

FINANCE & ADMINISTRATION POLICY 13
RECEIPT OF ACH DEBITS

PURPOSE

1. The purpose of this Policy Statement 13 is to establish guidelines to ensure appropriate use of Automated Clearinghouse (ACH) debits as a method for state disbursements. An ACH debit is an electronic transfer of funds directly out of the remitter's bank account which is originated by an outside entity. Because the remitter (the state) has less control over the timing and amount of funds transferred, this policy statement has been established.

APPLICABLE STATE LAW AND EFFECTIVE DATE

2. This Policy Statement 13 has been developed in accordance with the provisions of Tennessee Code Annotated 9-4-601 concerning disbursements from the Department of Treasury by electronic funds transfer. This policy statement is effective for all state agencies and departments, with the exception of the University of Tennessee and the Tennessee Board of Regents institutions. Agencies with ACH debit applications currently in place should follow this policy for any future debit applications. This policy statement is applicable upon signature.

BACKGROUND

3. The State of Tennessee primarily utilizes two disbursement methods in the regular course of making payments from the state treasury to vendors, employees and benefit recipients. These methods include (a) writing a state warrant or check and (b) initiating an electronic funds transfer through the ACH payments network to a recipient's bank account, which is commonly known as originating an ACH credit. On occasion, disbursements that must be made immediately are initiated by requesting a wire transfer of funds through the State Treasurer's Office. Under each of these disbursement methods, the payment is approved and initiated by the disbursing state agency and is authorized by the Department of Finance & Administration.

4. The use of the ACH network to initiate payments and to receive funds has become a common business practice. It has also become common for some governments and businesses to require that certain payments be remitted to them electronically. A remitter may be given a list of options which could include the remitter originating an ACH credit or the remitter receiving an ACH debit originated by a government or business, both of which transfer funds from the remitter's bank account to the government's or business's bank account. The difference lies in which party originates the transfer of funds.

5. This policy statement has been developed because of the unique circumstances and requirements related to ACH debit transactions. In the case of receiving an ACH debit,

the remitter does not have direct control over the timing and amount of funds transferred from a bank account.

6. The State of Tennessee may be required to make certain payments by receiving an ACH debit. In addition there may be certain payment applications which, by nature and under the proper control environment, could be processed more timely and efficiently through the receipt of an ACH debit, without sacrificing audit trail and internal controls otherwise available with warrant, check or ACH credit payment processing. These payment applications must be reviewed on a case-by-case basis for determining whether they are appropriate for the ACH debit payment method and to review control procedures.

GENERAL RULE

7. The receipt of ACH debits to the state treasury or departmental bank accounts is permissible under one of the following conditions:

- a) Where required by federal or state law or associated regulations, or where required by an entity for payment of necessary goods or services.
- b) Where the State Treasurer and the Commissioner of Finance and Administration have authorized the receipt of ACH debits after determining that it is in the best interest of the state.

In either case, procedures for the processing, authorization and control of the debits must be developed and approved by the Treasurer and the Commissioner of Finance and Administration prior to the acceptance of the ACH debits.

GENERAL PROCEDURES

8. Prior to implementing ACH debits, an agency must first notify a Division of Accounts designee.

9. The Division of Accounts will request information from the agency on the frequency, timing, volume of transactions and other information as deemed appropriate. This information will assist in determining whether the application is appropriate for receiving ACH debits, and if so, what payment controls and procedures will be utilized.

Typically such information would include but is not limited to:

- current payment method
- entity originating ACH debit
- dollar amount, volume, frequency of ACH debits
- provisions for agency notification of dollar amount, volume, etc.
- regulatory or other requirements for use of ACH debits
- other unique circumstances (time constraints, sole source of vendor, etc.)
- a summary of planned agency control procedures.

10. The Treasurer's Office and the Department of Finance & Administration will review the request and seek further information if needed. The agency will then be notified whether the ACH debit application is acceptable or if alternative payment methods might be considered.

11. Upon initial acceptance of the ACH debit receipt request, the Department of Finance & Administration and the Treasury Department in consultation with the agency, will review the proposed control procedures, and make additional recommendations if necessary.

12. All ACH debit receipt approvals will be reviewed periodically by Department of Finance & Administration and the Treasury Department to determine if other payment methods might be considered more feasible.

APPROVALS

Approval of the Commissioner of Finance and Administration - I, John D. Ferguson, hereby approve this Policy Statement 13 of the Department of Finance and Administration and as such agree with and authorize actions necessary to implement its requirements.

Signed: _____ Date: _____
John D. Ferguson, Commissioner

This Policy Statement 13 of the Department of Finance and Administration was developed in consultation with the following:

Comptroller of the Treasury - I William R. Snodgrass, hereby acknowledge that this Policy Statement 13 of the Department of Finance and Administration was developed in consultation with my office.

Signed: _____ Date: _____
William R. Snodgrass, Comptroller of the Treasury

State Treasurer - I, Steve Adams, hereby acknowledge that this Policy Statement 13 of the Department of Finance and Administration was developed in consultation with my office.

Signed: _____ Date: _____
Steve Adams, State Treasurer