advisable since they serve to facilitate proof of the banking arrangement, to avoid



misunderstandings, and to fix clearly the responsibilities of the parties.

3. Agent-bank arrangements should not be dependent upon prior notice to, or approval from, the agent for implementation since such arrangements provide no guarantee of automatic payment of drafts upon presentment. These types of arrangements frequently break down for a number of reasons, e.g., absence or unavailability of bank officers or agency personnel familiar with the arrangement; new and uninformed bank personnel; bank clerical errors; and failed last minute attempts by the agent to cover an overdraft after notice from the bank. A bank, by entering into such an arrangement, has not undertaken to assume responsibility for payment of ARC drafts, but rather has afforded the agent a mere accommodation.
4. In some instances the unexpected action of a bank, such as closing an agent's account without prior notification, may render it impossible for an agent to avoid dishonored checks or to comply with the agreement regarding advance notice of a change in banks. When an agent is presented with a sudden closing of its account, the agent would be well advised to contact ARC immediately so that expedited bank change procedures can be instituted and the number of dishonored drafts occasioned by the bank's action minimized. (Contact ARC staff at 703-816-8016 for instructions to expedite a bank change.)
5. It is the agent's responsibility to provide effective day-to-day financial and administrative management, and, accordingly, the agent is responsible for the actions or omissions of its employees, which may lead to financial and/or reporting irregularities. Typical examples are failure to follow instructions; errors in bookkeeping; incompetence or inexperience; mismanagement; and absences due to illness, vacations, or business commitments. This same principle applies to the acts or omissions of an independent management firm hired to carry out the agent's reporting and remitting duties.
6. Personal guarantees of payment with respect to an agent's account by bank officers do not constitute a "line of credit" that will operate automatically to prevent overdrafts. Similarly, the letter of credit running between the agent and its bonding company, or the agent and ARC, is not a "line of credit" for automatic overdraft protection on the ARC account.
7. Notice to ARC of a change in agency ownership does not fulfill the requirement of notice of a change of bank accounts. Agents must take care to satisfy both obligations. Sufficient funds must be kept in the old bank account to meet ARC drafts until the effective date of an ARC draw on the new account.
8. When changing banks or account numbers, give the requisite notice to ARC, not to the Area Bank. If a bank or account number change is applicable to branch office locations as well as to the home office, in the notice to ARC state that the change is applicable to the home and branch locations and include in the notice the agency code numbers of all locations to which the change is applicable. (Refer to section 35.0 in this handbook for information on how to change banks and/or accounts.)
9. An agent is responsible for maintaining its business practices in such a way as to prevent monetary disputes by third parties, which may result in a dishonored ARC draft. The dishonor of an ARC draft may result when the agent's ARC account is depleted or frozen because of transfers from or charges against the account made by a bank or others in pursuing their claims against the agent, such as a writ of attachment obtained by a third party, debiting or freezing the account in connection with repayment of a revolving loan, loans to owners and shareholders, a corporate note, and pursuant to demand obligations.
10. Each agent is obliged to insure that sufficient, collected funds are in its ARC account prior to the presentment of ARC drafts. Should a draft be delayed for a period of time, these funds must remain in the account until the draw is actually made.
11. Agents are required to submit "No Sales" reports when there are no sales for a report period.
12. Agents must report tickets in the period in which each is issued and/or validated regardless of whether clients have paid for and/or picked up the tickets.
13. Auditor's coupons returned by the Area Bank for resubmission that are not corrected and resubmitted are considered unreported tickets.
14. Manually voiding a ticket from the IAR sales report does not constitute proper voiding of a ticket, either electronic or paper, and passengers can and do travel, resulting in unreported sales. Do not void paper tickets without waiting for the actual return of the unused flight coupons to the travel agency; failure to do so often results in unreported sales.
15. ARC will charge a reasonable monthly extension fee when an agent is in default and granted additional time to resolve.





Attachment A

Sample Overdraft Protection Agreement

(To be written to Agent by a bank officer and signed by a bank officer on bank letterhead.)

Month/Day/Year

Dear (name of travel agent):

(Name of bank) hereby agrees to pay for a period of one year from the date of this letter, each draft presented against your account no. (bank account number on which ARC drafts are drawn) by Airlines Reporting Corporation, which does not exceed \$. Each such draft will be paid automatically, without prior notice to or consent by you, and regardless of whether there are sufficient, collected funds in the account at the time of presentment.

Very truly yours,

(Signature of Bank Officer)
Type Name and Title of Bank Officer

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Sample Replenishment Commitment to be Executed by Agent in Conjunction with Overdraft Agreement

(To be written by Agent on agency letterhead and addressed to ARC. Must be signed by an owner, officer, or director of Agent.)

Month/Day/Year

To ARC:

(Name of travel agency) hereby promises that if (name of bank extending overdraft protection) advances funds pursuant to its letter of (date of bank's agreement above), to pay an Airlines Reporting Corporation draft on account no. (bank account number on which ARC drafts are drawn), (Name of travel agency) will repay within five working days after each such advance the entire amount advanced.

Very truly yours,

(Signature of Owner, Officer, or Director of Agent)
Type Name and Title of Official Signing for Agent



Sample Cushion Agreement

(To be written by Agent on agency letterhead and signed by an owner, officer, or director of Agent.)

To ARC:

1. (Name of travel agency) hereby promises to employ for one year the following corrective measures effective (date), to prevent further dishonors of Airlines Reporting Corporation (ARC) drafts:
 - A. Withdrawals from account no. (bank account number on which ARC drafts are drawn) at (name of bank at which ARC drafts are drawn) will be permitted by ARC drafts *only*.
 - B. A cushion of \$ _____ over and above the funds necessary to pay ARC drafts will be maintained in the account.
(N.B. This cushion is not a minimum balance requirement; it is an amount that must be maintained in the account; it is in addition to the money collected from sales in which ARC traffic documents are issued, which is deposited in the account.)
 - C. In the event that any part of the cushion is used, the money necessary to restore the cushion to the agreed level will be deposited in the account within five working days.
 - D. The procedures required by the ARC *Industry Agents' Handbook*, i.e., see section 35, will be complied with strictly and immediately in the event that account no. (bank account number on which ARC drafts are drawn) is changed to another account no. and/or bank.
 - E. All of the above corrective procedures will be applied to any such new account.
2. In connection with the above promises, enclosed is a letter from (name of bank at which ARC drafts are drawn) stating the balance in account no. (bank account number on which ARC drafts are drawn) as of _____ (date).

(Signature of Owner, Officer, or Director of agent)
Type Name and Title of Official Signing for Agent