2013 National ACH Association – Rules & Common Findings

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Before we get started…

- Today’s presentation slides can be downloaded at www.wolfandco.com/webinars/2012.
- The session will last about 45 minutes, and we’ll then have time for Q & A.
- Please send your questions in using the “Questions Box” located on the webinar’s control panel.
- Our audience will be muted during the session.
- Please use the “Chat Box,” to communicate with me throughout the webinar.
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- Offers Audit, Tax, and Risk Management services to nearly 250 financial institutions
- Offices located in:
  - Boston, Massachusetts
  - Springfield, Massachusetts
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- Over 180 professionals

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• Provide RMS in 22 states and 1 U.S. territory
Meet Today’s Presenter

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Agenda

• 2013 NACHA Rules & Regulation changes
  – March 15, 2013
  – September 20, 2013

• 2010-2011 Changes – Review

• Common ACH Issues & Best Practices

• Recap
What is NACHA?

National Automated Clearing House Association
• The association that establishes the standards, rules, and procedures that enable depository financial institutions to exchange ACH payments on a national basis.

Did you know?
• In April 2012, NACHA announced that the number of US ACH payments grew to over 20.2 billion in 2011, up 4.35% since 2010.
2013 Changes - Overview

March 15, 2013
• International ACH Transaction (IAT) modifications
• Data Passing
• ODFI Return Rate Reporting
• Incomplete Transactions

September 20, 2013
• ACH Security Framework
• Health Care Payments via ACH
2012 Changes - IATs

IAT Modifications and Refinements: Effective 3/15/2013

- Return Reason Code R16 – Account Frozen Revised
  - Updated to “Account Frozen/Returned per OFAC Request”

- Revises the description to clarify that this return reason code can be used with an OFAC instruction for return.
IAT Modifications: *Effective 3/15/2013*

- **New return reason code:**
  - R85 – Incorrectly Coded Outbound International Entry
  - New Change Code:
    - C14 – Incorrect SEC Code for Outbound International Entry

- **Corrected Data for IAT Entries**
  - C04 – Incorrect Individual Name/Receiving Company Name
    - 35 characters
  - C09 – Incorrect Individual Identification Number
    - 15 characters
Data Passing: Effective 3/15/2013

- Prohibits sharing of certain customer data by participant for purpose of initiating debit that was not covered in original authorization

- Restore Online Shoppers Confidence Act
  - “It shall be unlawful for an initial merchant to disclose a credit card, debit card, bank account, or other financial account number, or to disclose other billing information that is used to charge a customer of the initial merchant, to any post-transaction third-party seller for the use in an Internet-based sale of any goods or services from that post-transaction third-party seller”
Network Enforcement Rule (ODFIs): Effective 3/15/2013

ODFI Return Rate Reporting

• States that the “actual return rate for unauthorized entries” for the Originator or Third Party sender must not exceed 1%

• Divide the number of debit entries returned as unauthorized for 60 days by the total number of debit entries

• Exceeding 1%, requires the institution to provide additional reporting, including a plan to reduce the unauthorized debits

• Failure to reduce the unauthorized debits can lead to a “Class 2 Rule Violation”, which is up to $100,000 per month fine

• Effective 3/15/2013- the timeframe for which ODFIs have to come in compliance with the rule from 60 days to 30 days.
Incomplete Transactions and Return of Funding

Debit Entry: Effective 3/15/2013

- Return of a debit entry to a consumer account within 60 days of the settlement date for an “Incomplete Transaction”

- Incomplete Transaction- “Transaction for which a Third Party Sender debits a consumer account to collect funds, but does not complete the corresponding payment to the party which the payment is owed”.
2013 Changes – September 20, 2013

• ACH Security Framework
  – This amendment to the Rules creates a Security Framework aimed at protecting the security and integrity of certain ACH data throughout its lifecycle.
    o Creates Security Framework
    o Protection of Sensitive Data and Access Control
    o Self-Assessment
    o Verification of Third Party Senders and Originators
Health Care Payments via ACH

- This amendment to the NACHA Operating Rules supports health plans’ and health care providers’ use of the ACH Network for health care claims payments and payment related information.

