



**Financial
Standards
Group, Inc.**

**PMB 225
1740 44th St. SW, Suite 5
Wyoming, MI 49519
(800) 522-5820 Toll Free
(616) 328-5197 Fax Line**

**Sample Credit Union
ACH RULES COMPLIANCE AUDIT REPORT
Completed as of December 31, 20XX**

BACKGROUND

Automated Clearing House (ACH) is an electronic network for financial transactions in the United States. ACH processes large volumes of credit and debit transactions in batches. ACH credit transfers include direct deposit payroll and vendor payments. ACH direct debit transfers include consumer payments on insurance premiums, mortgage loans, and other kinds of bills. Rules and regulations governing the ACH network are established by NACHA-The Electronic Payments Association (formerly the National Automated Clearing House Association) and the Federal Reserve (Fed). The Federal Reserve Banks are collectively the nation's largest automated clearinghouse operator of commercial interbank ACH transactions. The Electronic Payments Network (EPN), the only private sector ACH operator in the United States, processes the remainder. EPN and the Reserve Banks rely on each other for the processing of some transactions when either party to the transaction is not their customer. These interoperator transactions are settled by the Reserve Banks.

Appendix Eight of the NACHA Operating Rules [NACHA Operating Rules & Guidelines - A Complete Guide to Rules & Regulations Governing the ACH Network, is issued by NACHA every year] provides the requirements for an annual audit of compliance with provisions of the ACH Rules in accordance with the requirements of this Appendix Eight. However, participating DFIs should be aware that they are required to comply with all provisions of the Operating Rules; Appendix Eight governing audit compliance focuses specifically on certain Rules provisions that are described in Part 8.1 (General Audit Requirements), Part 8.2 (Audit Requirements for All Participating DFIs, Part 8.3 (Audit Requirements for RDFIs), and Part 8.4 (Audit Requirements for ODFIs). The description of Rules contained within Appendix Eight are not intended to modify or limit the language of the rules. Appendix Eight provides highlights of the most critical components of an audit compliance with these Rules.

Also, these requirements relate solely to compliance with these Rules and do not address other audit considerations of a financial institution's ACH policies, procedures or regulatory compliance. A Participating DFI may wish to audit other aspects of its ACH operations in conjunction with its annual rules compliance audit. These aspects could include OFAC compliance, ACH business continuity plans, ACH risk management policies, and compliance with the 31 C.F.R. Part 210 and the Green Book for processing Federal Government ACH transactions.

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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 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 supporting 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).

Upon the National Association's request, a Participating DFI must provide to the National Association proof that its Third-Party Service Provider(s) and/or Third-Party Sender(s) have completed an audit of compliance in accordance with the Rules. A Third-Party Service Provider or a Third-Party Sender must provide such proof to the Participating DFI for purposes of the Participating DFI's compliance with such a request from the National Association within 10 Banking Days of the ODFI's request. Failure of a Participating DFI to provide proof of completion of its own audit, its Third-Party Service Provider's audit, or its Third-Party Sender's 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).

No exceptions were noted.

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. The Specifications also apply to Third-Party Service Providers and Third-Party Senders, with the exception of Part 8.2, item (e).

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8.2(a) Records 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.

Based on the tests performed, no exceptions were noted.

8.2(b) 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.

Based on the tests performed, no exceptions were noted.

8.2(c) Audit

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.

The prior ACH rules compliance audit was performed as of June 30, 20XX.

No exceptions were noted.

8.2(d) Data Security

Verify that the required encryption or a secure session is used for banking information transmitted via an Unsecured Electronic Network.

No exceptions were noted.

8.2(e) Payment of Fees

Verify that for any Entries that are not processed through an ACH Operator but are exchanged with another non-affiliated Participating DFI, the Participating DFI has filed appropriate N-7 form and paid all Network Administration Fees as required by Section 1.13 (Network Administration Fees).

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No exceptions were noted.

8.2(f) Assessment of Risk

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.

The most recent ACH risk assessment was performed as of November, 2017.

No exceptions were noted.

8.2(g) Security

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.

No exceptions were noted.

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, Third-Party Service Providers, and Third-Party Senders) 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:

8.3(a) Prenotifications

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.

No exceptions were noted.

8.3(b) Notification of Change by RDFIs

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

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Notification of Change relates, with the exception of Notifications of Change due to merger, acquisitions, or other similar events.

No exceptions were noted.

8.3(c) Acceptance of Entries

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.

No exceptions were noted.

8.3(d) Funds Availability and Debit Posting

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 as required by Article Three, Subsection 3.3.1 (Availability of Credit Entries to Receivers). 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.

No exceptions were noted.

8.3(e) RDFI Obligation to Provide Information about Entries

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.

No exceptions were noted.

8.3(f)(g)(h) Returns 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.

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.

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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.

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.

No exceptions were noted.

8.3(i) Stop Payments

Verify that the RDFI honors stop payment orders provided by Receivers, either verbally or in writing, to the RDFI at least the 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 an ARC, BOC, POP, or RCK Entry, or a Single Entry IAT, PPD, TEL, or WEB Entry to a Consumer Account.

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 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.)

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We reviewed a sample of ACH stop payment orders and the entries used to stop either the one-time or recurring payment. We reviewed to determine if the stop payment order was completed properly and the follow-up was completed within the proper timeframe.

No exceptions were noted.

8.3(j) 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.

No exceptions were noted.

8.3(k) UCC Compliance

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

No exceptions were noted.

8.3(l) Non-Consumer Account Payment-Related Information Transmittal

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.

No exceptions were noted.

8.4 Requirements Related to ODFIs

Sample Credit Union is not an ODFI.

Other Comments

We reviewed the Credit Union's ACH Policy. The policy was approved by the Board of Directors and also contained information regarding on-going education and training. Based on conversations

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with management and ACH personnel, a viable back up program is in place if the assigned person is unable to perform her ACH duties.

Audit completed on December 20, 20XX.

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