**Policy 2612: ACH Audit**

**Model Policy Revised Date: 10/03/2024**

**General Policy Statement:**

This describes [[CUname]]'s (Credit Union) audit policy on ACH operations for compliance with applicable Federal and state law, regulations, regional clearing house association rules, Regulation E, UCC Article 4A, and in accordance with the requirements of National Automated Clearing House (NACHA) Operating Rules.

**Guidelines:**

1. **ACH RISK ASSESSMENT**. The Supervisory Committee will ensure that the Credit Union does the following:
	1. Performs a risk assessment regarding the Credit Union’s ACH activities;
	2. Implements a risk management program on the basis of such an assessment; and
	3. Complies with all regulatory requirements with respect to such assessment and risk management program.
2. **ACH AUDIT.** The Supervisory Committee will arrange (either internally or through a qualified auditor) to conduct an audit of the Credit Union's ACH operations before December 31 of each year. The Credit Union will keep the audit report and supporting materials for six years from the audit date. Not less frequently than annually, the Credit Union will conduct a review of potential changes in the ACH Operating Rules, Green Book, Federal Regulation E, and any other pertinent information to ensure continued compliance, and identify new requirements that may demand additional training and communication with internal staff, data processing and originating persons. The Credit Union may consider a more frequent review of liability sensitive areas such as return item procedures and deadlines.
3. **CREDIT UNION AS RECEIVING DEPOSITORY FINANCIAL INSTITUTION.** The Credit Union as a receiving depository financial institution (RDFI), and its third-party service provider(s) (if applicable), will conduct the following examination of its ACH operations:
	1. Verify that entry records, including return and adjustment entries, are retained for six years from the transmission date, and that a reproduction of the entry information can be provided to the Participating DFI’s customer or any other Participating DFI or ACH Operator.
	2. When electronic records are used, verify that such records accurately reflect the record information, and are capable of being accurately reproduced.
	3. Verify that prenotifications received are for valid accounts and that when a prenotification is not processable or is erroneous, the prenotification is rejected on a timely basis through the use of return entry procedures or through the Notification of Change (NOC) procedure.
	4. Verify that, subject to the Credit Union’s right of return, all types of ACH entries and prenotifications are accepted.
	5. Review records and procedures to ensure that funds from ACH credit entries are available to the Receiver for withdrawal on the Settlement Date. For eligible same day ACH credit transactions, review records and procedures to ensure the amount of the credit entry is made available to satisfy other subsequent debit entries against the account on the Settlement Date, no later than 1:30 pm local time for the Credit Union if processed during the first window, 5:00 pm local time for the Credit Union if processed in the second window and at the end of the Credit Union’s processing day if in the third processing window. In the case of PPD credit entries available to the Credit Union by 5:00 pm local time on the banking day prior to the Settlement Date, ensure that funds are available to the Receiver for withdrawal no later than 9:00 am local time for the Credit Union on the Settlement Date and that debit entries are not posted prior to the Settlement Date.
	6. Review records and procedures to ensure that ACH debit entries are processed on their settlement date, by the end of the Credit Union’s processing day.
	7. Verify that the Credit Union sends or makes available on the member’s account statement descriptive information on each entry consistent with NACHA Operating Rules Appendix Three. For ARC, POP, and RCK entries, the Credit Union will verify that it sends or makes available, as part of the member’s account statement, the contents of the Check Serial Number Field for each entry. For POP entries, also verify that the Credit Union sends or makes available on the member’s account statement, the contents of the Terminal City Field and Terminal State Field with respect to such entry.
	8. Review records and procedures to determine that returned entries and rejected prenotifications are received by the Credit Union’s ACH Operator by its deposit deadline for the return entry to be made available to the originating depository financial institution (ODFI) no later than the opening of business on the second banking day following the Settlement Date of the original entry. Eligible returns received prior to 4:45 pm ET are eligible for Same Day settlement. For all entries except RCK, review records and procedures to determine that returned entries and rejected prenotifications are received by the Credit Union’s ACH Operator by its 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. “Second banking day” refers to the second banking day of the Credit Union’s ACH Operator, and “Settlement Date of the original entry” refers to the Settlement Date of the original entry that is being returned. Review procedures to ensure that dishonored return entries and contested dishonored return entries are handled appropriately in a timely manner.
	9. Review procedures to ensure that RCK entry returns are transmitted to the Credit Union’s ACH Operator by midnight of the second banking day following the banking day of receipt of the presentment notice.
	10. Review procedures to ensure that, for each stop payment order on a RCK entry or item to which the RCK entry relates and for each stop payment order on an ARC entry or source document to which the ARC entry relates, the adjustment entry is received by the Credit Union’s ACH Operator by its deposit deadline for the adjustment 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.
