

# **ELECTRONIC FUNDS TRANSFER (EFT)**

## **PROCEDURE MANUAL**

**Draft Effective Date: 01/20/2020**

**Formal Adoption:**

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## INTRODUCTION

The City of Beaumont processes Electronic Funds Transfers (EFTs) as a safe and efficient method to receive electronic deposits from customers and to provide payments to vendors and employees. Two commonly used EFT methods are:

- Automated Clearing House (ACH): This is an electronic payment delivery system that processes electronic credit and debit transactions, including direct deposits, within the United States using the American Bankers Association (ABA) number. The ABA number is also known as the “check routing number” or “routing transit number” and should be used as the first identifying number for ACH transactions. The bank account number and name assigned to the account are also required before an ACH transaction can be created and the exchange of funds processed between two parties.

- Fedwire: The most costly EFT to process and uses a Real Time Gross Settlement Funds Transfer system operated by the Federal Reserve Banks. There are two Fedwire options: (1) domestic wires and (2) international wires. Each option has a different settlement time and each requires unique banking information that is dependent upon where the settlement of funds is to occur.

The procedures outlined herein are designed for all departments, employees, and vendors who receive and make electronic payments on behalf of the city. The following areas are responsible for transacting EFTs:

- Finance Department
- Administrative Services Department

All EFT’s processed by the City occur using the systems listed below.

- Citibank ACH: Originations used to initiate vendor, and employee ACH payments. The Tyler system will generate an electronic file and a EFT check register report that will be used to complete the ACH transmission form. The ACH transmission form will be completed by Finance Department and sent to the Administrative Services Department to generate a standard ACH transmission file. The electronic generate banking file from Tyler system is electronically transmitted to the City’s banking institution, authorizing the debit and credit of funds between banks.

- Citibank Wire Transfer: The primary method used to initiate wire transfers. The on-line systems should only be used by employees with proper system credentials. The security administrators in the Finance Department shall ensure that adequate separation of duties exist in accordance with internal control standards and that the integrity of system user profiles is protected. Steps are also taken to limit the number of users who have access to create or approve wire transfers and

their authorized wire amounts. In addition, Citibank controls require two separate users to complete a wire. One individual initiates and a separate individual must approve.

The Finance Department and Administrative Services Department staff who initiate or complete EFT transactions are responsible for ensuring the financial internal controls are maintained, the activity is posted timely, and operational procedures are in place to reduce the risk of loss of City funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by City employees. The Finance department will monitor bank balances daily for unusual or unexpected transactions, reconcile bank activity to the general ledger in a timely manner, and investigate and resolve reconciling items.

***Incoming EFTs:***

**ACH/WIRE TRANSFERS RECEIVED**

Departments requesting to receive payment by ACH or wire transfer must have the customer send their company's ACH/EFT payment request form to the Finance Department.

The Finance Department will complete the form, requiring all EFT payments to be posted directly to the operating account, and will obtain the proper authorization from the Director of Finance. After the form is completed, the Accounting Tech staff member will forward the information back to the customer so the customer can initiate the EFT with their banking institution. The completed form will not be returned to the department requesting the information and departmental staff has no authority to complete the document on behalf of the City.

***OUTGOING EFTS:***

**ACH PAYMENTS TO VENDORS (DOMESTIC)**

A domestic vendor may receive an ACH payment by completing a *Vendor ACH/Direct Deposit Authorization Form* and by submitting a copy of a voided check. Each department will be responsible for sending out the *Vendor ACH/Direct Deposit Authorization Form* to the vendor and to then forward onto the Finance Department. The Finance Department will review the ABA number, bank account number, and name as shown on the supporting documentation. If all information on the form and the supporting documentation is correct the data is then recorded in the Vendor Profile in Tyler Systems under Payment Terms by Accounts Payable. The banking information set up in Tyler Systems is then reviewed by the Senior Accountant for account accuracy. The supporting documentation is then filed and stored on the finance share drive. Any subsequent

requests to change vendor banking information will be confirmed directly via phone with the vendor completing a new *Vendor ACH/Direct Deposit Authorization Form* by each department and then forwarded onto the Finance Department.

ACH overpayments require notification to Citibank within five days of the payment to ensure funds are returned. A Citibank *ACH/Reversal/Deletion Request* form will be completed by Finance Department or Administrative Services Director. The form is then sent to the Finance Department for approval and faxed to Citibank's ACH services section to reverse the overpayment. The Finance Department verifies the reversal occurs and the funds are deposited into the operating account the following business day.

Certain vendors have been given authority, with maximum withdrawal limitations, to initiate ACH payments (i.e. the Internal Revenue Service for payroll taxes). The establishment, approval and exception review of these payments occur through the Citibank system. The Finance Department monitors daily to ensure the banking activity has been posted into the City's Financials system and validated.

Accounts payable processes all vendor payments according to the pay cycle schedule and generates a check/ACH register. All ACH direct deposit payments have file detail and total amounts submitted to the bank for processing and the Finance Department verifies that the totals submitted to the bank have been received and posted by the bank for processing.

### **FEDWIRE PAYMENTS TO VENDORS (DOMESTIC OR INTERNATIONAL)**

In cases where immediate payment is needed, a vendor may be paid by domestic or international wire.

