

How to Prepare for Your Annual ACH Audit

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Rule Compliance Audit Requirements

- ACH Policies
- Standard Operating Procedures
- OFAC Compliance
- ACH Business Continuity Plan
- ACH Risk Management

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General Audit Requirements

- Audit Documentation for a period of six years
 - 2013 - 2018
- Annual ACH Audit Deadline is December 31st
- Record Retention:
 - Electronic
 - Hard-copy
- Date that the Prior Years' Audit Findings were reported to the Board of Directors or designated Audit Committee

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Unsecured Electronic Network

- Identify all unsecured electronic delivery methods used to transmit banking information between participants and document how they are secured:
 - Online/Mobile Banking
 - File Transfer Protocol (FTP)
 - Secure Emails

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ACH Risk Assessment

- Does the ACH Risk Assessment address the following:
 - Assess the nature of risk associated with ACH Activity
 - Perform appropriate know-your-member due diligence
 - Establish controls for Originators
 - Have adequate management, information, and reporting systems to monitor and mitigate risks
- Composite or Overall ACH Risk Rating
- Board Approved
- Frequency

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Data Security

- Does your policy address:
 - Transmission of ACH activities
 - Storage of ACH information
 - Destruction of ACH information
 - Access to systems containing ACH information
- Do your security procedures and systems address:
 - Protect the confidentiality and integrity of information
 - Protect against anticipated threats or hazards
 - Protect against unauthorized use of protected information

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RDFI Requirements

- Prenotifications:
 - How are rejected Prenotifications identified on reports
 - If a Prenote is unidentifiable, what action is taken
- Notification of Change (NOC) Entries:
 - Does the RDFI's ACH Policy address NOCs
 - Does the credit union have written procedures in place
 - Is an NOC initiated within 2 banking days
- Acceptance of Entries:
 - Regulation D
 - Destroyed Check Entries (XCK)

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RDFI Requirements

- Does the credit union follow Regulation D
- Does the credit union properly disclose Regulation D to their members
- Does the credit union's data processor correctly monitor Regulation D transactions
- What happens if someone exceeds Regulation D:
 - Manually post entry then charge a Regulation D Fee
 - Return transaction with the Reason Return Code R20-Non Transaction Account

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RDFI Requirements

- When are ACH Files received throughout the day
- How often are Entries updated to accounts
- Debit Entries:
 - Are entries posted prior to Settlement Date
- Credit Entries:
 - If not Same Day, does the RDFI make amount available to Receiver no later than the Settlement Date of the Entry
 - If Same Day, does the RDFI make the amount available to Receiver no later than the completion of the RDFI's processing for that Settlement Date

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RDFI Requirements

- Account Statement Content:
 - All Standard Entry Class (SEC) Codes must disclose the following:
 - Company Name
 - Company Entry Description
 - WEB Credit Entries:
 - Originator Name (Individual ID Field)
 - Check Conversion SEC codes must disclose the following:
 - ARC, BOC, POP, RCK, & XCK:
 - Check Serial Number

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RDFI Requirements

- POP & POS Entries:
 - Terminal City (At least 4 characters)
 - Terminal State
- POS Entries:
 - Terminal identification code and/or terminal location field

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International Automated Transactions (IATs)

- How does the credit union scan IATs against the Government Sanctions Lists (SDN & CONS)
- How do you post IATs
- How do you document that the scans were completed
- What happens if you have a match
 - Return entry as an R16-Account Frozen

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RDFI Requirements

- Adequate documentation to verify timing of receipt of Returned Entries
- Dishonored Return Entry procedures:
 - Corrected
 - Contested
- Handling of RCK Return Entries
- The use of an R23-Credit Entry Refused by Receiver

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RDFI Requirements

- Stop Payments-Reason Return Code R08
 - Length of Time a Stop Payment is Honored:
 - Verbal
 - Single Entry
 - Reoccurring
- Written Statement of Unauthorized Debit
 - Does the form include:
 - Receiver's printed name and signature
 - Receiver's account number
 - Identity of the party debiting the account
 - Date the Entry was posted to the account
 - Must be retained for at least one year
 - Must be provided to an ODFI within 10 Banking Days if requested
 - Reason Return Codes:
 - R07-Authorization Revoked
 - R10-Unauthorized

