ACH Audit Guide
Step-by-Step Guidance and Interactive Form
For Internal ACH Audits
Audit Year 2015

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ACH Audit Guide
Step-by-Step Guidance and Interactive Form
For Internal ACH Audits

For NACHA Operating Rules Compliance
Reflecting Latest Rules Changes Required for 2015 Audits

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(500-15) Revised: 1/2015
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ACH Audit Management Report

Certification of NACHA Operating Rules Audit Completion
ACH Audit Workbook Overview

WesPay has produced this workbook to assist financial institutions in complying with annual audits required by the *NACHA Operating Rules*:

**How do I use this document?**

The *NACHA Operating Rules* audit provisions do not define procedures to complete the audit. This interactive workbook is designed to help you or your auditor walk through key compliance areas within the *NACHA Operating Rules*. This guidebook is designed to be a working document, which when completed may be filed with other internal audit documentation and used for updates when individual non-compliance issues are resolved. In addition, this interactive workbook automatically generates a management report providing a summary of the findings of your audit that can be submitted to management for review.

This workbook may be used for completion of any ACH Audit.

**Components:**

**Introduction and General Guidelines:** This section provides a simple outline of best practices for conducting your ACH Audit in-house. This is also a good guide to prepare materials if you have an independent auditor or your audit department conduct your annual ACH Audit.

Throughout the document the following icons may be used to indicate types of content:

- Editorial Notes
- Issues that require special attention or consideration
- Check lists of items you may want to verify to complete the audit
**Audit Workbook:** For each area of rules compliance to be verified, we provide the following tools for you to conduct your audit, each identified with a unique icon:


2. Indication if rule has or will change.

3. Audit Finding – This is a pull-down menu that provides the range of findings you can record for each point. This item will be included in the Management Report.

4. Test Procedures – In this field, input the procedure you used to test this audit point. For instance, dates covered, documents reviewed, policies reviewed, etc.

5. Action Items & Comments – In this field, input the items that need follow-up or general concerns raised by the audit test. This item will be included in the Management Report.

6. Discussion on Rules compliance point. *(Note: the concepts discussed are thoughts developed by WesPay regarding particular approaches to auditing for specific functions, but are not audit requirements.)*

7. Recommendations for test procedure and documentation.


**Management Report:** This interactive document automatically creates a management report based on the Findings and Action Items you have entered in the body of the workbook. This report can be used for management review or as documentation for regulators to verify completion of the audit.

**NOTE:** If you exceed the allowable space on one of the audit reports to document the Exceptions, Actions or Concerns, you can use the “Additional Comments” section at the end of the management report to add additional copy.
**Getting Started**

This workbook is an interactive document. We will walk you through each step of the audit process and you can enter the essential data as you go along. First, input the basic information about your institution and management.

**Separation of Duties**

It is very important that the person conducting the audit is not the same person who is responsible for your ACH activities. If you have a small staff, we recommend that you split the audit points for the most independent review possible.

**Audit Time Frame**

The time frame over which you conduct the audit is up to you and/or your auditor. You may wish to limit the audit time period to the most recent three months. In most cases you should be able to pull a sample that is statistically representative. This will allow you to concentrate on using ACH reports and statements from the period chosen. Within that three-month period, select one month as the focal period and one week within that month as the focal week. This is the time horizon chosen for this Guide in order to make the discussion more concrete. Adjust accordingly if you wish to choose a different time frame.

In some cases you may need to look at Entries to test beyond the month(s) chosen, especially if a particular class of transactions is uncommon and Entries are not available in the testing period to provide a reasonable assurance of proper controls and compliance.