I. Domestic wires. If a domestic vendor requests payment via a Fedwire, the following steps are required for the EFT to occur:

a) The department requesting the vendor payment will forward an invoice from the vendor containing the vendor's wire information, or an authorized letter. This information is forwarded to Accounts payable for review and to ensure the vendor is established in the Tyler vendor system.

b) The Transfer Request form, back-up wire information, invoice or other supporting documents will be forwarded to those authorized in Finance Department to initiate wires. The bank and invoice information must be verified

and if there is an inconsistency with the information provided, the wire initiator will contact the initiating department to obtain additional or corrected information. If all information agrees with the documentation, the wire will be requested in Citibank by the Administrative Services Director.

c) The form and all documentation will be forwarded to an appropriate staff member for secondary approval. The pending wire information is reviewed online against the back-up documentation. If there is an error, the wire will be rejected online and the wire initiator will make any necessary corrections to the data. If all information is correct, the wire will be approved. The payment approval confirmation will be attached to the documentation for future reference. The form and all documentation will be forwarded to a Senior Accountant for entry into the Tyler System.

II. Establishing a wire template. The City may establish a wire template for wires that will be completed on a regular basis for items such as investments or regularly scheduled payments.

a) The wire template is established by the wire initiator and approved by an appropriate staff member using banking information provided on signed company letterhead or an invoice.

### **EMPLOYEE DIRECT DEPOSITS**

Direct Deposit is an encouraged condition of employment at the City. If for some reason an employee cannot or does not want to participate in direct deposit, they must request in writing to the Human Resources Department to be exempt from participating in direct deposit. Approval to NOT participate in direct deposit must be granted by the Human Services Department.

Checking and savings accounts are generally the only types of accounts that can be used for direct deposit. Although the City policy states that funds cannot be sent to a money market account, the system has allowed money market accounts when the account sequence is similar to that of a checking or savings account.

Employees should take the following steps to establish direct deposit when first hired:

1) Submit a *Direct Deposit Authorization* form to the Human Resources Department.

2) This form must contain account documentation in order to assure proper setup. Account documentation may include a “VOIDED” check (for checking accounts) or a bank notification stating the bank’s transit and routing number in addition to the employee’s account number (for saving accounts). Using this form, employees have the option to have their paycheck sent to 1, 2 or 3 bank accounts.

3) Account documentation is reviewed to assure the information does not appear altered or manipulated in any way. If evidence of such is present, the employee will be contacted to verify the information. In addition, if a void check which does not contain the employee’s name is submitted, the employee will be contacted to verify the information. The outcome of these communications will be documented on the direct deposit form. Suspicious or fraudulent situations should be routed to the attention of Humans Resources Department.

Direct deposit information can be edited through Paychex. The same restrictions on bank account types apply, but there is no limit on the number of accounts to which direct deposit can be distributed when updating directly into Paychex.

After the input has been completed and saved in Paychex, the Human Resources Department processor will initial and date the *Direct Deposit Authorization Form*. The initialed form is given to the payroll coordinator for review to ensure the saved name, routing, and bank account numbers all agree with the “VOIDED” check or a bank notification stating the bank’s transit and routing number in addition to the employee’s account number.

More detailed instructions and screen prints are maintained in Human Resources for review.

### **WHEN FRAUD IS IDENTIFIED**

Banking Fraud can occur in various forms. When Fraud is discovered in the EFT procedure, the Fraud must be reported to the Director of Finance immediately (in absence of the Finance Director, the Senior Accountant must be notified). The Finance Director must notify the City Manager and Finance Committee Department Chair of the possible fraud as soon as possible after it is detected. Steps will be taken with Citibank to mitigate the fraud.

### **BANKING DEFINITIONS**

**Automated Clearing House (ACH).** An electronic payment delivery system which allows payment or collection of funds electronically through a financial

network occurring within the United States. ACH processes large volumes of credit and debit transactions in batches.

**American Bankers Association (ABA) Number.** The ABA number is the nine (9) digit bank code assigned to financial institutions by the American Bankers Association (ABA) to identify the financial institution upon which a payment is drawn and submitted to within the United States. The ABA number is also known as the “check routing number” or “routing transit number. The ABA number may differ depending on where an account is opened and the type of transaction that is being processed (checks, domestic wires or ACH’s).

**Bank Account.** A financial account recording the financial transactions between the customer and their bank and the resulting financial position of the customer with the bank and that is primarily used for processing checks, domestic wires and EFT ACHs.

**Direct Deposit.** An electronic method of payment in which money is transferred to the payee’s account without the use of checks, processed through the ACH payment system.

**Fedwire.** (A.k.a. Wire Transfer-Domestic or International). The Real Time Gross Settlement Funds Transfer system operated by the Federal Reserve Banks that enables financial institutions to electronically transfer funds to each other. Messages are transferred requesting debits and credits to correspondent accounts (in addition to other types of accounts). Actual settlements occur through Fedwire, CHIPS, correspondent accounts or other means. Domestic wires settle the same day and International wires can take up to two days to settle if foreign currency exchange is involved. The system is reliable and secure and is more costly compared to transactions involving checks or ACH.

## **POLICY AND PROCEDURE MANAGEMENT**

The Finance Department may modify these directives and procedures from time to time as required, provided that all modifications are consistent with California statutes, federal laws and banking rules and regulations.

This policy will be reviewed annually for changes or updates.