KNOWLEDGE = POWER

Preparing for your RDFI Audit

Presented by:

Macha/PAR - Everything Payments - Everywhere

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AUDIT

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ACH Audit Requirement

All participating DFIs must conduct an audit of their compliance with the ACH Rules
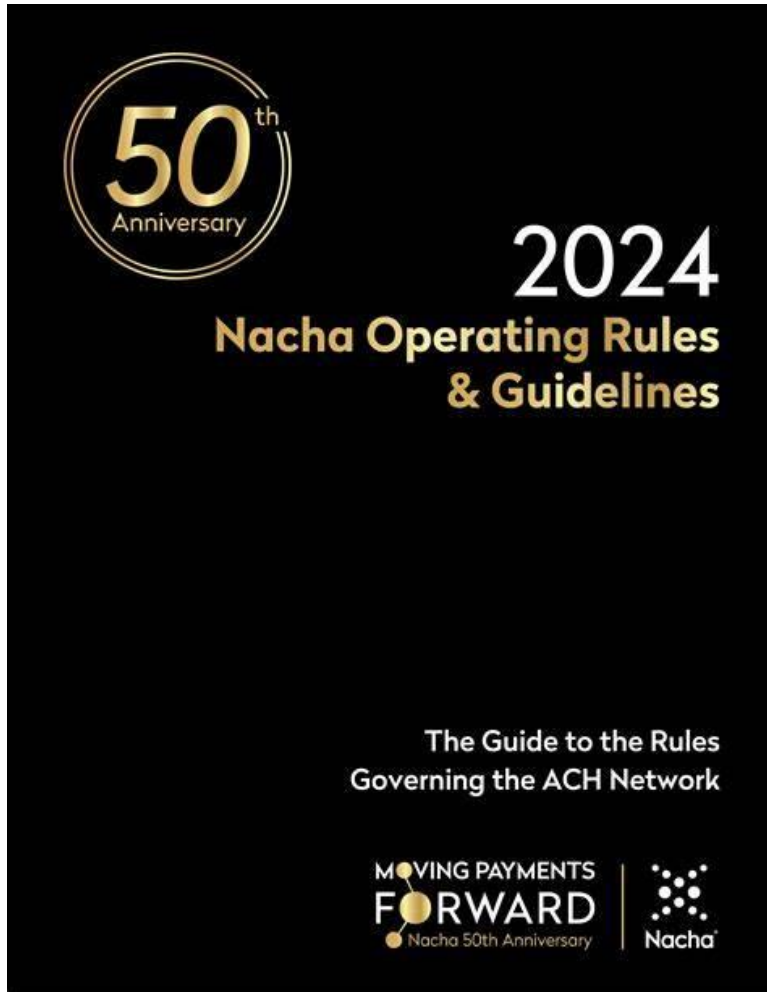
Participating DFIs must retain proof of completion for six (6) years

Nacha may request proof of completion of an audit, at any time

DFI will have ten (10) banking days to provide documentation

Failure of a Participating DFI to provide proof of completion of an audit may be considered a Class 2 Rules Violation

- 2024 Nacha Operating Rules & Guidelines
- Section VI-Special Topics
- Chapter 56 Rules Compliance Audits

What?

Nacha Operating Rules	31 Code of Federal Regulation 210	Uniform Commercial Code 4A	OFAC (Office of Foreign Assets Control)
FFIEC Examination Handbook-Retail Payment Systems	Regulation E	BSA/AML	The Green Book

When?

The Rules Compliance Audit must be conducted by December 31 of each calendar year

Why?

REQUIREMENT OF THE NACHA RULES

AVOID FINES

IMPROVE OPERATIONAL EFFICIENCIES AND LOWER PROCESSING COSTS

ENHANCE ACH QUALITY AND CUSTOMER SATISFACTION

MANAGE RISK AND MINIMIZE LOSS

How?

