

Understanding your ACH Procedures and Audit Requirements for RDFI's

Best Practice Procedures for Managing and Auditing ACH Exceptions

ACH Processing and Auditing Procedures

Introduction

This document was designed to help you pass your ACH audit with flying colors. It was designed to serve as a best practice outline for documenting your internal procedures for completing your daily ACH work and verifications. Of utmost importance, this document will give your staff the knowledge base for answering third party audit requirements and will provide a reference to the reports and processes on the CU*BASE system .

This document follows each of the audit requirements as presented in Appendix 8 of the NACHA Operating Rules and Guidelines (the Rule Book). These requirements are exact regardless of who is performing your audit and are generally listed in the same order. Section 8.3 is the part of the appendix referring to the audit requirements of Receiving Depository Financial Institutions (RDFI's). Each section of this document has two steps beginning with the requirement found in the Rule Book, followed by the procedures and reports to use to prove you are completing the requirement correctly as well as the verification method you can use or instruct the ACH auditor to follow.

What should I do with this book if I am a CEO or CFO? It is recommended that you incorporate the procedures into your daily ACH tasks and internal audit procedures. From there, give this document to the individual who works with your third party auditor and give them the reference knowledge to answer the questions with confidence and certainty.

8.3A-B Pre-Notifications & Notifications of Change

Requirement

Verify that the account number contained in a Pre-notification Entry is for a valid account. If the Pre-notification does not contain a valid account number, or is otherwise erroneous or unable to be processed, verify that the RDFI Transmits either (a) a Return Entry, or (b) a Notification of Change.

Verify that, if the RDFI chooses to initiate Notifications of Change, such COR Entries are Transmitted within two Banking Days of the Settlement Date of the Entry to which the Notification of Change relates, with the exception of Notifications of Change due to merger, acquisition, or other similar events.

Procedures/Verification

Conduct a daily review of the pre-notification records that appear in the ACH Exceptions, located on MNACHP #4. A notification of change (NOC) record is created and sent back to the originator with the account number correction. If the account number is not found, a return record is created and sent back to the originator. All pre-notifications listed on the ACH Exceptions list must be processed within two banking days of the settlement date. So depending on when the credit union chooses to work their exceptions, make sure that the NOC's are being processed by the data processor's deadline (2:30 PM ET for CU*Answers clients and 11 AM PT for CU*Northwest clients) by the second banking day.

The credit union can verify that these records are being created timely and accurately by reviewing the PACHFD – ACH Fed Line Report located in CU*Spy. This report lists the detail of the notice of change and return records. To verify that these entries are being transmitted within two banking days of the settlement date of the entry, you can compare the “Effective Entry Date” in the record detail to the “Processed Date” in the report heading.

8.3C ACH Entries Accepted

Requirement

Verify that, subject to the RDFI's right of return, all types of Entries that comply with these Rules and are received with respect to an account maintained with the RDFI are accepted. Verify that the RDFI handles XCK Entries and Entries to non-transaction accounts appropriately.

Procedures/Verification

Your data processor does allow for all types of ACH entries to be accepted. The credit union can verify that these entry types are coming through the data processor's system by scanning multiple PACXTB Reports, which are located in CU*Spy, for all the Standard Entry

Class (SEC) Codes like XCK, PPD, WEB, etc. *See Appendix Three of the Rule Book for details on the SEC codes.

The credit union should also verify that CCD and CTX debit entries are being posted to corporate accounts. If they are posting to consumer accounts, verify that they are being returned with the reason code R05-Unauthorized debit to consumer account using corporate SEC code.

All ACH transactions with an IAT SEC code will reject to the ACH Exceptions so that an OFAC scan can be manually performed on these transactions. If the scan comes back as passed, the transaction will be posted and a tracker will be created for each of the required scans. If the transaction does not pass the OFAC scan, it will inform you of a possible hit and your credit union's BSA/Compliance officer should be notified for further instruction.

The Member Audit Trackers can be printed from MNTRAK #21 for proof that the OFAC scans were completed.

