

Automatic Clearing House <ACH> Payment and Security Policy

ACH Transfer Processing

ACH transfers represent the electronic exchange of funds between accounts held at U.S. financial institutions. The process allows one-time or recurring payments to be paid electronically through the Automated Clearing House (ACH) network. ACH is also known by more common names – direct deposit, direct payment, direct debit, electronic funds transfer (EFT), or an electronic check (e-Check).

The purpose of this policy is to establish guidelines for ensuring the acceptance and distribution of payments electronically are processed in an efficient, consistent, secure and controlled manner in compliance with applicable rules/regulations set forth by the National Automated Clearing House Associate <NACHA> operating rules and university policy.

NACHA manages the administration, development, and governance of the ACH network, which is the electronic system that facilitates the movement of money in the United States. NACHA rules help safeguard university customers' sensitive financial and non-financial data and ensure that all ACH transactions are handled smoothly and securely. Sensitive information includes things like bank account numbers and routing numbers, social security numbers, driver's license numbers, and more.

International ACH transactions are possible with prior exchange of ACH information with customers in other countries. The exchange of information prior to transfer is necessary because banks in the U.S. use ACH format messages for electronic payments while the banks in other countries use different types of message formats such as SWIFT in case of European banks. There is a need for an intermediary to understand and translate messages between banks of different countries.

The Bursar's Office is responsible for approving, releasing and funding of ACH payments on behalf of the University for the movement of funds from University bank accounts. The acceptance and distribution of ACH payments received from outside parties are also completed and processed by the Bursar's Office through the university's cashiering platform. Common University ACH transfers include vendor payments, research grant payments, payroll for university employees, and student refunds.

NACHA Web Debit Account Validation Rule

The National Automated Clearing House Association - NACHA Rule for businesses & organizations that allow consumers to authorize and initiate ACH payments from their deposit accounts via the Internet or a mobile device now requires validation of the account number in addition to the routing number. The two primary goals of this rule is to protect the integrity of transactions flowing through the ACH system & to prevent posting banks from posting fraudulent, incorrect, or unauthorized payments. ACH account validation is one method that organizations can use to detect fraud. The new rule is intended to reduce fraud by requiring Originators to "validate" consumer accounts before the first debit from the consumer's account. This means that any time a customer authorizes an ACH debit from the customer's deposit account (either one-time or recurring payments) online or via a mobile device, the payee must validate the consumer's deposit account.

3 Types of Account Validation:

1. Pre-notification which uses pre-notes to create a non-dollar line item in the ACH file that notifies the bank that a payment will be processed in the future. When using pre-notes, the first payment must be delayed for at least 3 business days to allow response to the pre-note.

2. Micro Deposits are similar to pre-notes as they also are in the ACH file; they are very small dollar amounts (often only a few cents) that are sent through the ACH network to verify that the account can send/receive ACH payments. Validation of micro deposits require the payer to confirm the amount of these dollar amounts from your system in their bank account.

3. Commercial Validation Services are outside companies used by institutions that sit outside of the ACH network to validate account information. These are usually real-time solutions that can be embedded into a payment experience/gateway.

CURRENTLY USED METHODS FOR ACCOUNT VALIDATION



MANUAL METHODS

How it WORKS

A company uses consumer's check to verify account information and uses identification to confirm consumer identity, and/or company calls the consumer's financial institution.



To IMPLEMENT



Company must create procedures and train employees on how to verify information on check/identification and/or call financial institutions

ACH VALIDATION TEST

How it WORKS



The ACH Network connects to all financial institutions across the U.S. Companies can send a prenote through the ACH Network to their customer's bank and verify the accuracy of bank account information.

To IMPLEMENT



Work with financial institution or vendor to be able to send prenotes for new or changed transactions

MICRO DEPOSITS THROUGH ACH

How it WORKS

A company sends one or two very small credit ACH transactions (and sometimes a debit to remove the money) to their customer. The customer informs the company what amount(s) were deposited to and debited from their account. This verifies the account number and ensures the customer has ability to view the account.



To IMPLEMENT



Set up internal procedures for initiating small credit and debit entries and a simple method for customers to confirm amounts

VALIDATION SERVICES

How it WORKS



Some financial institutions and third parties have access to a large number of accounts (both their own and others) and may offer a product that leverages this information. A company can access these services for scoring as to the likelihood of correct account information and/or the account holder's identity. These responses can be real-time, same-day or next-day and can do many things besides validate the account number and ownership, including provision of information on the account itself (age, returns, etc.).

To IMPLEMENT



Contact your financial institution or third party to learn more about accessing these systems and make any necessary changes to in-house systems

Departmental Procedures for ACH Transfers

Any department with the business needs to accept bank account information from customers for recurring debits should communicate this request to the Assistant Bursar for Compliance, Accounting, and Reporting, Becky Ford @ huffmanb@vt.edu. Requests will require review and approval of the method utilized to collect the customer's bank information, use of one of the account validation methods described above, and access granted to upload monthly ACH files to the university's bank account.

Departments accepting ACH payments through a third party service provider should confirm their payment provider is in compliance with the NACHA Account Validation Rule described above. Documentation from the provider confirming their compliance should be kept on file in the department for audit purposes.

For departments who wish to accept ACH payments from outside organizations through the university's bank account, the department should email the Cash Receipt and Disbursement Manager, Rosa Lucas, rosall@vt.edu. Include any ACH forms provided by the organization for completion of university ACH and contact information. This information is centrally communicated to all outside organizations from the Bursar's Office to ensure the security of the university's bank account information. All communication of bank data will be encrypted.

For payments to outside vendors, all disbursement requests following the receipt of goods and/or services would be sent through HokieMart. See policy [Disbursements – 3200](#) and [Prompt Pay Policy–3260](#) for details. For specific questions contact the Controller's Office.

Update/Review Log

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