

EXHIBIT A



City of Freeport
Electronic Funds Transfer (EFT) Policy and
Procedures

Approved
March 18, 2024

Policy Statement:

The City of Freeport recognizes the use of various electronic payment methods as a safe and efficient method to process certain disbursements. The City of Freeport is committed to establishing controls and 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 Fund 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 fund transactions the City may engage in and the accounting procedures to be followed in accordance with Texas State Laws and Texas State Auditor 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 under state laws.
- **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 and employee master files 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 costlier compared to transactions involving checks or ACH.

General Guidelines:

The City of Freeport 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, 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 fund 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 for payment of an obligation of the City on an emergency basis when the situation requires immediate funds to settle a transaction with the exception of the payment of bonds. Bond payments always require a wire transfer of funds. 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.

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

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 of 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 prior 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 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 instruction 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 in accordance with the City's Purchasing Policies 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 EFTs 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 auditor has access to files, records and documentation of all EFT transaction involving the City when required for the conduct of the 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 will be used only when authorized by the Finance Director or his/her designee.

The City will utilize security measures offered by the City's depository 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, depository controls require two separate users to complete a wire. One authorized Finance employee will enter the wire transfer process and another authorized Finance employee must separately initiate/approve the wire transfer.

All wire transfer requests, including back-up wire information, invoice or other supporting documents will be forwarded to those authorized to 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.

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, 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 must 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 subjects 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.

Prior to a vendor receiving ACH payments for submitted invoices, a completed EFT Authorization Form must be submitted to Accounts Payable and will be approved by the Finance Director or his/her designee. The Finance Director 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 EFT 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. The file will be uploaded into the depository system by

Accounts Payable. The Finance Director or his/her designee will initiate/approve the ACH payment.

The Finance Department staff who upload and initiate/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 to altered or manipulated in any way. If evidence of such is present, the employee will be contacted to verify 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. After the form has been reviewed for accuracy, the information will be entered by Human Recourses. 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:

The City 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, and payroll cycle is maintained along with 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 depository offered security measures to prevent unauthorized individuals from initiating or modifying a transfer.
- Each user initiating, uploading, entering or approving wires and ACHs must have separate banking user id.
- Only setting up wire transfers for debt service payments, and other transactions as required, only with approval of the 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 or City Manager immediately. The Finance Director must notify the City Manger of the possible fraud as soon as possible after it is detected. Steps will be taken with the depository to mitigate the fund and the appropriate entities notified as necessary.
- The person who uploads/enters the EFT payments into the depository banking system shall not be the person who approves and sends the EFT to payment the EFT payment in the depository banking system.