

City of North Bend

Electronic Funds Transfer (EFT) Policy and Procedures

Policy Statement:

The City of North Bend recognizes the use of various electronic payment methods as a safe and efficient method to process certain disbursements. The City of North Bend is committed to establishing controls and procedures for the utilization of electronic funds transfers (EFTs). This policy provides a framework of procedures to ensure that proper protocols are followed, and that applicable oversight is in place for the use of EFTs.

Purpose:

The primary goal of this policy is to ensure Electronic Funds Transfers (EFTs) are initiated, executed and approved in a secure manner. This policy establishes general guidelines for using EFTs including wire transfers for payables and receivables. The procedures outline what electronic funds transactions the City may engage in and the accounting procedures to be followed in accordance with RCW 39.58.750 and Washington State Auditors requirements.

Definitions:

- Electronic Funds Transfer (EFT): The electronic exchange (transfer of money from one bank account to another), either within a single financial institution or across multiple institutions, through computer-based systems. Wire transfers and ACH payments are examples of EFTs. This form of disbursement is authorized by RCW 39.58.750.
- 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. These should be set up in the vendor master file that denotes this payment method.
- Banking Information: Information from the payee or their bank regarding their account. This information includes bank name, account name, account number, routing number, bank contact information and any other information necessary to transmit funds.
- Wire Transfer: This is an electronic transfer of funds from one bank account to another initiated directly with the payer's bank. This type of transfer utilizes a system operated by the Federal Reserve Banks and is more costly compared to transactions involving checks or ACH.

General Guidelines:

The City of North Bend utilizes EFTs for receipt of intergovernmental payments, grant payments, and other revenues where practical, and the transmittal of payroll, withholdings, tax deposits, bond payments, credit card processing fees, banking fees, real estate transactions, and other disbursements where practical or required. All EFT transactions will utilize the same procedures.

All EFT payments will be coordinated and submitted through the Finance Department. The Finance Director or his/her designee will approve all new requests and any changes to electronic funds transfer requests, ensuring that the payment is necessary, all required documentation is provided and appropriately approved, and that the request and banking account information is accurate and valid, and that the transaction is accurately recorded in the general ledger system.

All EFTs are subject to applicable Purchasing Policies and all other policies and procedures in relation to the purchase of goods and/or services.

Except as noted above, wire transfers should only be used in payment of an obligation of the City on an emergency basis when the situation requires immediate funds to settle a transaction. If a more inexpensive mechanism can be used to effect payment of the obligation (i.e., Electronic Funds Transfer or paper check), the Finance Department shall reserve the right to effect payment with the more inexpensive mechanism. Exceptions to this must be pre-approved by Finance.

This policy will be reviewed on an annual basis for accuracy and process verification. The City Finance Director is authorized to make minor administrative changes to this policy, provided such changes are consistent with state and federal requirements.

Procedures:

The Finance Department is the only department authorized to initiate EFTs. Finance shall be responsible for the review of EFT requests in order to assure compliance, completeness, and proper general ledger recording. This method of payment will be used only when authorized by the Finance Director or his/her designee.

To promote the safety of City funds in the EFT environment, the following procedures will be used by all City employees involved in processing payments via EFTs:

- The procedure to initiate an EFT is subject to the same financial policies, procedures and controls that govern disbursement by any other payment method.
- EFT transactions will not be made without proper authorization of affected parties in accordance with Federal and State statute and accepted business practices.
- Authentication of new EFT requests and changes to existing EFTs are required prior to the transactions being input in the computer-based banking system and includes the following steps:
 - Validate: All new electronic payment instruction requests received, even if the request is internal.
 - Contact: The supplier or requestor must be contacted directly by phone to confirm any requests for payment method or payment instruction changes. Do not use the contact information provided on the request to change payment method or payment instructions. Contact information known to be genuine must be used, such as the

contact information in the master file or information collected from the original contract. The contact must confirm existing payment instructions on file prior to making changes to those instructions (i.e., current bank account name, number, and routing information).

- Verify: The new information provided on the payment instructions must be verified with the known contact (i.e., contact bank to confirm correct account name, number, and routing information).
 - Document: The verification process that was followed must be documented to validate payment instructions. The person responsible for entering/updating instructions and the person approving the new/updated wire instructions must approve the record of verification.
- When ACH payments are approved, they will be set up in the master file database in the financial accounting system by individuals authorized to perform vendor maintenance.
 - All invoices will be approved by the responsible department and entered into the financial accounting software by Accounts Payable.
 - Transmission of the ACH file from financial system to bank will occur through secure single user account login by authorized Finance staff, verifying the number of EFT's submitted to the bank and that the total matches the report in the financial accounting system.
 - Bank balances will be monitored daily for unusual or unexpected transactions.
 - Reconciliation of banking activity will be accomplished in a timely manner with investigation and resolution of reconciling items.