- ▶ The Rules do not prescribe a specific methodology

- ▶ RDFIs should rely on guidance from their auditors for specific auditing practices and procedures
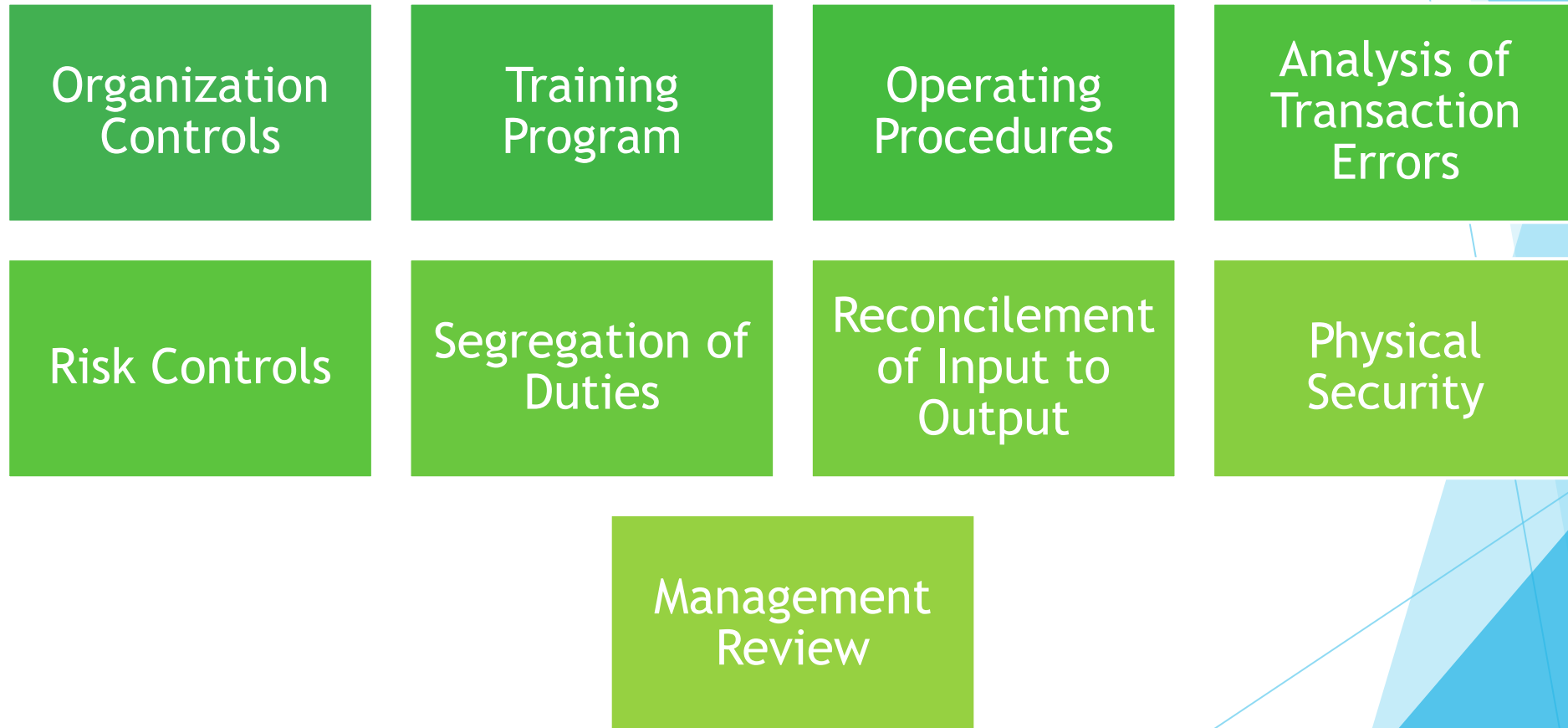
Audit Methods

Interview Personnel

Sampling

- Random data samples
- May wish to cluster transactions by common characteristics before selecting samples so that you are certain to address all audit requirements

Testing

- Follow transactions
- Follow procedures

Internal Controls

Organization Controls	Training Program	Operating Procedures	Analysis of Transaction Errors
Risk Controls	Segregation of Duties	Reconcilement of Input to Output	Physical Security
	Management Review		

ACH Audit Checklist

❑ Account Disclosures

❑ ACH Policies

    ❑ Receipt

    ❑ OFAC

❑ Written Procedures

    ❑ Do procedures accurately reflect your policies?

