Protecting Your Company from ACH Fraud

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The use of the Automated Clearing House (ACH) payments is an excellent model for effective, efficient and low cost disbursements and collections. ACH adoption continues to grow as an increasing number of companies find more ways to incorporate the use of these payments into their cash flows. The overwhelming use remains direct deposit of payroll, although with the growing acceptance of bill pay services and the convergence of check with ACH, companies are finding that they are the recipients of ACH collections in greater numbers than ever before. ACH serves as an effective disbursement tool for employee reimbursements, vendor payments, tax payments and child support. On the collection side, automatic debit programs with customers for payment of subscriptions, dues and memberships have long been shown to be efficient and highly cost-effective. With the recent introduction of the International ACH Transaction (IAT) and the growing number of ACH systems in countries across the globe, ACH is emerging as the pervasive method for cross-border payments.

Access to the ACH is becoming easier and more streamlined. The primary access is through direct file transmission from the company or a trusted third party, such as a payroll provider. The second most common access for a company is through the online banking channel. Indirectly companies can access the ACH through bill pay services, which translate the payment order to an ACH for the more predominant receivers, while continuing to generate checks to smaller suppliers/recipients. For online shoppers a growing payment alternative to credit cards is the ACH (WEB) and, of course, many checks deposited today are converted to ACH transactions rather than check images or paper check deposits.

The National Automated Clearing House Association (NACHA), which has responsibility for setting and enforcing the rules by which the

network operates, has estimated in their latest strategy paper that the network will carry close to $50 trillion in transactions in 2010, up from $34 trillion in 2006. As noted by infamous bank robber John Dillinger when asked why he robbed banks, "That's where the money is." Unfortunately, Dillinger's observation is shared by many contemporary criminals, whose skills and determination have contributed to the growing number of cyber crimes. While the use of the ACH network on the whole remains safe and secure, there are growing vulnerabilities. As a responsible user of the network, you should take crucial steps to protect your funds, including those considered best practices in managing any cash flows.

ACH FOR COLLECTIONS

If you are requesting that your customers send you ACH credits in payment for goods or services, ensure that the account number you provide is accurate. You should require payors to include invoice and/or account numbers with their payments in a format that you can accept, along with additional remittance information, if necessary.

If you will be generating ACH debits to your customers, ensure that: 1) your ACH payment authorization form follows NACHA guidelines, 2) the authorization allows you to reverse any erroneous entries, and 3) it spells out how disputes will be settled. It is best to require source documentation from trading partners to set up bank instructions for repetitive ACH payments, such as voided checks. If you use a third-party vendor to originate ACH debits via your Web site, do not assume that the vendor's wording on the debit authorization form to be signed by the payor is acceptable.

ACH FOR DISBURSEMENTS

If you are paying your trading partners or employees by ACH, consider pre-noting your ACH transactions to ensure the accuracy of the bank account information. Many banks ignore zero-dollar transactions; for pre-notes, you may use a one cent transaction, which must be posted by the bank. Follow the instructions provided by your trading partners for provision of the remittance information to ensure they can effectively post your payment and provide your account the correct credit. It is also a good practice to work with your trading partner to establish and agree upon the dispute process to be used ahead of time.

GENERAL USE OF THE ACH

Your bank can provide you with a copy of the most recent *ACH Rules – Corporate Edition*. This is an essential guide for how to utilize the ACH network for your payments. The specifications are contained in the book for the use of the correct NACHA standard entry class code for each type of transaction (CTX, CCD, PPD, etc.). There is also excellent guidance for the creation of the remittance information that may be needed by your trading partner, or that you may wish to provide for your trading partner to pay you. Most banks' online banking platforms offer an ACH module that will allow you to create transactions in the correct format without having to become an expert, formatting the transactions and establishing the correct SEC based on the defined business need.

When originating ACH transactions through the online banking channel you should take advantage of the controls inherent in most systems. First and foremost is to establish access to the module only to those employees whose jobs require such access. Users should have rational limits set per transaction initiated/created and approved/released. The ACH is essentially a batch process, in which the individual transactions (debits or credits) are created/initiated and then batched as one or many for release to the bank. There should be defined segregation of duties so that the user who creates the transactions is not the user entitled to release

or approve the transactions. This separation of duties or dual authorization is also appropriate when initially setting up the database or recipient file. The user who defines the receiver's information in the database with its account information should not be the same user who validates the information for later use in a payment.

USING BLOCKS AND FILTERS

Check your account balances daily and validate transactions. If you have an account that is strictly defined for collections, consider placing a debit block on the account If you have received a debit from an unknown originator or from an originator unauthorized by you to debit your account, place a block against this originator. If you expect to receive debits from a specific originator you can define a filter on your account which will allow these predefined debits. For the placement of blocks and/or filters, contact your bank relationship advisor.

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