	11. Review procedures to ensure that written statements of unauthorized debit (WSUD) are obtained from members for all returns bearing Return Reason Codes R05, R07, R10, R11, R17, R37, R51, and R53, and that each adjustment entry is received by the Credit Union’s ACH Operator by its deposit deadline for the adjustment entry to be made available by the sixth banking day after the RDFI completes its review of the WSUD, but in no case later than the sixtieth calendar day following the Settlement Date of the original entry. Verify that copies of these statements are provided within appropriate time frames once the Credit Union receives a written request from the ODFI.
		1. Procedures should indicate that when a consumer account holder notifies the RDFI of an unauthorized debit, the RDFI must obtain a signed WSUD to return the debit. The WSUD in these scenarios will be permitted to be signed even if the debit has not been posted.
	12. Review procedures if the Credit Union utilizes R17 to return an entry that it believes to be fraudulent. Although this return code is not required, NACHA guidance has been updated to include this as the closest return code for potential fraud. The Credit Union must utilize the word “QUESTIONABLE” in the return addenda record of the return entry.
	13. Verify procedures have been established to allow for an extension of funds availability for credit entries that the RDFI suspects are originated under false pretenses as flagged by fraud detection processes and procedures.
	14. Review internal procedures and member agreements to ensure compliance with UCC Article 4A with respect to ACH transactions.
	15. Verify that, with the exception of Notifications of Change (NOCs) due to merger or acquisition, NOC entries are transmitted within two banking days of the Settlement Date of the entry to which the NOC relates.
	16. Review records and procedures to ensure that, when requested by the Receiver, the Credit Union provides all payment-related information transmitted with CCD, CIE, and CTX entries to the Receiver by the opening of business on the second banking day following the Settlement Date.
	17. Review procedures to verify that for member entries except ARC, POP, RCK, TEL, and Single-Entry WEB entries, the Credit Union has acted on stop payment orders placed with the Credit Union at least three banking days prior to the scheduled date of the transfer. For business member entries, as well as for ARC, POP, RCK, TEL and Single-Entry WEB entries, verify that the Credit Union has acted on stop payment orders that have been received in such time and in such manner that allow the Credit Union to act on the stop payment order prior to acting on the debit entry.
	18. Review procedures to ensure proper decisioning on returns with return reason code RO6, verification of amount accuracy, and proper response and timing to the ODFI.
4. **CREDIT UNION AS ORIGINATING DEPOSITORY FINANCIAL INSTITUTION**. The Credit Union as an originating depository financial institution (ODFI), and its third-party service provider(s) (if applicable), will conduct the following examination of its ACH operations:
	1. Verify that the Credit Union has performed a risk assessment regarding the nature of the Originator’s or Third-Party Sender’s ACH activity and the risks presented.
	2. Verify that entry records, including return and adjustment entries, transmitted from or to an ACH Operator are retained for six years from the date the entry was transmitted. Verify that a reproduction of the entry information can be provided to the Participating DFI’s customer or any other Participating DFI or ACH Operator.
	3. When electronic records are used, verify that such records accurately reflect the record information, and are capable of being accurately reproduced.
	4. Verify that all Originators have executed agreements that bind them to the NACHA Operating Rules, and that the agreements contain the Originator’s acknowledgement that entries they initiate will not violate the laws of the United States.
		1. The Credit Union as ODFI will ensure that each agreement with an Originator that is entered, renewed or extended, and that provides for authorization of ACH transactions will expressly address the following:
			1. Any restrictions on the types of ACH transactions that may be originated;
			2. The right of the ODFI to terminate or suspend the agreement for breach of the NACHA Rules, upon at least ten (10) business days’ notice, in a manner that permits the ODFI to comply with the Rules; and
			3. The right of the ODFI to audit the Originator’s compliance with the agreement and the NACHA Rules.
	5. Review internal procedures and agreements to ensure compliance with UCC Article 4A with respect to ACH transactions.
	6. Review procedures to determine that exposure limits are established for each business Originator and Third-Party Sender, to be reviewed periodically, and that entries initiated by these Originators and Third-Party Senders will be monitored relative to the exposure limits across multiple Settlement Dates.
	7. Review procedures to determine that due diligence has been performed on business Originator or Third-Party Sender to form a reasonable belief that such Originator or Third-Party Sender has the capacity to perform its obligations in conformance with the NACHA Rules.
	8. For WEB entries review procedures to ensure that the Credit Union has: (i) established procedures to monitor the credit-worthiness of each Originator on an on-going basis, (ii) established an exposure limit for that Originator, (iii) implemented procedures to review that exposure limit periodically, and (iv) implemented procedures to monitor entries initiated by that Originator relative to its exposure limit across multiple Settlement Dates.