❑ Organizational Chart of Chain of Command for ACH Department

❑ Number of Employees involved in processing ACH

    ❑ Dual control

ACH Audit Checklist

- ❑ Core Processing System/Internal Software updates

- ❑ Balancing reports and daily statements

- ❑ Rules violations

- ❑ Mergers or Acquisitions

- ❑ ACH Operator (FRB or EPN)

- ❑ Operator Advice

- ❑ Third-party processor

ACH Audit Checklist

❑ ACH Returns

❑ Staff training

    ❑ AAP

    ❑ APRP

❑ Physical access controls and passwords

❑ Contingency/Disaster Recovery Plans

❑ Record Retention

Audit Verification

▶ *Reference: Article One, Subsection 1.2.2*

  ▶ Verify that an audit was completed in the previous year

  ▶ Verify that issues raised during the previous audit were corrected

  ▶ Audit reviewed by board of directors?
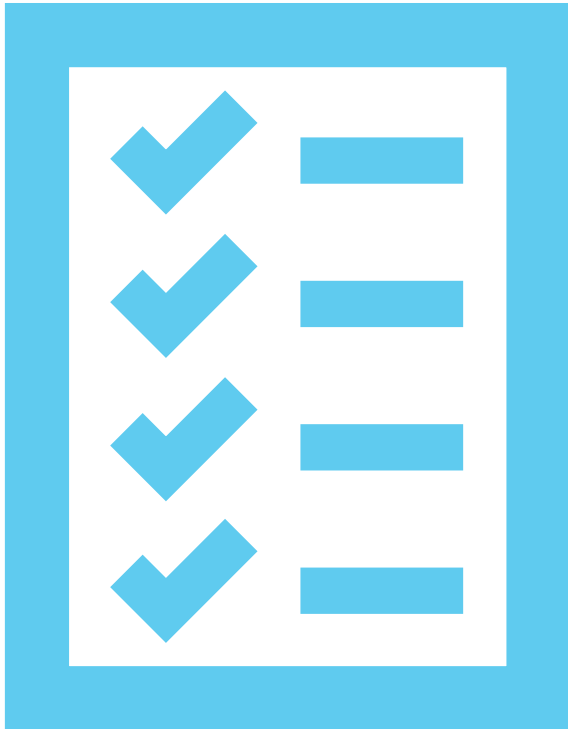
RDFI Rules Compliance
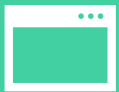
Acceptance and Handling of Entries

Reference: Article Three, Subsection 3.1.1

Does the RDFI accept all types of entries that comply with the Rules?

Verification of Account Numbers in Prenotifications

Reference: Article Three, Section 3.5

Does the RDFI verify the account number contained in a Prenote entry is for a valid account?

If not valid, or otherwise erroneous, does the RDFI transmit either a Return or a Notification of Change?

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Posting of Entries and Funds Availability

▶ *Reference: Article Three, Subsection 3.3.1*

▶ Does the RDFI –

  ▶ make credit entries available to Receivers as required by the Rules?

    ▶ All credit entries made available to the RDFI by 5:00 p.m. the banking day prior to settlement date, are available to the Receiver for withdrawal no later than 9 AM RDFI local time on the settlement date

  ▶ post debit entries no earlier than the Settlement Date?

Transmission Deadline	Target Distribution	Settlement Schedule	Funds Availability Requirement
10:30 a.m. ET	12:00 p.m. ET	1:00 p.m. ET	1:30 p.m. local time
2:45 p.m. ET	4:00 p.m. ET	5:00 p.m. ET	5:00 p.m. local time
4:45 p.m. ET	5:30 p.m. ET	6:00 p.m. ET	End of processing day

Funds Availability

RDFI Obligation to Provide Entry Information to Receivers

▶ *Reference: Article Three, Subsection 3.1.5.1 – 3.1.5.2*

▶ Does the RDFI –

  ▶ provide or make available to the consumer Receiver required information concerning credit and debit entries to the Receiver's account?

  ▶ Provide or make available to the non-consumer Receiver the contents of the Check Serial Number Field for ARC, BOC, and POP entries to the Receiver's non-consumer account?

Account Statements

▶ RDFI must send or make available to each account holder a monthly statement with the following:

  ▶ Posting date of entry

  ▶ Dollar amount of entry

  ▶ Company Name (Individual name for WEB credits)

  ▶ Company Entry Description

  ▶ Terminal ID, Location, City, State (POP, POS, MTE and SHR)

  ▶ Check Serial Number (ARC, BOC, POP, RCK and XCK)

Return Processing

- *Reference: Article Three, Section 3.8, Subsection 3.8.3.3,and Subsection 3.13.1*

- Does the RDFI –

  - transmit Return entries to its ACH Operator by the ACH Operator's deposit deadline?

  - transmit RCK entries to the ACH Operator by midnight of the RDFI's second Banking Day following the Banking Day of the receipt of the RCK entry?

  - transmit Extended Return entries to its ACH Operator by the ACH Operator's deposit deadline for Extended Return Entries?

Return Processing

▶ *Reference: Article Three, Subsection 3.8.3.2*

▶ Does the RDFI return any credit entry that has been declined by a Receiver within two banking days following receipt of notification from the Receiver?

