2014 ACH Audit CU*Answers

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8.1 General Audit Requirements

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must, in accordance with standard auditing procedures, conduct an internal or external audit of compliance with provisions of the ACH rules in accordance with the requirements of this Appendix Eight. These audit provisions do not prescribe a specific methodology to be used for the completion of an audit but identify key rule provisions that should be examined during the audit process. An annual audit must be conducted under these Tule Compliance Audit Requirements no later than December 31 of each year. This audit must be performed under the direction of the audit committee, audit manager, senior level officer, or independent (external) examiner or auditor of the Participating DFI, Third-Party Service Provider, or Third- Party Sender. The Participating DFI, Third-Party Service Provider or Third Party Sender must retain proof that is has completed an audit of compliance in accordance with these rules. Documentation support the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to the National Association upon request. Failure of a Participating DFI to provide proof of completion of an audit according to procedures determined by the National Association may be considered a Class 2 rule violation pursuant to Appendix Ten, subpart 10.4.7.4 (Class 2 Rules Violation).

Finding: Compliant

Comments/Concerns/Recommendations
CU*Answers provided evidence of a Sending Point Agreement with client credit unions.
It is noted that there is not an agreement between CU*Answers and the credit unions for A2A Transfers.
As CU*Answers creates and transmits a data file to MagicWriter for A2A Transfers.

It was recommended in the prior audit that a Service Level Agreement be executed to address processing schedules, errors in transmission and responsibilities to ensure compliance with all ACH rules for the transactions originated.

8.2 Audit Requirements for All Participating DFIs

Each Participating DFI, Third-Party Service Provider, and Third-Party Sender must conduct the following audit of ACH operations. These audit specifications apply generally to all Participating DFIs, regardless of a Participating DFI's status as an ODFI or RDFI.

8.2A 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, subsections 1.4.1 and 1.4.2)

Finding: Compliant

Comments/Concerns/Recommendations
Record retention for received transactions, returns and NOCs were available for review for the dates requested for February 2008 – 2014. Records for received transactions are retained on CDs, which are password protected and encrypted. Records for returns and NOCs are retained on encrypted tapes

8.2B Electronic Records
When a Record required by these Rules is created or retained in an Electronic form, verify that the Electronic form (a) accurately reflects the information in the Record, and (b) is capable of being accurately reproduced for later reference, whether by Transmission, printing, or otherwise. (Article One, subsection 1.4.3)

Finding: Compliant with Concerns

Comments/Concerns/Recommendations
CU*Answers does not utilize electronic records for any received transaction processing.

It was determined that a record of the authorization and authentication during the Internet session for the A2A Transfers offered to credit unions through a partnership with MagicWriter is not retained for the required two years, and is unable to be provided upon request.

It was recommended in the 2013 audit, that the authorization language for A2A Transfers include language similar to "I authorize the credit union to initiate an electronic transaction to the financial institution indicated above." The member should be prompted to print the authorization.

CU*Answers has an open project sheet for these two concerns.

8.2C Previous Year Audits
Verify that the Participating DFI conducted an audit of its compliance with the Rules in accordance with Appendix Eight (Rule Compliance Audit Requirements) for the previous year. (Article One, subsection 1.2.2)

Finding: Complaint

Comments/Concerns/Recommendations
Verified that an ACH audit was conducted by The Payments Authority in October 2013 and also retain the last five audits.

8.2D Encryption
Verify that required encryption or a secure session is used for banking information transmitted via an Unsecured Electronic Network. (Article One, subsection 1.7)

Finding: Compliant

Comments/Concerns/Recommendations
Evidence of 128-bit encryption was provided for data moving between CU*Answers and client credit unions as well as during the A2A transfer transmissions with MagicWrighter.

8.2E National Association Fees
Verify that the Participating DFI has reported and paid to the National Association (a) all annual fees, and (b) a per- Entry fee for each Entry that is Transmitted or received by the Participating DFI, including those Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI. (Article One, subsection 1.11)

Finding: Does Not Apply

8.2F Risk Assessment
Verify that the Participating DFI has conducted an assessment of the risks of its ACH activities and has implemented a risk management program on the basis of such an assessment. (Article One, subsection 1.2.4)

Finding: Does Not Apply

Comments/Concerns/Recommendations
CU*Answers, as a Third Party Service Provider, is not required to conduct an ACH Risk Assessment.

8.2G Security of Protected Information
Verify that the Participating DFI has established, implemented and updated, as appropriate, security policies, procedures and systems as required by Article One, Section 1.6 (Article One, Section 1.6)

Finding: Compliant

Comments/Concerns/Recommendations
The company's Information Security Plan states that "CU*Answers shall include as part of this Information Security Program compliance with the NACHA rules regarding "Protected Information," insofar as these rules apply to CU*Answers. Although CU*Answers is not a financial institution, CU*Answers shall protect the confidentiality and integrity or Protected Information; and against unauthorized use of Protected Information that could result in substantial harm to a natural person, as it does with Sensitive Member Data."