- Five Major Components:
  1. Unique ID of Health Care EFTs “HCCLAIMPMT”
  2. Additional Formatting requirement for Health Care EFT Transactions
  3. Delivery of Payment Related Information
  4. Addition of New EDI Data Segment Terminator (“~”)
  5. Health Care Terminology within NACHA Operating Rules
2010 - 2011 Changes - Review

- Written Statement of Unauthorized Debt
- Stop Payments
- Annual Risk Assessment
Written Statement of Unauthorized Debit

- Must remove the language “under penalty of perjury”.
- Must include the following minimum information as defined in the Operating Rules Section 3.12:
  - Receiver’s printed name and signature
  - Receiver’s account number
  - Identity of the party debiting the account, as provided to the Receiver
  - Date the entry was posted to the account
  - Dollar amount of the entry
  - Reason for the return
  - Signature date
  - Receiver assertion that the Written Statement of Unauthorized Debit is true and correct
  - Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account.
2010 -2011 Changes - Review

Stop Payments

• Recurring consumer stop payments must have an indefinite expiration date.

• Institution must offer single or recurring stop payment option to consumers.

• Business stop payments still use the six month expiration.
2010 -2011 Changes - Review

ACH Risk Assessment

• Risk Assessment required over ACH activities on an annual basis.

• Must include the following:
  – Assess the nature of risk associated with ACH activity
  – Perform appropriate know-your-customer due diligence
  – Establish controls for ODFI, third-parties and direct access to ACH operator relationship
  – Adequate management, information and reporting systems to monitor and mitigate risk
Common Issues & Best Practices

- Required Written Procedures
- Stop Payments
- Written Statement of Unauthorized Debit Activity
- Revoked Authorization v. Stop Payments
- Regulation E Compliance
- Training
- ODFI Policies and Practices
The following procedures are required to be maintained – in writing:

- Record retention
- Handling death notification entries (DNE) and government reclamations
- Handling IATs, including review, OFAC scans and processing
- Processing stop payments on the system
Common Issues & Best Practices

• Handling adjusting entries for re-presented check entries (RCK)

• Handling an ODFI’s request for written statement, including the 10 day requirement for providing the written statement

• Handling and monitoring destroyed check entries (XCK)

• Handling dishonored returns and contested dishonored returns.
Stop Payments – Typical Issues

- No expiration date on consumer recurring stop payments
- Customer not given the option of placing a one-time stop payment or a recurring stop payment
- Employee confusion over business v. consumer stop payment expiration dates
- Verbal stop payments removed after 14 days
Written Statement of Unauthorized Debit Activity

- Institution has not removed the “under penalty of perjury” wording from the form.
- The institution’s form doesn’t include the nine minimum requirements.
- R07 (Revoked) and R10 (Unauthorized) are used prior to transaction posting.
- Employees do not fully understand the difference between the R07 and R10 return reason codes.
In the event of a disputed transaction, if the institution determines an error has occurred, it must:

- Correct the error.
- Re-credit the interest lost.
- Re-credit any fees imposed.

Typical Issue: Institutions don’t refund fees and lost interest resulting from the error
Training

A best practice recommendation

Employees involved in the ACH process should receive training at least annually.

Common Issues: Training is not provided and rules changes go unaddressed
ODFI Policies and Procedures

- Evaluating and approving exposure limits - *due diligence should be performed on all originators*

- Reviewing exposure limits for originating customers – *should be annual*

- Monitoring daily exposure limits – *should implement controls and set limits*

- Monitoring multiple day exposure limits – *should implement controls and set limits*

- Prefunding ACH credit batches – *should require customers originating ACH transactions to prefund ACH credit batches putting the batch into a pending state until the funds are verified and approved.*
Recap

- New IAT Return Reason Codes
- Data Passing prohibited
- New ACH Security Framework
- NACHA will soon support healthcare payments via ACH
- Ensure proper training to staff to make sure they are away of the updates!
Additional Resources

- [www.nacha.org](http://www.nacha.org)
- [www.achrulesonline.org](http://www.achrulesonline.org)
- [www.neach.org](http://www.neach.org)
- [https://healthcare.nacha.org/](https://healthcare.nacha.org/)
Thank You!

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