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RDFI Requirements

- UCC 4A Disclosures:
 - Disclosure Method
 - Covers:
 - Provisional Payment
 - Notice
 - Choice of Law
- Addenda Records-Payment Related Information:
 - Procedures on how to retrieve and transmit records
 - Maintain a List of Receivers who requested Addenda Records
 - 2 Banking Days from the Settlement Date to respond

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ODFI Requirements

- Binding Agreements:
 - Between the ODFI and each Originating Company
 - Between the ODFI and each Third Party Sender
- Identify all Sending Points that Transmit ACH Entries on behalf of the ODFI to the ACH Operator and verify that an agreement has been executed:
 - Correspondent Financial Institution
 - Online Banking Vendor
 - Third Party Service Provider

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ODFI Requirements

- Risk Management:
 - Exposure Limits
 - Monitoring of ACH Activity Originated
 - Monitoring of ACH Returns
 - Types of Entries Originated
- How does the ODFI handle the following situations:
 - Communicating Returned Entries
 - Do you dishonor Return Entries on behalf of the Originators
 - Are dishonored Return Entries initiated within 5 Banking Days
 - Are procedures in place when receiving a contested dishonored Return Entry
 - How does the ODFI provide NOC Entries to the Originators

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ODFI Requirements

- Right to Information Regarding Entries:
 - If the credit union is acting as an Originator on its own behalf (i.e. Loan payments, ACH transfers, CD Interest payments, etc.)
 - Do the authorization forms comply with the *Rules* as described in Appendix F
 - Disclose how many attempts the ODFI will reinitiate an entry prior to the credit union removing the order
 - Disclose how many days are required to make changes or to stop an origination entry
 - Does the ODFI have procedures in place to provide a copy of the Receiver's authorization to the RDFI within 10 Banking Days without charge
 - Does the credit union have procedures in place to OFAC any non-members associated with an Origination entry

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ODFI Requirements

- Does the credit union have written procedures in place to handle the following situations:
 - Reversal of Files and Entries
 - Correcting Files
 - ODFI Return Rate Reporting:
 - Unauthorized Return Rate: (R05, R07, R10, R29, R51)
 - Threshold: 0.5%
 - Administrative Return Rate: (R02, R03, R04)
 - Threshold: 3.00%
 - Overall Return Rate:
 - Threshold: 15.0%

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ODFI Requirements

- Has the ODFI registered its Direct Access Debit Participants status with NACHA
- Has the ODFI registered its Third Party Senders with NACHA
 - For ODFIs with no Third-Party Sender customers, the Rule will require the ODFI to acknowledge this in a statement to NACHA
 - An implementation period through March 1, 2018 will be provided to spread initial registrations over a reasonable period before enforcement would take place
 - <https://www.nacha.org/risk/tools>

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Federal Government Payments

- How are Death Notification Entries (DNE) identified on daily reports
- What action is taken upon receipt of a DNE
- Is the Date of Death included when using the Reason Return Codes R14 and R15
- How does the credit union respond to a Notice of Reclamation
- Does the credit union initiate Automated Enrollment Entries (ENR)

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Policy Recommendations

- Your Board-Approved policy should include:
 - Processing Days
 - Acceptance of ACH Entries
 - Same Day ACH
 - Regulation E Disclosures
 - OFAC Compliance
 - Unlawful Internet Gambling
 - Stop Payment of ACH Entries
 - Written Statement of Unauthorized Debit
 - Government Benefit Payments
 - Reclamations
 - Return of ACH Entries

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Policy Recommendations

- Origination of ACH Entries
- Uniform Commercial Code Article 4A (UCC4A) Disclosures
- Notification of Change Entries
- Receiving & Origination of Health Care EFT Transactions
- Reinitiation of Returned ACH Transactions
- ACH Risk Assessment, including frequency
- ACH Security Framework
- ACH Audit
- ACH Education & Training
- Bonding

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Additional Resources

- NACHA or your Regional Payments Association

<https://www.nacha.org/>

<http://regionalpaymentsassociations.org/territories/>

- Green Book-Guide to Federal ACH Payments:

https://www.fiscal.treasury.gov/fsreports/ref/greenBook/greenbook_home.htm

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Questions?

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