**Input your ACH Audit time frames here:**

Target three month period:

Focal month:

Focal week:
Document Preparation

We suggest you prepare copies of the following documents for the audit process:

Prior Year Audit Documentation
✓ Your most recent prior audit. If applicable, have written status/resolution of any findings from that audit

Policies, Procedures and Agreements
✓ ACH Receipt and Origination Policies
✓ ACH Receipt and Origination Procedures, including exceptions (returns, NOCs, stop payments, customer adjustments, dishonored returns), prenotes, and government Entries
✓ Copy of contingency plan that includes ACH
✓ Training records for ACH personnel
✓ Agreements with any third-party processors to whom you’ve outsourced ACH functions, with certification that they are in compliance with applicable NACHA Operating Rules and have completed a current ACH Audit. This may include corporate credit unions, bankers’ banks, and correspondents, as applicable
✓ Account/deposit agreements for consumer and business checking and savings accounts

Records and Retention
In order to test Record retention per the NACHA Operating Rules, we suggest you obtain the following reports for a selected day in the focal month for the prior sixth year and the prior third year in order to span the full requisite six-year retention period.

The following reports for the target week should be collected:
✓ All items received for the day
✓ All items originated for the day
✓ All un-posted items relating to the received items above
✓ All outgoing (2-day) returns relating to the received items above

Viewing of the above reports electronically should be acceptable, as long as you can selectively provide a hardcopy reproduction.

In addition, you should have the above reports available for the focal week which will be used for additional portions of the audit. You may want to have these in hardcopy, volume permitting.
Data Security Between Parties Exchanging ACH Information

Be prepared to discuss the security you have in place regarding the exchange of ACH and ACH-related information between your financial institution and all other relevant parties – Originators; receiving customers/account holders; ACH Operator; service providers; etc. – relative to meeting the minimum security/encryption requirements of the NACHA Operating Rules. Certification of encryption from your IT area and/or outside processor(s) should also be available.

✓ If you accept any physical media for origination such as CDs, provide copies of the security processes around such media.

Incoming Prenotes and Outgoing NOCs

Provide the documentation that supports your processing of prenotes and NOCs (for the focal week, or wider time frame if necessary). We recommend that at least three days of reports be available.

Outgoing Returns and Adjustments

Provide the documentation that supports your processing of outgoing returns and adjustments (of previously received Entries) for the focal week (again, go wider if necessary). There should be at least three days of reports available. Provide the un-posted Entries report that relates to the 2-day returns.

✓ For each adjustment, provide the associated Written Statement of Unauthorized Debit (WSUD).

Stop Payments

Provide the documentation that supports your processing of outgoing returns of stopped payments for the focal week. These may be the same reports as for outgoing returns and adjustments cited above. There should be at least three days of reports available that show stop returns. Also provide the stop payment requests associated with each Entry returned stop payment.

Posting of Entries and Statements; Payment-related Information for Corporate Receivers

For each of the ACH Standard Entry Classes (SECs) indicated below, show the correlation between an Entry received (per your received Entries report) and the display of that Entry/transaction on the associated account holder’s statement. It may be easiest to assemble the documentation in hardcopy, but some online viewing should be acceptable if that’s easier.

The SECs that should be exhibited are as follows:

✓ PPD; CCD; CTX; POS; MTE; ARC; BOC; POP; RCK; TEL; WEB; IAT

If any of the SECs cannot be found in the focal week, you should expand to the focal month. If any of the SECs cannot be found in the focal month, you may want to look across the target three-month period. If the items are still not found, there probably isn’t any need to look further. The SEC is presumably rare and may never be received by your institution.

✓ Using received Entry reports and any additional documentation needed, be prepared to demonstrate the posting/memo posting dates of (1) debits, (2) consumer credits, and (3) other credits, relative to their respective settlement dates.

✓ If any business customers have requested payment-related information for payments they have received (CCD, CTX or Corporate IAT Entries), have evidence of compliance available.
UCC4A Compliance – Account Holders/Receiving Customers

Have evidence available regarding applicable UCC4A disclosures. This is typically done via the account agreement already included above. But if any other methodology such as individual notice is used, that should be made available.

Processing of Government Entries

Be prepared to explain procedures for handling receipt of government Death Notification Entries (DNEs), and general processing of government reclamations. Provide several specific examples to support the explanation.

Origination

Many RDFIs have limited origination activities even though they do not believe they qualify as an ODFI. Please review the following items and be prepared to discuss any that may apply to your Organization. DFIs doing only internal origination should be, at a minimum, focusing on their authorization process, procedures, and documentation.