8.3D Funds Availability

Requirement

Verify that, subject to the RDFI's right of return, the amount of each credit Entry received from its ACH Operator is made available to the Receiver for withdrawal no later than the Settlement Date of the Entry. In the case of a credit PPD Entry that is made available to the RDFI by its ACH Operator by 5:00 p.m. (RDFI's local time) on the Banking Day prior to the Settlement Date, verify that the amount is made available to the Receiver for withdrawal at the opening of business on the Settlement Date. Verify that debit Entries are not posted prior to the Settlement Date, even if the Effective Date of the Entry is different from the Settlement Date of the Entry.

Procedures/Verification

The data processor posts the ACH files prior to opening of business on Settlement Date. The credit union will work their ACH exceptions, but there is an exception to the "posting by open of business" rule. Exceptions have to be made available on Settlement day by working the ACH exceptions, located in MNACHP #4.

To verify the time that the ACH files were posted by the data processor each day, the credit union can view the date and time that the "ACH Posting Credits" and "ACH Posting Debits" are performed by using Smart Operator located in MNGELE option #9.

Note: Times are listed in military time, simply subtract 12 from any time greater than 12:59. For example, 14:00 would be 2:00 PM.

8.3E Descriptive Information

Requirement

For Consumer Accounts, verify that the RDFI provides or makes available to each of its Receivers required information concerning each credit and debit Entry to a Consumer Account of such Receiver.

For non-Consumer Accounts, verify that the RDFI provides or makes available to the Receiver the contents of the Check Serial Number Field of an ARC, BOC, or POP Entry.

Procedures/Verification

Both the primary and secondary descriptions must be made available to the member. The "Post" function, when working the ACH exceptions list, writes out the primary and secondary descriptions needed for these entries for the members' statements. For any item that needs to be manually posted by running an adjustment as opposed to using the post function (ex. An entry to bring an account negative), additional space to fit the total description is available by using MNUPDA option #16.

To verify that the transaction descriptions are writing out to members' statements correctly, the credit union can look for transactions on the PACXTB Report and then match this information to members' statement. For example, for an ARC entry, you would look for a check number to appear in the description on the members' statement; for a POP entry, you would look for the city and state to be in the description.

8.3F - G Return Entries for all Entries including RCK

Requirement

Verify that the RDFI Transmits Return Entries to its ACH Operator by the ACH Operator's deposit deadline for the Return Entries to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry, except as otherwise provided in these Rules.

Verify that late returns of unauthorized CCD or CTX Entries are transmitted with the agreement of the ODFI and that such Entries utilize the appropriate Return Reason Code.

Verify that dishonored Return Entries received by the RDFI are handled appropriately, and that contested dishonored Return Entries and corrected Return Entries are initiated in a timely manner.

Verify that Return Entries relating to RCK Entries are transmitted to the RDFI's ACH Operator by midnight of the RDFI's second Banking Day following the Banking Day of the receipt of the RCK Entry.

Procedures/Verification

The daily ACH exceptions, located in MNACHP #4, contain both rejected and return entries. Once the exceptions have been worked, any of the items that are to be returned are done so by using the return feature available.

Return entries must be processed within two banking days of the settlement date. So depending on when the credit union chooses to work their exceptions, make sure that the returns are being processed by the data processor's deadline (2:30 PM ET for CU*Answers clients and 11 AM PT for CU*Northwest clients) by the second banking day.

The credit union can verify that the return entries are processed in a timely manner by reviewing the detail on the PACHFD- ACH Fed Line Report available in CU*Spy and comparing the Effective Entry Date in the record detail to the Processed Date in the report heading.

The credit union can use CU*Spy to scan multiple PACHFD Reports to locate the specific SEC codes CCD and CTX to verify that these corporate payments are returned appropriately and timely.

Dishonored ACH returns can be located in the PACHD2 report in CU*Spy.

