

Section VI

ELECTRONIC FUNDS TRANSFERS

An electronic funds transfer (EFT) is any movement of funds by nonpaper means. When referring to EFT transactions, it usually means transfers through an Automated Clearing House (ACH) or the Federal Reserve's Fedwire system. Other EFT systems may deal with international payments or payments within an organization. EFTs offer a number of advantages over paper-based systems. Among these are the security features. An EFT system generally has various levels of security, which may include encryption of data, authentication of transaction accuracy, and secured access to facilities. There is not a paper item to be lost in the mail or stolen from a mailbox. There is no need to go to the bank to make a deposit. Additionally, the money is generally available for investment sooner, thereby increasing interest earnings.

All State EFTs are required to flow through Treasury and must be authorized by a person whose signature is on file with Treasury (Form C-9).

Wire Transfers

1. Background

A wire transfer is a same-day transfer of funds through the Federal Reserve's Fedwire system. Wire transfers are typically used when money must be transferred immediately, large amounts are transferred and it is imperative to be able to confirm receipt, and when international payments are made.

2. **Incoming**

State agencies may receive monies electronically through wire transfers into a Treasury account at the bank. Agencies receive credit for these deposits on a same-day basis. To insure that proper and timely credit for incoming wires is received, it is critical to notify the Banking Section using the Incoming Wire Notification form (Form C-10).

3. **Outgoing**

All wire transfers are to be initiated through the Banking Section. An agency sending wire transfers to the same beneficiary, account, and financial institution three or more times per year should establish a recurring wire transfer to reduce the costs associated with wires. To establish a recurring wire, complete the Wire Transfer – Recurring Payments Setup form (Form C-11). To send recurring wires after they have been established, complete the Request for Wire Transfer - Recurring form (Form C-12). To send one time wire transfers, complete a Request for Wire Transfer - Non-Recurring form (Form C-13). Requests may be sent to Treasury via fax (Attn: EFT Coordinator) at 503-373-1179, or via mail.

Any wire transfer request received after 10:30 a.m. will be considered a request for the next business day. Treasury requires 24-hour notice (from the 10:30 a.m. deadline) on all transfers between \$1 million and \$5 million; 48-hour advance notice is required on all transfers in excess of \$5 million.

Automated Clearing House (ACH) Transactions

1. **Background**

A clearing house is an arrangement between two or more banks to exchange checks presented for payment to one and drawn on the other. Members of the clearing house present such checks in bulk and then settle the net difference after the exchange. An Automated Clearing House (ACH) is simply where a clearing house has made arrangements to pass payments electronically rather than by check.

2. **Incoming**

Many agencies receive monies electronically through ACH into a Treasury account at the bank. These are incoming ACH credits. Agencies receive credit for these deposits on a same-day basis. This can be a fast and efficient means of receiving money, and agencies are encouraged to use this option whenever it is available. Treasury has its own ABA Routing Transit Number which makes identifying which agency account to apply ACH credits much easier. However, agencies must still complete the appropriate Payment Information Form and send it to the Banking Section for verification. There are two Payment Information Forms. The ACH Vendor Payment System form (Form C-21) is to be used for the receipt of funds from federal agencies unless the federal agency has their own form. The ACH Direct Deposits form (Form C-22) is to be used for all other payments. Treasury is to sign these forms and return them to the agency who then forwards the original to the party requesting to send ACH credits to the agency.

Incoming ACH debits would be where an entity desires to take money out of the Treasurer's account. **Treasury does not allow anyone to send ACH debits to its accounts.** Vendors may contact agencies and suggest payment in this manner. **Agencies are to tell vendors this is not acceptable.**

3. **Outgoing**

Sending an ACH credit results in a payment to another party and can contain more information than a check. Such information can include invoice numbers, dates, tax ID numbers, and more. Common uses of ACH credits include pension and payroll payments, vendor payments, and other benefit payments. ACH debit transactions can also be made through the ACH system. For instance, Lottery debits retailers' bank accounts for monies received from sales of Lottery tickets and the Department of Veterans' Affairs debits mortgagors' accounts for loan payments. This is done much like a credit transaction.

Agencies must obtain written authorization by the account holder to send ACH credits or ACH debits. These authorizations must be

retained on file. Sample authorization agreements for both ACH credits and debits are available from Treasury (Forms C-22a and C-22b).

ACH systems are batch process systems that are designed for future settlement of transactions. The Automated Clearing House will take the transaction information and store it up to 30 days for payment to occur on the settlement date.

