

# ACH Audit Guide for Third-Party Senders

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

Audit Year 2021

Price: \$250

Member Price: \$125

(Publication #505-21)

**Publications**

**ACH Audit Guide for Third-Party Senders**

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

For Nacha Operating Rules Compliance  
Reflecting Latest Rules Changes Required for 2021 Audits

Price: \$250

Member Price: \$125

(505-20) Revised: 01/2021

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# ACH Audit Workbook Overview

Wespay has produced this workbook to assist Third-Party Senders in complying with annual audits required by the Nacha Operating Rules.

## What is a Third-Party Sender?

The Nacha Operating Rules define a Third-Party Sender as, "a type of Third-Party Service Provider that acts as an intermediary in Transmitting Entries between an Originator and an Originating Depository Financial Institution (ODFI), including through Direct Access, and acts on behalf of an Originator or another Third-Party Sender. A Third-Party Sender must have an Origination Agreement with the ODFI of the Entry. A Third-Party Sender is never the Originator for Entries it Transmits on behalf of another Organization. However, a Third-Party Sender of Entries may also be an Originator of other Entries in its own right." If you have questions about whether your organization falls under this definition, please contact Wespay.

## 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 audit or 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 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. (**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.



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

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

Wespay 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's 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.



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

Target three-month period:

Focal month:

Focal weeks:





## Document Preparation

Wespay suggests 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 Policy
- ✓ ACH Procedures
- ✓ 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.

### Records and Retention

In order to test record retention required per the Nacha Operating Rules, Wespay suggests 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 return entries received
- ✓ All Notification of Change entries received
- ✓ All originated entries

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 weeks which will be used for additional portions of the audit.

### 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 (e.g., originators, ACH Operator, service providers, etc.) relative to meeting the minimum security and 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 regarding such media.



## Origination Documentation

### 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.

### Verification of Originator or Third-Party Sender Identity

The Third-Party Sender must demonstrate that it uses a "commercially reasonable" method to verify the identity of its customers (i.e., Originators) at the time it enters into an origination agreement with that customer. This can be done by reviewing your organization's policies and procedures used during the onboarding process.

### Exposure Limits

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

### Handling of Returns

The following reports for the target weeks, target month, or target period should be provided:

- ✓ Report of incoming returns and their disposition, including contested/corrected returns
- ✓ Report to originators corresponding to the above reports
- ✓ Report showing outgoing dishonored returns and the associated incoming return report

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

Provide all NOCs received within the focal weeks, month, or period demonstrating how you provide information from NOCs to your originators.

### Returns Received for Originators

Provide all received returns from the focal weeks, month, or period demonstrating how information from returns is provided to your originators.

### Requests for Authorization

Have evidence of your processes should you ever receive any requests from your ODFI banking partner(s) to provide copies of authorizations of entries you, or your originators, have originated. Be prepared to provide all samples of correspondence that may have occurred during the focal weeks, month, or period. If no such requests have been made, 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:

- ✓ Local ACH Association Rules
- ✓ Risk management policies and procedures
- ✓ Data security policies and processing contingency plans
- ✓ State and federal EFT regulations
- ✓ Uniform Commercial Code Article 4A

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### General Audit Information



Institution Name:

Date of Audit:

Audit Committee:

Audit Manager:

ACH Manager:

Senior Officer:

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## General Audit Requirements

### 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 participants in the ACH Network 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. Participants 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. Your ODFI(s) may maintain these records on your behalf for the full retention period, be sure to test that they are accessible should a request be received.



### 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., 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 organization'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 (i.e., 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 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

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Auditor's Notes / Test Procedure