RCK return entries are processed in the same manner and timeframe as any other consumer based ACH transaction. The credit union can verify that the RCK return entries are being processed timely and with proper return codes by reviewing the detail on the PACHFD - ACH Fed Line Report located in CU*Spy and comparing the Effective Entry Date in the record detail to the Processed Date in the report heading.

8.3H Return Credit Entry

Requirement

Verify that the RDFI returns any credit Entry that is returned to it by a Receiver by Transmitting a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of the Entry from its Receiver. Also verify that the RDFI returns all credit Entries that are not credited or otherwise made available to its Receivers' accounts by Transmitting a Return Entry to its ACH Operator by the ACH Operator's deposit deadline for the Return Entry to be made available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry.

Procedures/Verification

If a credit entry is on the ACH exceptions list and needs to be returned (ex. A credit entry to a closed account or a US Treasury payment to a deceased member), it would be processed in the same manner as the debit returns mentioned in the previous section.

If a manual credit return needs to be created (ex. a credit was misrouted to a receiver erroneously or a business member is refusing acceptance of a credit payment) this return would be created using the Add Return function located in MNACHP #4.

If your data processor is CU*Answers, the returns are submitted daily at 2:30 PM ET, and if your data processor is CU*Northwest, the returns are submitted daily at 11:00 AM PT.

The credit union can verify that the credit entry returns are being processed timely by reviewing the detail on the PACHFD - ACH Fed Line Report in CU*Spy and comparing the Effective Entry Date in the record detail to the Processed Date in the report heading.

The credit union can use CU*Spy to locate credit returns by entering “demand credit” and “savings credit” in the search field to scan multiple PACHFD Reports in a date range to locate the reports that have returned credit entries. To verify if there were any R23 (credit entry refused by receiver) returns, use the same search method and search for “R23”.

8.3I Stop Payment on Consumer Entries

Requirement

Verify that the RDFI honors stop payment orders provided by Receivers, either verbally or in writing, to the RDFI at least three Banking Days before the scheduled date of any debit Entry to a Consumer Account other than a Single Entry. Verify that the RDFI honors stop payment orders provided by Receivers to the RDFI at such time and in such manner as to allow the RDFI a reasonable opportunity to act upon the order prior to acting on any debit Entry to be initiated to a non-Consumer Account, or on a Single Entry debit to be initiated to a Consumer Account as an ARC, BOC, POP, PPD, RCK, TEL or WEB Entry. Verify that the RDFI is aware that Return Reason Code R08 can be used with any Standard Entry Class Code that carries dollar value.

Verify that the RDFI uses Return Reason Codes R38 (Stop Payment on Source Document) and R52 (Stop Payment on Item) properly. Verify that, for each ARC, BOC, or RCK Entry for which a stop payment order was in force with respect to (a) the Check that was used as an Eligible Source Document for the ARC or BOC Entry, or (b) the item to which the RCK Entry relates, the Extended Return Entry is Transmitted to the RDFI's ACH Operator by its deposit deadline for the Extended Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement

Date of the original Entry. (NOTE: No Written Statement of Unauthorized Debit is required for Entries returned for these reasons.)

Procedures/Verification

The credit union is responsible for taking the stop payment orders (one-time and permanent) and placing them onto CU*BASE so that the transaction(s) rejects out to the ACH Exception Report to be returned. The stopped item will be designated as “08” on the report. For a one-time stop payment, the credit union will return the item as stopped and the stop payment code will have to be removed from the ACH distribution record so that the next item will pay.

A permanent stop payment is typically designated in the Draft Stop Payment record by dollar amount, an expiration date of 99/99/99, and the company name in the description field. In this case, the item will be returned and the stop payment record stays in place to stop all future items.

**Note: For added piece of mind for permanent stop payments, a 08 can be added to the ACH record by going to MNACHP option #1, choosing the company and changing the distribution type to 08.*

The credit union can verify a stop payment was obtained by reviewing the stop payment request that was completed by either the member or the CU employee. Then pull the stop payment report, MNRPTB #20, to prove that the stop payment was placed on the system. The actual return can be located in the PACHFD – ACH Fed Line report in CU*Spy.