All employees have access to the data system with user ID's and passwords. Records are stored in secure locations.

8.3 Audit Requirements for RDFIs
In addition to the audit procedures outlined in Parts 8.1 (General Audit Requirements) and 8.2 (Audit Requirements for All Participating DFIs) of this Appendix Eight, all RDFIs and their Third-Party Service Providers must conduct an audit of the following relating to the receipt of ACH Entries:

Finding: Does Not Apply

8.3B Notifications 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. (Article Three, subsection 3.9.1)

Finding: Does Not Apply

Comments/Concerns/Recommendations
CU*Answers does not process Notifications of Change (NOC) on behalf of the credit unions.

8.3C ACH Entries Accepted

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. (Article Three, subsections 3.1.1 and 3.8.2)

Finding: Compliant

Comments/Concerns/Recommendations
All valid entries are accepted. Death Notification Entries (DNE) reports are provided to the credit unions.

8.3D Funds Availability

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. (Article Three, subsections 3.3.1.1, 3.3.1.2, and 3.3.2)

Finding: Complaint

Comments/Concerns/Recommendations
Reviewed posting journals for the audit period, credits are posted between 3:00 a.m. and 6:00 a.m. Debits are posted at end of day.

8.3E Descriptive Information

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. (Article Three, subsection 3.1.5.1)
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. (Article Three, subsection 3.1.5.2)

Finding: Compliant

Comments/Concerns/Recommendations
All required information is passed to the account statement. Transactions with Machine Transfer Entry (MTE), Shared Network Transaction (SHR) and Destroyed Check Entry (XCK) were not found in the test period.

8.3F Return Entries For all Entries except RCK

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. (Article Three, section 3.8)

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. (Article Three, subsection 3.8.3.5; Appendix Four)
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. (Article Three subsection 3.8.5; Appendix Four)

Finding: Compliant

Comments/Concerns/Recommendations
Transactions are received from the credit unions, batched and transmitted via Fed Advantage daily around 3:00 p.m. Files are balanced prior to transmission.

It is noted that the GOLD platform does not support Contested or Corrected returns. Contested and Corrected returns must be originated via FedLine Advantage through the operations department.

8.3G RCK Return Entry
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. (Article Three, subsection 3.8.3.3)

Finding: Compliant

Comments/Concerns/Recommendations
Represented Check Entries (RCK) are returned timely with all other returns.

8.3H Return Credit Entry
Verify that the RDFI returns any credit Entry that is refused 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 notification from the Receiver that it has refused the Entry. 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. (Article Three, subsections 3.8.3.2 and 3.8.4)

Finding: Compliant

Comments/Concerns/Recommendations
Credit transactions are returned timely with all other returns.

8.3I Stop Payment on Consumer Entries

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 a non-Consumer Account, or on an ARC, BOC, POP, or RCK Entry or Single Entry IAT, PPD, TEL or WEB Entry to a Consumer Account. Verify that the RDFI is aware that Return Reason Code R08 can be used with any Standard Entry Class Code that carries dollar value. (Article Three, subsections 3.7.1.1, 3.7.1.2 and 3.7.2)

Verify that the RDFI uses Return Reason Codes R38 (Stop Payment on Source Document) and R52 (Stop Payment on Item related to RCK Entry) 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.) (Article Three, subsections 3.11.2.2 and 3.13.1; Appendix Four)

Finding: Does Not Apply

Comments/Concerns/Recommendations
CU*Answers does not accept stop pay orders on the processing platform GOLD. The default expiration time frame for stop payments is all 9s - the credit union determines the expiration date.

8.3J Written Statements of Unauthorized Debits

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. (Article Three subsection 3.11.1, 3.12.4, 3.12.6; and 3.13.1; Appendix Four)

Finding: Does Not Apply

Comments/Concerns/Recommendations
Obtaining Written Statements of Unauthorized Debits is the responsibility of the credit unions

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. (Article Three, subsection 3.1.6)

Finding: Does Not Apply

Comments/Concerns/Recommendations
CU*Answers does not provide sample UCC 4A disclosures to client credit unions.

8.3L CCD, CIE, CTX, IAT Payment Information
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. (Article Three, subsection 3.1.5.3)

Finding: Compliant

Comments/Concerns/Recommendations
Addenda information is made available to credit unions to provide to account holders upon request. The credit unions do have the capability to provide the information to their members electronically via home banking messages.