Origination Customers and Agreements

Provide a list of all parties for whom you originate ACH transactions. If you have ten or fewer originating customers, you may want to review all of the agreements you have with them. If there are more than ten, you might take a selection of agreements, using the provided list. Pay particular attention to any arrangements you may have with Third-Party Senders (i.e., they, rather than you, have the agreement with the originating customers; e.g., certain large payroll processors).

Especially important in the audit of origination customers and agreements are WEB and IAT Originators.

You should review any Direct Access relationships, whereby the other party is not acting as your agent, but nevertheless is using your routing transit number for the origination of ACH transactions directly to the ACH Operator for their own purposes and/or those of their customers. Be prepared to discuss your process for keeping Originators (including any Third-Party Senders) informed regarding NACHA Operating Rules and Rule changes.

Agreements with sending points and Third-Party Service Providers/processors

Provide agreements for any external sending points and/or Third-Party Service Providers you utilize for ACH origination.

ODFI Verification of Originator or Third Party Sender Identity

The ODFI must utilize a commercially reasonable method to verify the identity of an Originator or Third-Party Sender at the time the ODFI enters into an Origination Agreement with the Originator or Third-Party Sender.
**UCC4A Compliance – Originating Customers**

Please have evidence available regarding applicable UCC4A disclosures. This is typically done via the Origination Agreement which the auditor will wish to review. If any other methodology is used, please be prepared to make available for the Originators whose agreements are being reviewed.

**Exposure Limits**

Be prepared to discuss the process of establishing, periodically reviewing, and monitoring in practice limits you have placed on financial exposure from your originating customers. Some of this may be in agreements or customer files. Additional documentary or other evidence should be provided, if applicable; for example, how monitoring is actually done in practice, and how limit exceptions are handled and actions documented.

**ODFI Handling of Returns**

The following reports for the target week, target month, or target period should be provided for at least three days worth of information:

- ✔ Report of incoming returns and their disposition, including contested/corrected returns
- ✔ Report to Originators corresponding to the above reports
  (Note: As of 3/18/2011, verifying “proper” notice of returns is no longer an audit requirement, but it remains a sound practice to verify how the ODFI is communicating return information to the originating client in a timely manner.)
- ✔ Report showing outgoing dishonored returns, and the associated incoming return report

**NOCs Received for Originators**

Provide at least three examples of how you provide NOCs from RDFIs back to your Originators, or any Third Party Service Providers initiating CIE and credit WEB entries on behalf of consumer Originators (effective 3/21/14).

**Returns Received for Originators**

Provide at least three examples of how you provide dollar return notifications from RDFIs back to your Originators.

**Permissible Return Entries**

Be prepared to show your procedures for requesting a return from an RDFI (as an R06), should that be necessary. If in fact you have made such requests, you should have up to three instances in evidence for the audit.

Also be prepared to discuss your process should an RDFI contact you asking you to accept a CCD or CTX Entry that you originated beyond the normal 2-day return window (as an R31). Verify there are written procedures for Permissible Return Entries.
Requests for Authorization
Have evidence of your processes should you ever receive any requests from RDFIs to provide copies of authorizations for entries you have originated, and share any examples of correspondence that may have occurred during the focal period. If no such requests have been made, please provide any documented procedures you may have for this function.

Additional Documentation
In addition to the NACHA Operating Rules and Guidelines, other documentation that might be referenced includes:

✓ Current NACHA Operating Rules Book
✓ The Green Book - Department of the Treasury, Financial Management Service
✓ Local ACH Association Rules
✓ Federal Reserve Board’s regulations E, D and CC
✓ Risk management policies and procedures
✓ Data security policies & processing contingency plans
✓ State and federal EFT regulations
✓ Regulatory agency bulletins, such as OCC 2006-39
✓ Federal Reserve ACH Operating Circular (OC-4)
✓ UCC Article 4A
General Audit Requirements

1. In addition to modifying internal procedures to accommodate yearly ACH Audits of compliance with the NACHA Operating Rules, both ODFIs and RDFIs should be aware that, in addition to their own self-audit, they provide a warranty that any Third-Party Service Providers (data processors, etc.) or Third Party Senders performing a function of ACH processing on behalf of the DFI have completed an audit of compliance with the requirements of the NACHA Operating Rules. DFIs should consider amending agreements that they have with such providers to address the Rules compliance audit provisions.