Return Processing

▶ *Reference: Article Three, Subsection 3.8.3.5*

▶ Verify that permissible return entries (i.e., the late return of unauthorized debit entries to non-Consumer Accounts) are transmitted with the permission of the ODFI and utilize the appropriate Return Reason Code

Return Processing

▶ *Reference: Article Three, Subsection 3.8.5*

▶ Does the RDFI handle dishonored Return entries appropriately?

▶ Does the RDFI initiate contested dishonored Return entries and/or corrected Return entries in a timely manner?

Stop Payments

- *Reference: Article Three, Subsection 3.7.1.1*

- Does the RDFI –

    - act appropriately upon receipt of a stop payment order?

        - Recurring payments – three Banking Days before scheduled date of debit

        - Single or non-consumer payments – reasonable opportunity to act

Stop Payments

▶ *Reference: Article Three, Subsection 3.13.1*

▶ Does the RDFI –

  ▶ Use appropriate return reason codes?

  ▶ Transmit each return entry timely?

Written Statements of Unauthorized Debits

▶ *Reference: Article Three, Subsection 3.11.1, Subsection 3.12 and Subsection 3.12.6*

▶ Does the RDFI –

   ▶ Obtain Written Statements of Unauthorized Debit from consumers for Returns completed using R05, R07, R10, R11, R37, R51 and R53?

   ▶ Provide copies of Written Statements of Unauthorized Debit to ODFIs within the required time frame, upon written request?

WSUD Requirements

Receiver's printed name and signature

Receiver's account number

Amount of Entry

Party debiting the account or the name of the intended payee

Posting date of the entry

Reason for return

Signature date

Receiver's assertion that the Written Statement is true and correct

Receiver's assertion that the Receiver is an authorized signer or has authority to act on the account

Consumer Return Reason Codes Requiring a WSUD

R10 - Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account

R11 - Customer Advises Entry not in Accordance with the Terms of the Authorization

R05 – Unauthorized Debit to Consumer Account Using Corporate SEC Code

R07 – Authorization Revoked by Customer

Consumer Return Reason Codes Requiring a WSUD

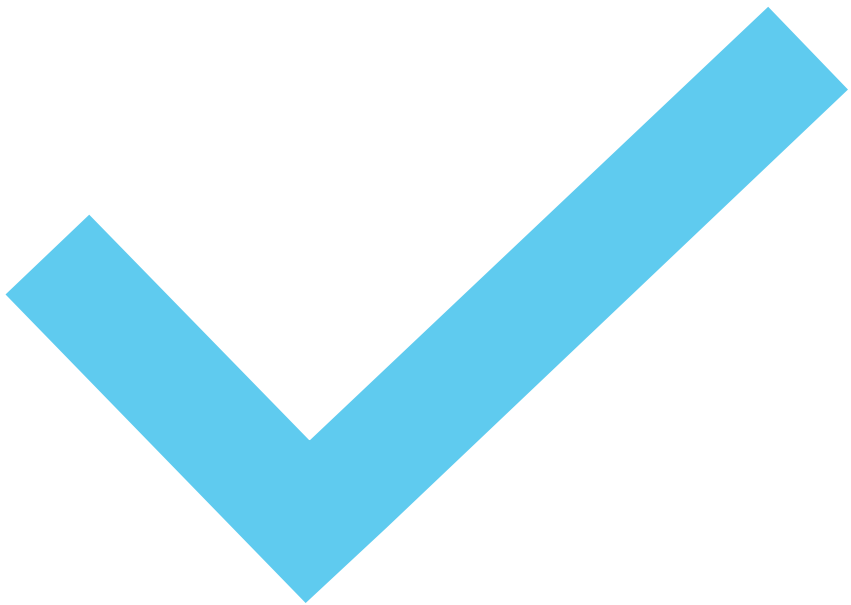R37 – Source Document Presented for Payment