	9. For Same Day ACH origination, ensure that procedures are in place to allow for only eligible transactions (excluding international ACH transactions (IATs) and high dollar transactions over $1,000,000), processed during appropriate clearing windows and that a risk analysis is conducted for determining eligibility for the service.
	10. Review procedures to ensure that NOC and corrected NOC information is provided to each Originator within two banking days of the Settlement Date. Verify that refused NOCs are transmitted within 15 days of receipt of an NOC or corrected NOC.
	11. Review procedures to ensure that, when agreed to by the Credit Union, Permissible Return Entries, Extended Return Entries, and Late Return Entries are accepted within the time limits established by the Rules.
	12. Review procedures to ensure that NACHA Operating Rules are followed when requesting returns from RDFIs. The ODFI will provide indemnification to the RDFI for honoring such requests.
	13. Ensure that Originators are in compliance with their obligations, including requirements that:
		1. The Originator obtains the Receiver’s authorization for entries and provides copies of such authorizations to the Receiver.
		2. If Originators choose to send prenotifications, they are sent as required by the rules.
		3. Entries returned as “R07 Authorization Revoked by Customer,” “R08 Payment Stopped,” or “R10 Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account” are not reinitiated unless the Originator obtains subsequent authorization from their customer.
		4. Entries returned as "R11 Customer Advises Entry Not in Accordance with Terms of Authorization" will be used by the RDFI to return an entry for which the Originator and Receiver have a relationship, and an authorization to debit exists, but there is an error or defect in the payment such that the entry does not conform to the terms of the authorization. An Originator is permitted to correct the underlying error, if possible and submit a new Entry without being required to obtain a new authorization.
		5. Entries returned for “R01 Insufficient Funds” or “R09 Uncollected Funds” are not reinitiated in excess of the prescribed NACHA limits.
		6. Upon receipt of returns relating to prenotifications indicating that the RDFI cannot accept such entries, such entries are not initiated.
		7. Upon receipt of a NOC, requested changes are made within six banking days or prior to the initiation of the next entry, whichever is later.
		8. Review procedures to ensure that dishonored return entries and contested dishonored return entries are handled appropriately in a timely manner.
		9. Reversing files and reversing entries are transmitted to the Receiving ACH Operator in such time as to be transmitted or made available to the RDFI within five banking days following the Settlement Date of the erroneous entry or file. Verify that reverse entries meeting the requirements of being erroneous, the Credit Union attempted to notify the receiver of the reversing entry.
		10. With the exception of XCK entries, Originators provide the Receiver with a receipt containing information relating to a consumer account within 10 banking days without charge.
		11. Originators initiating POP entries void and return the source document to the Receiver.
		12. Originators initiating WEB entries employ a commercially reasonable fraudulent transaction detection system to screen entries.
		13. Originators initiating WEB entries use commercially reasonable procedures to verify that routing numbers are valid.
		14. Originators initiating WEB entries establish a secure Internet session with each Receiver utilizing a commercially reasonable security technology providing a level of security that, at a minimum, is equivalent to 128-bit encryption technology prior to the Receiver’s entering of any nonpublic personal information.
		15. Originators initiating WEB entries conduct annual audits to ensure that the nonpublic personal information they obtain from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of: (a) physical security to protect against theft, tampering, or damage, (b) personnel and access controls to protect against unauthorized access and use, and (c) network security to ensure secure capture, storage, and distribution.
		16. For each TEL entry, the Originator employs commercially reasonable procedures to verify the identity of the Receiver and utilizes commercially reasonable procedures to verify that routing numbers are valid.
		17. For ARC and RCK entries, the Originator provides clear and conspicuous notice of their check conversion/truncation policy.
		18. Verify that consumer-to-consumer originated transactions are using SEC code WEB.
		19. For BOC entries, the Originator has (i) established commercially reasonable procedures to verify the identity of each Originator or Third-Party Sender of such entries; and (ii) established and implemented procedures to document specific information with respect to each Originator, as required by the Rules, and that, upon request, such information is provided to the RDFI within the required timeframe.
		20. The Originator has reported information on each Originator or Third-Party Sender, as requested by NACHA through the registration process or indicated no Third-Party sender relationships.
		21. Verify that the Originator has (i) registered its Direct Access with NACHA; (ii) obtained the approval of its board of directors, committee of the board of directors, or its designee for each Direct Access Debit Participant; (iii) provided statistical reporting for each Direct Access Participant; and (iv) notified NACHA of any change to the information previously provided with respect to any Direct Access Debit Participant.
	14. Verify that the Credit Union has kept Originators and Third-Party Senders informed of its responsibilities under the Rules.

