

## **ACH Audit Guide**

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

Audit Year 2020

Price: \$399

Member Price: \$199

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Step-by-Step Guidance and Interactive Form  
for Internal ACH Audits

For Nacha Operating Rules Compliance  
Reflecting Latest Rules Changes Required for 2020 Audits

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PREVIEW

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## ACH Audit Workbook Overview

WesPay Advisors has produced this workbook to guide financial institutions through the process of conducting an annual audit required by the Nacha Operating Rules.

### How do I use this document?

The Nacha Operating Rules do not define procedures to complete the audit. This guide 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 guide automatically generates a management report providing a summary of the findings of your audit that can be submitted to management for review.

### Components:

**Introduction and General Guidelines:** This section provides a simple outline of best practices for conducting your ACH Audit. This can also be used as a guide to prepare materials for when an independent auditor or for your audit department conducts 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



Checklists of items you may want to verify to complete the audit

**Audit Workbook:** For each area of rules compliance to be verified, WesPay Advisors provides the following tools for you to conduct your audit, each identified with a unique icon:



1. Summary of rules requirement.



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. (e.g., dates covered, documents or policies reviewed, etc.)

5. Action Items and 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. The concepts discussed are thoughts developed by WesPay Advisors regarding particular approaches to auditing for specific functions but are not audit requirements.



7. Recommendations for test procedure and documentation.



8. Sound Practices.

**Management Report:** This guide 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.

## Getting Started

This workbook will guide you through each step of the audit process and provide fields to enter the essential data as you go along.



### Separation of Duties

In order to provide an independent audit opinion, WesPay Advisors recommends your organization take steps to ensure the ACH Audit is conducted by staff that are not responsible for ACH functions.

### Audit Focal Period

WesPay Advisors recommends establishing a focal period for the audit and selecting sample entries from that period to test for compliance with the rules. The focal period selected is at the auditor's discretion and should be based on the size and complexity of the organization's ACH processes. Organizations may need to establish different focal periods to test for compliance with different rules given that some scenarios or transaction types are rarer than others.



**Sound Practice:** WesPay Advisors' approach is to select a three-month focal period, a focal month, and two focal weeks to use for testing. In most cases, there are enough transactions in the two-week focal period to select a representative sample for testing. In cases where a larger sample is needed, that sample can be selected from the focal month or longer focal period if needed.



### Define your ACH Audit time frames or focal period here::

Target three-month period:

Focal month:

Focal weeks:



## Document Preparation

WesPay Advisors recommends preparing copies of the following documents for the audit process:



### Prior Year Audit Documentation

- ✓ The most recent prior audit and if applicable the written status/resolution of any findings from that audit

### Policies, Procedures and Agreements

- ✓ ACH receipt and origination policies
- ✓ ACH receipt and origination procedures, including those for processing exceptions, (returns, NOCs, stop payments, disputed and returned entries, 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
- ✓ Checking and savings accounts disclosures/terms and conditions for both businesses and consumers

### Records and Retention

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:

- ✓ All entries received for the day
- ✓ All entries originated for the day
- ✓ All unposted entries relating to the received entries above
- ✓ All outgoing returns relating to the received entries above

Viewing of the above reports electronically is acceptable, as long as your organization can also provide a hardcopy reproduction.



### **Data Security Between Parties Exchanging ACH Information**

Documentation of the security in place to protect the exchange of ACH and ACH-related information between your organization and all other relevant parties (e.g., originators, receiving account holders, ACH Operator, service providers, etc.). Certification of encryption from your IT area and/or outside processor(s) may also suffice.

### **Incoming Prenotes and Outgoing Notifications of Change (NOCs)**

Reports that demonstrate the processing of prenotes and NOCs for the focal weeks.

### **Outgoing Returns**

Documentation that supports the processing of outgoing returns of received entries for the focal weeks. These reports must include the settlement date of the received entry and the subsequent return.

- ✓ For each extended return (i.e., disputed entry) provide the associated Written Statement of Unauthorized Debit

### **Stop Payments**

Documentation that demonstrates processing of outgoing returns of stopped payments for the focal weeks. These may be the same reports as for outgoing returns cited above. If applicable, the stop payment requests associated with each entry returned stop payment.

### **Posting of Entries**

Received entry reports and reports and/or screenshots showing the time at which received credits and debits are posted to receivers' accounts.

### **Payment-Related Information for Business Receivers**

If any businesses have requested payment-related information for payments they have received (e.g., CCD, CTX, or IAT entries), have evidence of compliance in providing the appropriate information timely.

### **Receiver Statements**

Reports showing at least one entry using each of the standard entry class (SEC) codes below and the receiver statement that displays the entry:

- ✓ ARC, BOC, CCD, CIE, CTX, IAT, MTE, POP, POS, PPD, RCK (rare), SHR, TEL, WEB (credit and debit), and XCK

If any of the SEC codes cannot be found in your defined focal period, you may need to expand your search to find some of the more rarely used SEC codes, and you may discover that some were not received by your organization.