R51 – Item Related to RCK Entry is Ineligible or RCK Entry is Improper

R53 – Item and RCK Entry Presented for Payment
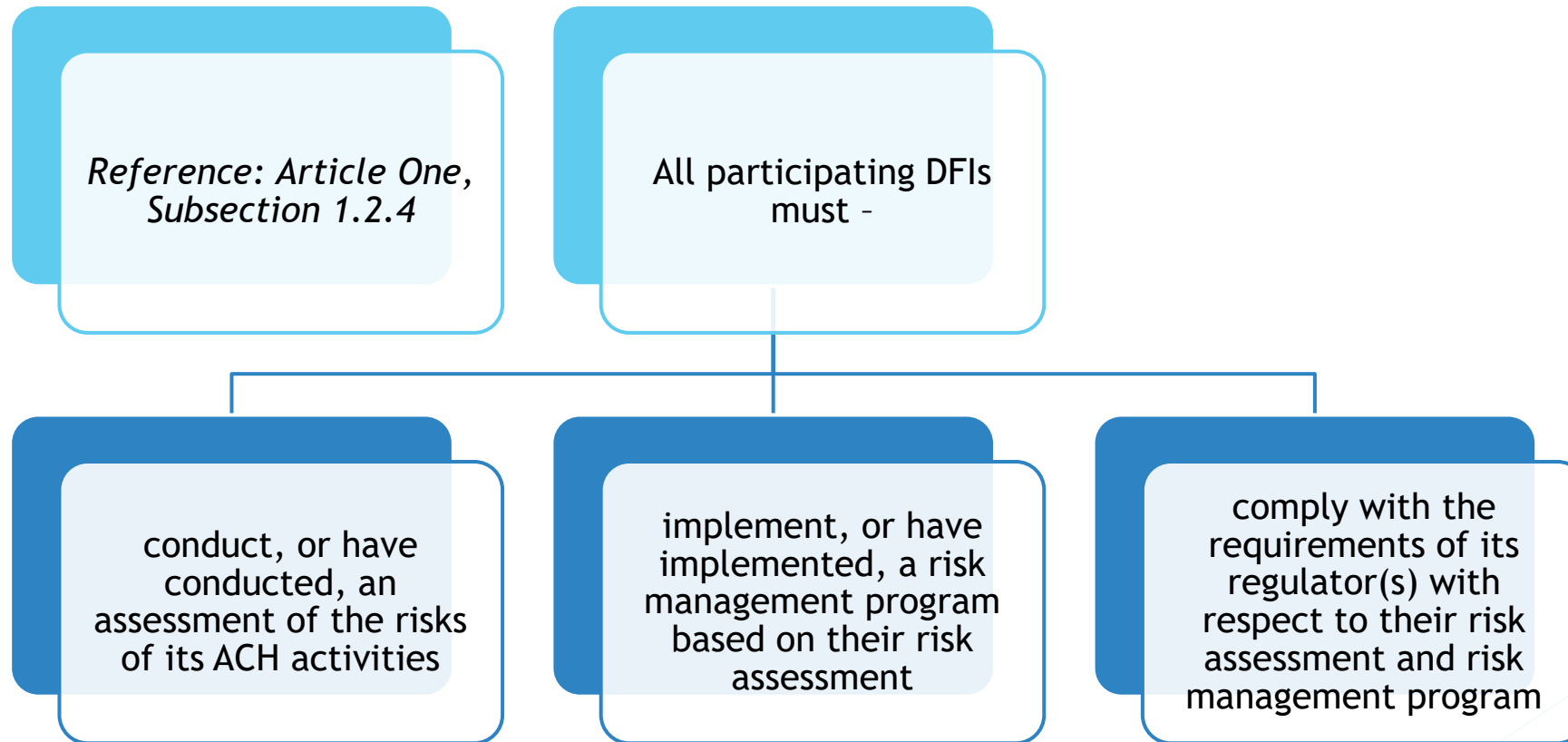
Notifications of Change