The City will ensure the State Auditor has access to files, records and documentation of all EFT transactions involving the City when required for the conduct of the statutory audit. Such information will also be supplied if the City changes banks.

Wire Transfers:

The Finance Department is the only department authorized to initiate wire transfers. Finance shall be responsible for the review of wire requests in order to assure compliance, completeness, and proper general ledger recording. This method of payment will be used only when authorized by the Finance Director or his/her designee.

The City will utilize security measures offered by Bank of America to prevent unauthorized individuals from initiating or modifying a wire transfer. On-line banking systems should only be used by employees with proper system credentials and separate banking user IDs. 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, Bank of America controls

require two separate users to complete a wire. One authorized Finance employee will initiate the wire transfer process and another authorized Finance employee must separately approve the wire transfer.

All wire transfer requests, including back-up wire information, invoice or other supporting documents will be forwarded to those authorized in the Finance Department to initiate wires. The wire transfer request must include the name and address of the payee, and full payment instructions including banking information. 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 or proper party to obtain additional or corrected information. If all information agrees with the documentation, the wire will be requested with the City's financial institution by the authorized Finance employee.

The wire transfer request and all documentation will be forwarded to the Finance Director or his/her designee for payment 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 should be attached to the documentation for future reference. Upon completion of the wire transfer, the entry will be recorded in the financial accounting system by the proper Finance employee.

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.

ACH Payments to Vendors:

The procedure to initiate an ACH payment is subject to the same procedures and controls that govern disbursement by any other payment mechanism including a check payment. ACH transactions will not be made without proper authorization of affected parties. This same process will be followed should North Bend pay vendors in the future through an ACH process. Currently, with limited exceptions, vendors are paid through a check process.

Prior to a vendor receiving ACH payments for submitted invoices, a completed Direct Deposit Authorization Form must be submitted to Accounts Payable and will be approved by 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 Record in the financial accounting system. The supporting documentation is then filed and stored in a secured office location. Any subsequent requests to change vendor banking information require a new Vendor ACH/Direct Deposit Authorization Form and will be confirmed directly via phone with the vendor by Accounts Payable.

The financial accounting system will generate an electronic file and an EFT check register report that will be used to complete the ACH transmission form. The ACH transmission form will be completed by the Finance Department and will be used to generate a standard ACH transmission file. The electronic generated banking file from the financial accounting system is electronically transmitted to the City's banking institution, authorizing the debit and credit of funds between banks.

The Finance Department staff who initiate and 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.

Payroll Direct Deposit:

For the processing disbursements for payroll, each employee is required to complete a Direct Deposit Authorization Form. This form must contain bank information documentation in order to assure proper setup. Account documentation may include a voided check or a bank notification stating the bank's transit and routing number in addition to the employee's account number. The form is signed by the employee and provided to Human Resources. Account documentation is reviewed to ensure 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 Human Resources Director. After the form has been reviewed for accuracy, the form will be given to Payroll. Information is entered from the form into the employee record within the payroll system. If an employee wishes to change direct deposit information, a new form must be completed and signed. This information is limited to Human Resources personnel and Finance staff responsible for payroll.

Payroll Withholding:

North Bend currently pays certain invoices relating to payroll expenses through an EFT process. Upon completion of a payroll cycle, the vendor and invoice amount are identified. Through a secure single user account, payroll staff initiate an ACH payment on the vendor site for the specific amount identified for each payroll cycle. The information including vendor, disbursement amount, and payroll cycle is maintained along with a confirmation that the ACH disbursement was accepted by the vendor.

Internal Controls:

The following internal controls have been adopted to validate all available safety precautions are utilized:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer.
- Each user initiating or approving wire transfers must have a separate banking user id.
- Only setting up wire transfers for debt service payments, transfers between City bank accounts, and real property acquisitions, and other transactions as required, only with approval of the Deputy City Administrator/Finance Director.
- Utilization of computer standards, policies and procedures to protect the computers and computing processes used for EFTs from computer malware.
- Ensuring a secure process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- If banking fraud is discovered in the EFT process, the fraud must be reported to the Finance Director immediately. In the absence of the Finance Director, the Deputy Finance Director must be notified. The Finance Director must notify the City Administrator of the possible fraud as soon as possible after it is detected. Steps will be taken with the Bank of America to mitigate the fraud and the appropriate entities will be notified as necessary.