### **Uniform Commercial Code 4A (UCC4A) Disclosures**

Evidence available regarding applicable UCC4A disclosures. This is typically provided via the account agreement but may also be done through a separate notice.

### **Processing of Government Entries**

Procedures and transaction records demonstrating the handling receipt of Federal Government death notification entries and general processing of Federal Government reclamations.



## Origination Documentation

Review the following items and be prepared to discuss any that may apply to your organization. Organizations only performing internal origination should be focusing on their authorization process, procedures, and documentation at minimum.



**Note:** RDFIs that don't support business origination may still have ODFI related activities to audit. Common ODFI related activities include account transfers (i.e., account-to-account or person-to-person transfers), using ACH for loan debits or for funding newly opened accounts.



### Origination and Agreements

Obtain a list of all parties for whom you originate ACH entries and select a representative sample of originators and/or third-party senders for testing. For each originator or third-party sender selected, obtain a copy of the signed origination agreement.

### 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

Policies or procedures used during the onboarding of new business originators or third-party senders to verify their identity when approving them for origination services.

### Uniform Commercial Code 4A (UCC4A) Disclosures

Evidence regarding applicable UCC4A disclosures for business originators. This is typically provided via the origination agreement but may also be done through a separate notice.

### Exposure Limits

Policies and/or procedures that document steps to establish, enforce, and periodically review exposure limits for your all business originators and third-party senders.

### ODFI Handling of Returns

The following reports for the focal weeks, focal month, and/or focal period:

- ✓ Report of incoming returns and their disposition, including contested/corrected returns
- ✓ Report to originators/third-party senders communicating information regarding received returns
- ✓ Report showing outgoing dishonored returns and the associated incoming return

### Notifications of Change (NOCs) Received for Originators

Reports demonstrating the following:

- ✓ Required information is provided from received NOCs to originators/third-party senders
- ✓ NOCs related to CIE or WEB credit entries and their processing



### **Permissible Return Entries**

Procedures for requesting a return from an RDFI (i.e., a R06 return requests) and requests from an RDFI to transmit a late return.

### **Proof of Authorization Requests**

Any requests for proof of authorization received in the focal period. If there were none, policies or procedures documenting steps to process such requests can be tested.

### **Additional Documentation**

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

- ✓ The Green Book - Bureau of the Fiscal Service
- ✓ Federal Reserve Board's Regulations E, D and CC
- ✓ Risk management policies and procedures
- ✓ Data security policies and processing contingency plans
- ✓ State and federal EFT regulations
- ✓ Regulatory agency bulletins (e.g. OCC 2006-39)
- ✓ Federal Reserve ACH Operating Circular (OC-4)
- ✓ Uniform Commercial Code Article 4

### **Additional key areas to consider including in your audit:**

- ✓ OFAC related procedures and compliance with all associated regulations, as both an ODFI (if applicable) and RDFI
- ✓ Adequate inclusion of ACH within your organization's business continuity planning
- ✓ Risk management policies and procedures as an ODFI (if applicable) and RDFI
- ✓ Documented ACH training and continuing education processes for relevant personnel
- ✓ Management control of key processes where account numbers can be compromised (e.g., posting of exceptions, originating NOCs, etc.)

### General Audit Information



Institution Name:

RTN:

Date of Audit:

RDFI

ODFI

Audit Committee:

Audit Manager:

ACH Manager:

Senior Officer:

Third-Party Provider(s):

Verification of Audit

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## 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, Section 1.4)



1. 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, both physical and electronic media are compliant including paper storage, microfiche, cloud, optical storage, etc.
3. Although not required by the rules, WesPay Advisors recommends retaining Written Statement of Unauthorized Debit (WSUD) 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.

**Sound Practices:**

- ✓ For records maintained in physical form, ensure the storage location is secure, with limited access and security controls, and in a fireproof area.
- ✓ If not present, recommend a written policy that all ACH entry records (e.g., received files, originated files, returns, NOCs, etc.) will be maintained for a minimum of six years from the settlement date of the entry.
- ✓ Ensure written policies and procedures address your institution's data destruction policy, including how and when you will securely destroy ACH entry records, or other 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. 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 minimum of two years from the conclusion of the error investigation.
- ✓ Keep copies of all ACH authorization agreements for a minimum of two years from the termination of the authorization.
- ✓ Keep originals of all business, third-party sender, and/or third-party service provider origination agreements for a minimum of five years from termination of the service agreement.



**Record Retention**

Finding:

Action Items / Exceptions / Concerns

PREVIEW

Auditor's Notes / Test Procedure