Reference: Article Three, Subsection 3.9.1

Does the RDFI initiate Notification of Change within two banking days of the settlement date of the entry to which the NOC relates?
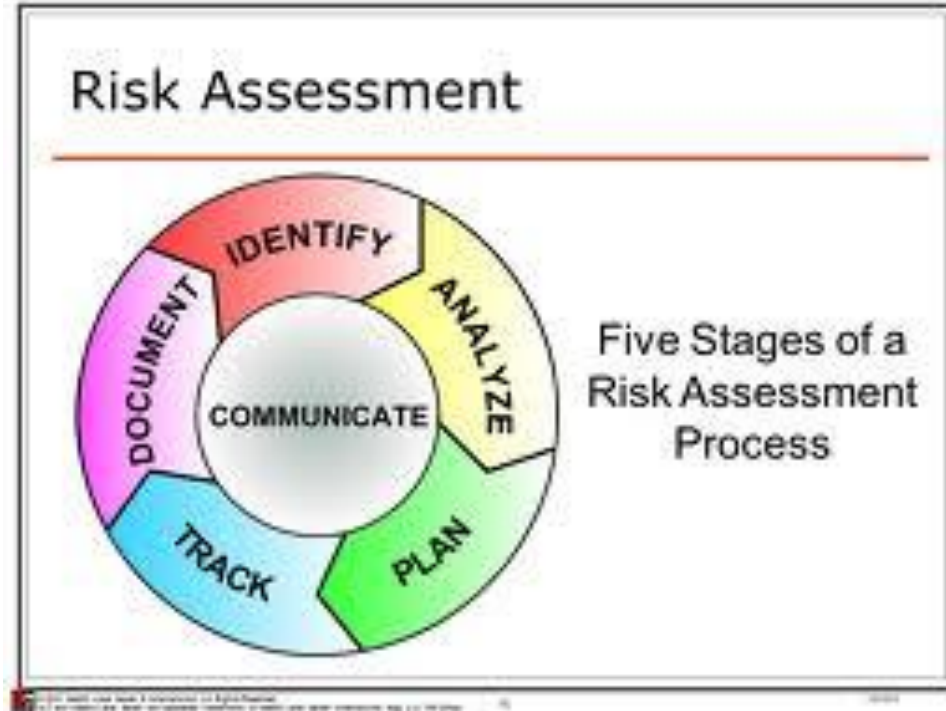
Other Considerations

ACH Risk Assessment

Reference: Article One, Subsection 1.2.4

All participating DFIs must –

- conduct, or have conducted, an assessment of the risks of its ACH activities

- implement, or have implemented, a risk management program based on their risk assessment

- comply with the requirements of its regulator(s) with respect to their risk assessment and risk management program

ACH Risk Assessment

▶ Have your risk assessment and risk management program been reviewed by your board?

▶ How often do you re-assess?

▶ Have all identified areas of risk been addressed?

Risk Assessment

Five Stages of a Risk Assessment Process

IDENTIFY, ANALYZE, PLAN, TRACK, DOCUMENT, COMMUNICATE

Data Security

- *Reference: Article One, Section 1.6*

- Each non-consumer Originator, participating DFI, Third-Party Service Provider and Third-Party Sender must establish, implement and update security policies, procedures and systems.

- These policies, procedures and systems must:

  - protect the confidentiality and integrity of Protected Information

  - protect against anticipated threats or hazards to security or integrity of Protected Information

  - protect against unauthorized use of Protect Information that could result in substantial harm to a natural person

- Large volume, non-FI Originators must protect DFI account numbers by rendering them unreadable when stored electronically.

Data Security

- *Reference: Article One, Section 1.7*
- Banking information related to an entry transmitted via an unsecured electronic network must use Commercially Reasonable level Encryption

Network Administration Fees

- *Reference: Article One, Section 1.13*
- Has the financial institution paid all annual and per-entry fees to the National Association?
- The Schedule of Fees is part of the Rules and is established by the Board of Directors of the National Association

International ACH Transactions (IAT)

- ▶ How do you identify International ACH Transaction (IAT) entries upon receipt?

- ▶ Are all the fields within each IAT entry and all corresponding addenda records verified for OFAC Compliance?

- ▶ Are all fields with each IAT return entry and all corresponding addenda records verified for OFAC compliance?

- ▶ Do you have procedures to follow if you have a match?

- ▶ Do you post prior to scrubbing?

Regulation E – Error Resolution

- Regulation E provides rules that protect consumers regarding errors in electronic transactions.

- If a consumer claims that an error has occurred, the financial institution is required to take action by:

  - INVESTIGATING the error

  - Providing a RESOLUTION to the consumer

  - COMMUNICATING the resolution to the consumer

Regulation E – Error Resolution Log

- ▶ Resolution process for each error should be logged

- ▶ ACH Unauthorized/Improper returns should be logged
  - ▶ Written Statement of Unauthorized Debit (WSUD)

- ▶ Notice of Final Credit for those transactions requiring a WSUD

Federal Government Payments

- Do you have written procedures for steps to be taken upon learning of the death of an account holder?

- Verify appropriate use of R14 (Death of Rep Payee) and R15 (Death of Beneficiary or Account Holder)

- Have branch and operations employees been trained on the Green Book?

Questions
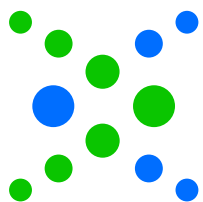
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Preparing for your RDFI Audit

September 5, 2024

This session is worth 1.8 credits

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