2. The Rules require any Third Party Sender that performs any functions of an ODFI under NACHA Operating Rules to meet the audit requirements that are applicable to the ODFI.

Additional key areas to include in your audit:

✓ Written policies and procedures.
✓ OFAC-related procedures and compliance with all associated regulations, from both an ODFI (if applicable) and an RDFI perspective.
✓ Adequate inclusion of ACH within your Organization’s Business Continuity Planning.
✓ Risk Management policies and procedures, again from both an ODFI (if applicable) and an RDFI perspective.
✓ Documented ACH training process and results for relevant personnel.
✓ Management control of key processes where account numbers can be compromised, such as posting of exceptions and initiation of NOCs.
Institution Name:

RTN:

Date of Audit: 

RDFI 

ODFI 

Audit Committee:

Audit Manager:

ACH Manager:

Senior Officer:

Third-Party Provider: 

Verification of Audit
Audit Requirements for All Participating DFIs

Record Retention

Verify that a Record of each Entry is retained for six years from the date the Entry was Transmitted, except as otherwise expressly provided in these Rules. Verify that a printout or reproduction of the information relating to the Entry can be provided, if requested by the Participating DFI’s customer or any other Participating DFI or ACH Operator that originated, Transmitted, or received the Entry. (Article One, subsection 1.4)

1. Current NACHA Operating Rules require that financial institutions retain records of Entries for six years from the date the Entry is transmitted and that a printout or reproduction be able to be provided to the financial institution’s customer or any other financial institution or ACH Operator that originated, transmitted or received the Entry. DFIs are required to verify that they are retaining and are able to provide records of Entries in compliance with the Rules.

2. The Rules do not specify the media in which the Record must be kept. Therefore, a financial institution could choose among paper storage, microfiche, microfilm, optical storage, etc.

3. Although not required by the Rules, WesPay recommends retaining WSUDs and ACH stop payment requests for six years, in conjunction with other ACH records.

Audit Test and Documentation

✓ Verify that the appropriate records as listed in the Document Preparation section can be accessed in the medium in which they are archived.

✓ It is recommended that procedures be developed to ensure all ACH records, paper and electronic, be stored in a secure and access limited manner. It is also recommended that document destruction procedures include ACH records due to the Security Framework rule.
Sound Practices:

✓ For records maintained in physical form, ensure that storage location is secure, with limited access, security control, and in a fire-proof area.

✓ Consider a backup process to ensure redundancy in electronic records.

✓ If not present, recommend a written policy that all ACH transaction records (received files, originated files, returns, NOCs, etc.) will be maintained for six years from the settlement date of the transaction.

✓ Ensure that written policies and procedures address your institution’s data destruction policy—how and when you will securely destroy ACH transaction records, or other.

✓ For documents related to ACH processing.

✓ For documents requiring signatures that are stored electronically, the “written signature” requirements of the NACHA Operating Rules can be met by compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act).

✓ For electronic records requiring authentication, the authentication method must evidence both the signer’s identity and their assent to the terms of the record.

✓ Records can also be “similarly authenticated” using the same authentication methods currently prescribed for consumer debit authorizations—i.e., the record may be similarly authenticated via the internet through the use of a digital signature, PIN, password, shared secret, etc. or a hard copy record may be authenticated via the telephone by recording the consumer’s speaking or key entering a code identifying the signer.

✓ Keep any records related to Regulation E Error Resolution proceedings for a period of two years from the conclusion of the error investigation.

✓ Keep copies of all ACH authorization agreements for two years from the termination of the authorization.

✓ Keep originals of ODFI-Originator Service Agreements for five years from termination of the service agreement (in lines with guidelines for CIP compliance).

Note: ACH participants should be aware that other ACH participants may also utilize electronic methods to obtain and retain records of ACH documents. In such cases, the participants can expect to receive electronic versions, rather than hard copies, of documents that they request from other ACH participants.
Record Retention

Finding:

Action Items / Exceptions / Concerns

Auditor’s Notes / Test Procedure