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I. PURPOSE

ACH transactions are inherently high risk transactions. Fraud may originate internally or externally. To counter these risks, strong internal controls, segregation of duties, checks and balances, and reviews/monitoring must occur. Examiners must evaluate if management is assessing and initiating appropriate risk countermeasures.

II. PRIMARY REFERENCES / RELATED REGULATIONS

- [National Automated Clearing House Association's \(NACHA's\) Operating Rules](#)


III. BACKGROUND

In general, there are two types of ACH participants: originating depository financial institutions (ODFIs) and receiving depository financial institutions (RDFIs). RDFIs inherently incur less risk than ODFIs. While both ACH types must abide by the National Automated Clearing House Association's (NACHA) rules of engagement and timeframes, ODFIs also assume funding risk by the originator. Settlement timeframes is imperative for ACH clearing. This concern impacts same day settlements.

The ACH network processes two types of transactions: Direct Deposit and Direct Payments. Direct Deposit is deposit of funds for payroll, employee expense reimbursement, government benefits, tax and other refunds, annuities, and interest payments. Direct Payment is the use of funds to make a payment, either initiated by the consumer or a vendor.

IV. MINIMUM PROCEDURES

Similar examination/audit procedures exist for both ODFIs and RDFIs. Management must design and approve an ACH policy. The policy must detail the type of ACH transactions performed and acceptance of the potential risk exposure. The policy should be supplemented with detailed ACH procedures governing the operations, security, and responsibilities. In addition, NACHA's *Operating Rules, Appendix 8*, requires an annual ACH audit. The ACH audit may be a self-audit or an external audit. Regardless if the ACH audit is internally or externally performed, the individual(s) performing the ACH audit must be

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independent of ACH operations. Moreover, NACHA requires ODFIs and RDFIs to perform an annual ACH risk assessment.