

# AuditLink

## 2016 Annual ACH Audit CU\*Answers

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## PURPOSE

An objective, comprehensive evaluation of CU\*Answers ACH policies, procedures and processes was conducted on September 6, 2016

The overall objective was to assess ACH Compliance with respect to the 2016 NACHA Operating Rules; Appendix Eight Part 8.1 - General Audit Requirements for Participating Depository Financial Institutions, Part 8.2 - Audit Requirements of Participating Financial Institutions, Part 8.3 – Audit Requirements for RDFI's and Part 8.4 Audit Requirements for ODFI's.

The annual ACH audit of the credit union consists of audit findings, observations, recommendations, and violations, if applicable, with a conclusion.

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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 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 Rule 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 it 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 with Concerns

**Comments:** CU\*Answers utilizes Magic Wrighter as a Sending Point for Account to Account transactions. The client credit unions are the ODFIs and they also hold the contract directly with Magic Wrighter. Proof of Magic Wrighter's annual audit was obtained.

Since the previous year's audit, CU\*Answers has added an additional Bill Pay service provider, Payveris, in addition to Fiserv. Person to Person transactions can be performed using Payveris, however the client credit union is not the ODFI in this situation.

**Concern:** Payveris did not provide an annual ACH audit upon our request.

## 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:** Does Not Apply

**Comments:** CU\*Answers is not required to retain ACH records. This is the responsibility of the client Credit Unions.

### 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

**Comments:** Account to Account debit and credit transfers can be performed by client members via home banking. Recurring payments are not permitted. The date, time, length of session, authorization language and IP addresses are captured and retained.

### 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:** Compliant

**Comments:** Received proof of retention for the last six years of 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:** Verified the encryption level of AES 256 bit is applied to ACH records transmitted between the credit unions and CU\*Answers via a SOC 1 Report.

The A2A process with Magic Wrighter and the bill pay service with Fiserv have not changed since the prior audit. Encryption level verified.

Verified Movelt encryption level applied based on certificate on their website.

Transmission between CU\*Answers and MidAtlantic is performed using a program called GoAnywhere. Encryption level was verified from the Job Log.

Verified that Payveris encryption level applied based on certificate on their website.

### 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:** Third-Party Processors are not required to conduct an ACH risk assessment. However, one was still provided.

### 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:** CU\*Answers complies with the ACH Security requirements. They have the policies in place to ensure the protection of sensitive data and access controls and the have conducted a self-assessment.

FedLine reports for authorized access to the terminal were reviewed and found no unauthorized employees.

### 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:*

#### 8.3A Pre-notifications

*Verify that the account number contained in a Prenotification Entry is for a valid account. If the Prenotification does not contain a valid account number, or is otherwise erroneous or unprocessable, verify that the RDFI Transmits either (a) a Return Entry, or (b) a Notification of Change. (Article Three, section 3.5)*


**Finding:** Does Not Apply

**Comments:** Pre-notifications are included in the daily exception report and provided to the client credit unions.

#### 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:** Client credit union's create their own Notification of Changes which are then transmitted to CU\*Answers for further transmission to the Federal Reserve.

### **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:** Samples of all standard entry class codes were obtained except ACK, ADV, ATX, SHR, TRC, TRX, XCK, ENR, MTE as none were found in test period. However, it was verified with the company's programming and Quality Control teams that the system is programmed to handle them.

Death Notification Entries (DNEs) are provided to the client credit unions on a separate report.

Reports are available to client credit unions regarding entries subject to Regulation D limitations.

International ACH Transactions (IATs) are screened against OFAC prior to posting. IATs that pass the screening are posted by CU\*Answers. Suspended IATs are included in the daily exceptions and further due diligence is done by the client credit union. Home equity checks that are converted to ACH are included in the daily exceptions and client credit union decisions the entry.

### **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:** Compliant

**Comments:** Verified that ACH credits are posted prior to open of business for client credit unions. Debits are posted at end of process day. CU\*Answers is prepared for the Same Day ACH September deadline.

### 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:** Verified that the required information is passed to client member statements.

### 8.3F, 8.3G, 8.3H Return Entries

*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 With Concerns


**Comments:** Return files are batched and uploaded to FedLine Advantage by 3:00pm daily.

Unable to test dishonored/contested dishonored returns; none were found in test period

**Concern:** It was noted in the prior year audit that the return totals and file transmission via FedLine are being performed by one person. It was recommended that dual control be implemented to mitigate operational risk. This has not yet been implemented.

### 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:** CU\*Answers does not handle their client credit union's stop payments

### 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:** CU\*Answers does not handle client credit union's ACH disputes.

### 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:** This is not a requirement of Third-Party Service Providers

### 8.3 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:** The appropriate data is passed to the client credit unions. The client credit unions have the capability of providing this information to their members via home banking.