The following guide provides a primer on how Automated Clearing House (ACH) payments, deposits, rejections, and withdrawals are processed and reconciled. Based on the variables described in this guide, the average processing and reconciliation timeline can fluctuate. This guide is designed to improve your understanding of the process.

An important note: ACH transactions, or e-checks, are typically processed through a gateway, like Network Merchants (NMI). Gateways do not communicate with the bank, nor initiate the transfer of money between the payer's bank and the school. This process is done through an ACH processor, such as Global E-Telecom (GETI), now called Sage Payment Solutions EFT. Sage manages this process through a clearinghouse network, similar to how credit card processors take care of the actual authorization, settlement, and money transfer between the cardholder's credit card bank (the issuing bank) and the merchant's (school's) bank.

Timeline of How an ACH Payment is Processed

The following is the timeline using NMI as the gateway and Sage as the ACH processor. The actual timeline may vary by gateway provider and ACH processor.

**Monday, 4/21**

- Payer initiates an ACH payment to school through online software or form (e.g., online giving form on school's website)
- The only validation that will be done by the payment gateway (e.g., NMI) is to check if a valid routing number was entered
- Payer will get an instant confirmation of the payment made. *Unlike credit card transactions, there is no authorization process involving validation of the bank account number, if there are sufficient funds in the payer's account, etc.*
- NMI will place the ACH transaction in a pending status
- Starting at 3:30 p.m. EST, NMI will send all of the day's transactions to SAGE in a single batch (the process ends between 4:30-5 p.m.)
- Later that evening (5:30-6 p.m. EST), SAGE will send the ACH payments to each payer's bank

Note: any ACH payments made after 3:30pm US Eastern will be part of Tuesday's batch.

**Tuesday, 4/22**

- The payer's bank sends a confirmation receipt back to SAGE, i.e., merely that they received the payment request
- This confirmation does not include any validation of the payer's bank, if the payer has any funds, or any other validation

Note: Banks have up to 15 days to validate the payment request.
Wednesday, 4/23
• SAGE will initiate the payments, i.e., inform the payer’s bank to transfer the money to the school’s bank

Thursday, 4/24
• The school’s bank will receive funds from the payer’s bank
• SAGE notifies NMI
• NMI changes the status of the payment from pending to settled

Deposits and Reconciliation
The following talks about how ACH payments are deposited, and how they can be reconciled with the merchant account report.

Let’s say there were 10 ACH payments on Monday, 4/21 totaling $1,000:

• The ACH payments will be deposited all together as a single deposit for $1,000
• On its April bank statement, the school will see 1 deposit on 4/24 labeled “ACH” for $1,000
• Like with Global Payments and AMEX, the bank statement does not provide the detailed ACH payments that make up that deposit
• As a result, the school will have to log into the gateway (NMI) and download a settlement report where they will see a batch of 10 ACH transactions on 4/24 for $1,000

Note: NMI lists each ACH payment as two separate transactions both with the same transaction ID. The first will have Transaction Type = “Sale”, the second will have “Transaction Type” or “Settle”.

Rejected/Failed ACH Payments
There are two points at which an ACH payment may fail:

• Pre-Settlement: The ACH payment may fail or be rejected prior to being settled. Since it will not have been settled, it means the payment will have never hit the bank.
• Post-Settlement: If the ACH payment settled, the bank has up to 15 days to validate the payment. The bank may reject the ACH payment because there may be insufficient funds, or an incorrect bank account number was provided, or other reasons.

Timeline for a Failed Post-Settlement ACH Payment
Based on the original ACH processing timeline, if a failed post-settlement ACH payment occurs, an average of three additional days will be added. A failed post-settlement ACH payment can extend the reconciliation process out to seven days.

Thursday, 4/24
• The payer’s bank will send a rejected/failed status back to SAGE on the payment

Monday, 4/28
• SAGE initiates a debit from the school’s bank account (i.e. informs the school’s bank to withdraw the funds)
Tuesday, 4/29

- The funds are withdrawn from the school’s bank account
- SAGE notifies NMI

Reconciling Failed Post-Settlement ACH Payments

Scenario 1: ACH payment was initiated and failed in the same month:
Let’s go back to the example of 10 ACH payments being deposited into a single $1,000 deposit. Say two of those 10 ACH transactions end up being rejected, the first $100 and the second is for $200.

- On their April bank statement, the school will see two ACH withdrawals on 4/29: one for -$100 and one for -$200. However, the bank statement will not tell them which are the original ACH payments to which these withdrawals are related.

The April bank statement will look something like this:

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/21/2014</td>
<td>ACH</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>4/29/2014</td>
<td>ACH</td>
<td>-$100.00</td>
</tr>
<tr>
<td>4/29/2014</td>
<td>ACH</td>
<td>-$200.00</td>
</tr>
</tbody>
</table>

The school will download the settlement report from the gateway (NMI), which will show the following:

- A batch of 10 ACH transactions on 4/24 for $1,000. All of these will have the transaction type listed as “Settle.”
- An ACH transaction on 4/29 for -$100 with a transaction type of “Check Late Return.”
- An ACH transaction for 4/29 for -$200 with a transaction type of “Check Late Return.”

Scenario 2: ACH payment was initiated at the end of the month and failed in the next month
If the payment was initiated on 4/25, but is then rejected on 5/1, this means:

- The funds would be deposited on 4/30, and will be reflected on the April bank statement
- However, the ACH withdrawal will appear on the May bank statement

The school will want to check the settlement report for May to reconcile the ACH withdrawal.

Reconciling Failed Pre-Settlement ACH Payments

It’s possible for the ACH payment to fail prior to being settled. This means:

- The payment will never hit the bank
- Therefore, the funds will have never been deposited
- The ACH transaction will not show up in the settlement report from the gateway

However, in some accounting systems, like Senior Systems, the ACH payment may show up in the General Ledger (e.g., under account receivables).
So the general ledger may list the ACH payment, but there’s no record of it at the bank (because there won’t be), nor in the settlement report from the gateway (because it won’t be there either).

To reconcile this pre-settlement ACH payment, the school can generate a transaction report of all ACH transactions. The failed ACH payment will be listed in this report. In NMI, it will be listed as two transactions both with the same transaction ID:

- The first will be listed as transaction type = “Sale.”
- The second will be listed as transaction type = “Check Return.”

Using this transaction report, the school can reconcile failed pre-settlement ACH payments recorded in the general ledger and may opt to remove them from the GL or handle them per their accounting workflow.

**Summary**

- ACH payments can take up to 4 days to settle / deposit
- ACH payments are deposited as a batch. So a single ACH deposit can contain one or more ACH payments
- Banks have up to 15 days to reject an ACH payment. So in the case of a rejected ACH payment, funds will have been deposited and then, if rejected, may be withdrawn as many as a week or two later
- ACH withdrawals are done individually. So unlike deposits, withdrawals appear on the school’s bank statement individually
- In NMI, an ACH payment is actually composed of at least two and at most three types of transactions:
  - Sale: for the initiated payment
  - Check Return: if the payment failed or was rejected prior to settlement
  - Settle: for when the payment is settled with the processor and the funds are sent for deposit in the bank
  - Check Late Return: if the bank rejects the payment after the funds had already been deposited (in which case, the bank will withdraw the funds)