8.3J Written Statements of Unauthorized Debits

Requirement

Verify that Written Statements of Unauthorized Debit are obtained from consumers for all returns bearing Return Reason Codes R05, R07, R10, R37, R51, and R53, and that each Extended Return Entry is Transmitted to the RDFI’s ACH Operator by its deposit deadline for the Extended Return Entry to be made available to the ODFI no later than the opening of business on the Banking Day following the sixtieth calendar day following the Settlement Date of the original Entry. Verify that copies of Written Statements of Unauthorized Debits are provided to the ODFI within the required time frame, when such copies are requested in writing by the ODFI.

Procedures/Verification

The credit union will obtain a complete Written Statement of Unauthorized Debit (WSUD) form from the member. Once obtained, it is verified that it will be a timely return. The CU employee will locate the item in the PACXTB report to gather the appropriate information

needed to create the return (Effective entry date, Company ID, Depositor account number, and Trace number). The item will be added to the daily returns using the Return Reason code designated on the WSUD. The WSUD is retained for one year from the settlement date of the extended return entry.

The credit union can verify that the return entries are being processed in a timely manner by reviewing the detail on the CU*Spy report PACHFD - ACH Fed Line Report. Compare the Effective Entry Date in the record detail to the Processed Date in the report heading and the date on the WSUD.

8.3K UCC Article 4A Notice

Verify that the RDFI has provided the Receiver with proper notice to ensure compliance with UCC Article 4A with respect to ACH credit transactions.

Procedures/Verification

The credit union must have proper notices to provide the members. They should include the following:

Summary of Possible RDFI Notices to Receivers

The ACH Operating Rules require certain disclosures be made to account holders receiving ACH wholesale credit Entries subject to provisions of UCC Article 4A. RDFIs may wish to use the following disclosures developed by The Payments Authority as the basis for the required disclosures. In all cases, The Payments Authority recommends financial institutions consult legal counsel to determine the appropriate form of UCC 4A disclosures for their institution.

Notice of Receipt of ACH Items

“Under the Operating Rules of the National Automated Clearing House Association which are applicable to ACH transactions involving your account, [we] are not required to give next day notice to [you] of receipt of an ACH item, and [we] will not do so. However, [we] will continue to notify you of the receipt of payments in the periodic statements we provide to you.”

Provisional Payment

“Credit given by [us] to [you] with respect to an Automated Clearing House credit Entry is provisional until [we] receive final settlement for such Entry through a Federal Reserve Bank. If [we] do not receive such final settlement, [you] are hereby notified and agree that [we] are entitled to a refund of the amount credited to [you] in connection with such Entry, and the party making payment to [you] via such Entry (i.e., the Originator of the Entry) shall not be deemed to have paid [you] the amount of such Entry.”

Choice of Law

“[We] may accept on [your] behalf payments to [your] account which have been transmitted through one or more Automated Clearing Houses (“ACH”) and which are not subject to the Electronic Fund Transfer Act and [your] rights and obligations with respect to such payments shall be construed in accordance with and governed by the laws of the state of New York as provided by the Operating Rules of the National Automated Clearing House Association, which are applicable to ACH transactions involving your account.”

It is suggested that Choice of Law be changed from the “state of New York” to the credit union’s home state.

8.3L CCD, CIE, CTX, IAT Payment Information**Requirements**

Verify that, when requested to do so by the non-Consumer Receiver, the RDFI provides all information contained within the payment-related information field of an Addenda Record(s) Transmitted with a CCD, CTX, CIE, or IAT Entry. The RDFI must provide this information by the opening of business on the RDFI’s second Banking Day following the Settlement Date of the Entry.

Procedures/Verification

As an RDFI, the credit union must provide the payment-related-information associated with CCD, CIE, CTX and IAT transactions if the information is requested from a corporate account holder. At this time, CU*Answers does not offer translating services. ACH Operators, as well as many Third-Party vendors offer software products to assist credit unions in translating and delivering the payment-related information to their members.