*(Use the following only if applicable to the Credit Union’s ACH activities):*

1. ***GOVERNMENT ACH ENTRIES.****The Credit Union will conduct an audit to determine compliance with the Green Book, 31 CFR §§ 210 et seq., requirements regarding government ACH entries as follows:*
	1. *Review enrollment procedures for direct deposit of Social Security and other benefits payment.*
	2. *Review procedures for processing NOCs.*
	3. *Review procedures when a DNE entry is received.*
	4. *Review procedures for returning government benefit payments in the event of the death of the beneficiary or representative payee.*
	5. *Review procedures for handling "reclamations" of government benefit payments in order to limit financial institution liability.*
2. **OFAC.** The Credit Union will conduct an audit of compliance with the U. S. Treasury Department’s Office of Foreign Assets Control (OFAC) requirements regarding ACH entries to accounts blocked according to the “Specially Designated Nationals and Blocked Persons.”
	1. Upon receipt of an ACH credit to a blocked account, post the credit, freeze the funds and report the transaction to OFAC.
	2. Upon receipt of an ACH debit to a blocked account, return the entry using Return Reason Code R16 – Account Frozen.
	3. The Credit Union will verify that it screens all IATs according to the Credit Union’s OFAC policy **(See Policy 2145)**. Any OFAC matches that are verified will be handled according to OFAC regulations outlined in the Credit Union’s OFAC policy.
3. **UNLAWFUL INTERNET GAMBLING**. The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205).
4. **PROCEDURES**. The Credit Union will verify compliance through interviewing key personnel regarding knowledge of required procedures, reviewing the timing and content of required disclosures, and where applicable, testing of specific transaction activities to identify possible compliance exceptions.
5. **MANAGEMENT REVIEW.** Completed audit results will be reported to [[2612-1]] and approved by the Board of Directors. The Board of Directors will note any exceptions and provide recommended action for correction or corrective action already taken or in process.