ACH transactions are initiated through a bank that is a member of an ACH association. The bank processes the information and delivers the payment information to its appropriate member banks or to other Automated Clearing Houses, who will then forward the information to their appropriate member banks. These banks will then credit or debit their customers' accounts as required to complete the transaction.

Treasury requires all new transactions be tested prior to making an actual dollar transfer even though prenotes are no longer required under ACH rules. These tests, or prenotes, are zero dollar transactions that verify the validity of the information being transmitted. These prenotes require six business days to allow for the receiving bank to notify Treasury's bank of any errors in the transactions. For this reason, the ACH system is not an efficient choice for one-time payments, but rather is designed for repetitive transactions.

Because of the formatted, batch, and forward nature of ACH transactions, they are much less expensive than wire transfers.

4. State Treasury ACH Network (STAN)

STAN is the Treasury ACH Network software application for State agencies. It is used for the centralization of Automated Clearing House transactions through the Oregon State Treasurer. Internal transfers can be accomplished through this system, creating account to account transfers. Transfers to local governments using the Local Government Investment Pool can also be done, as well as payments to vendors and other outside payments. There are two types of STAN users:

- a. Site to Site – The agency creates NACHA compliant files without the assistance of a Treasury provided solution and sends the file to Treasury via an encrypted connection.
- b. STAN Online – The agency uses a Treasury provided browser based application to create and send ACH transactions to Treasury over the Internet.

ACH transactions received from agencies by Treasury are sent on to our Originating Depository Financial Institution (ODFI) for submission to the ACH.

Some of STAN's highlights:

- Single point of entry through Treasury into the ACH system.
- Editing of ACH batches prior to submission, resulting in decreased risk of failed transactions.
- Multiple levels of access and functional security capability, resulting in dual access controls.
- Ability to build batches at selected levels of control, which reduces workload and increases security.
- Encrypted transmission between Treasury and the ACH provider.
- Dollar limits on transactions, batches, and daily business.
- Ability to send both ACH credits (make payments) and ACH debits (take money from other entity's accounts).
- Internal transfers (between State agencies and local governments) can be accomplished same day.
- Availability of a variety of paper or electronic reports.
- Ease of reconciliation because outstanding items are eliminated.

- Easy to learn and operate.
- Online application only requires a browser to access.
- Application support and maintenance provided by Treasury at no cost to the agency.

Treasury will provide setup and training for new STAN Online users as well as ongoing user support. Treasury will also provide support for site-to-site users. Most questions can usually be answered by a telephone call to Treasury.

If you are interested or have further questions, please call:

Banking Section
(503) 378-4633

5. Interagency Agreement

ACH commerce is governed by the National ACH Association (NACHA). NACHA promulgates numerous rules and regulations in a rapidly changing environment. Agencies must be aware of and adhere to applicable rules.

Agencies which use STAN ACH applications, whether the site-to-site or Stan Online version, must enter into an interagency agreement with Treasury. The interagency agreement covers the responsibilities of both parties and emphasizes the importance for agencies to follow the applicable NACHA standards.

6. Agency Payments

Agencies wishing to initiate payments through the ACH should contact the Relationship Management Team at Treasury to discuss the application being considered and the best method available to take advantage of the opportunities of the ACH system.

As discussed previously, there are various means of delivering transaction information to the bank to initiate an ACH transaction. The

various methods are dependent on the type of application, volume, etc. The Relationship Management Team will work with the agency and the bank to set up an ACH payment program that best fits the agency's needs.

a. Delivery methods:

(1) Site to Site initiated transmission for high-volume activity.

(2) STAN Online initiated transmission for low-to-moderate volume.

(3) Paper initiation through Treasury for very low volume.

b. Formatting of transmissions must be in conformance with the rules of NACHA. Questions concerning these rules may be directed to the Relationship Management Team at Treasury.

c. If an agency has a very low volume of payments that it needs to send electronically and does not use the STAN system, the agency may request that Treasury initiate the payments using Treasury's STAN satellite. This should be requested for recurring payments that will be made periodically to the same beneficiary. To initiate an ACH payment in this manner, the agency must complete, and remit to Treasury, the ACH Transmittal Setup Request (Form C-14) at least 10 days prior to the first payment request for that beneficiary. The agency may then request payments to the beneficiary using the Request for ACH Transmittal (Form C-15).

7. Paying the Bank

Treasury has authorized the bank to debit its account for the amount of the ACH transactions initiated by agencies. Treasury debits the agencies' accounts for the amount of the payments made.