



609 West 21st St  
Yankton, SD 57078  
Ph. (605) 665-4309

PO Box 610  
Parkston, SD 57366  
Ph. (605) 928-7520

1501 Walnut St  
Springfield, SD 57062  
Ph. (605) 369-2909

---

December 21, 2016

## PURPOSE

The 2016 Site-Four annual ACH audit was conducted on, December 21, 2016, by Jan M. Putnam, AAP for Services Center Federal Credit Union. The overall objective of the audit was to assess Site-Four's ACH compliance with respect to the 2016 NACHA Operating Rules (Section 8.1 – General Audit Requirements for Participating Depository Financial Institutions and Section 8.2 – Audit Requirements of Participating Financial Institutions). Site-Four does not originate ACH transactions, other than returns for its client Credit Unions, so therefore is not required to complete Section 8.3 (Audit Requirements of Originating Depository Financial Institutions).

## LEGAL DISCLAIMER

The information contained in this document does not constitute legal advice. We make no claims, promises or guarantees about the accuracy, completeness, or adequacy of the information contained in this document. You should retain and rely on your own legal counsel, and nothing herein should be considered a substitute for the advice of competent legal counsel. These materials are intended, but not promised or guaranteed, to be current, complete, and up-to-date and should in no way be taken as an indication of future results. All information is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will CU\*Answers, its related partnerships or corporations, or the partners, agents or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information provided or for any consequential, special or similar damages, even if advised of the possibility of such damages.

*“We’re here to help!”*

## **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 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).*

### Finding:

The 2015 audit was conducted on December 21, 2015 by Jan M. Putnam, AAP for Services Center Federal Credit Union. Site-Four began processing ACH for their contracted Credit Unions on February 1, 2013. They have a Federal Reserve Bank FedACH® Participation Agreement Part 2: Origination Options (Table S.2 – Service Provider Designation) and Part 3A: Receipt Options for Participating Institutions (Table R.3 – Service Provider Designation) on file for each Credit Union they provide services for.

They also have a “Notice of Sharing Fedline Access Routers” form on file for the shared connection(s) relationship with Services Center Federal Credit Union (SCFCU) as they use SCFCU’s connection(s) to receive and send ACH files from and to the Federal Reserve (ACH Operator).

### Comments/Concerns/Recommendations

It has been recommended since the 2013 audit that Site-Four complete and enter into an agreement with its participating credit unions, or clarify their group provider agreement(s), addressing their responsibilities, accountabilities and liabilities pertaining to ACH. An attorney’s opinion was sought and it was determined the agreement could be done only with the group providers, CU\*NorthWest, CU\*South and Services Center FCU. This agreement has now been completed, but should be reviewed, at least, annually and changed as needed, especially with the upcoming Same Day ACH.

The agreement is with each of its group providers, CU\*NorthWest, CU\*South and Services Center FCU as it pertains to ACH processing, addressing their responsibility, accountability and liability. Per NACHA Operating Guidelines – Section VI – Special Topics (Chapter 50 Third-Party Service Providers) “This agreement should define the responsibility, accountability, and liability for the handling of ACH files. It should also address provisions for any additional services the processor may offer to the RDFI, such as processing returns, notifications of change, etc.” The agreement should contain posting times, cut off times and other pertinent processing information. The posting and cut off times have been provided to its client credit unions.

*“We’re here to help!”*

## **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.*

### **8.2.a Record Retention Verification**

*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:

Records are saved on the IFS core system and are available since February 1, 2013 when Site-Four began processing. Prior records, pertaining to the six year retention requirement, are available from the previous processors CU\*NorthWest, CU\*South and Services Center Federal Credit Union. It was verified these records are available.

### **8.2.b Electronic Record Verification**

*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:

Site-Four does not utilize electronic records for transaction receiving processing and they do not do any origination processing, other than returns that require an authorization, electronic or otherwise.

### **8.2.c Audit Verification**

*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:

Audits have been completed annually since Site-Four began processing ACH transactions in 2013. A copy of the previous audits are available.

### **8.2.d Secure Data Transmission**

*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:

Site-Four downloads and uploads files using the Federal Reserve's encrypted VPN connection directly to the Integrated File System (IFS) on the core system. Site-Four uses the Advanced Encryption Standard (AES) 256 bit encryption to move data between themselves and client credit unions.

*“We're here to help!”*

### **8.2.e NACHA 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 the appropriate N-7 form and paid all Network Administration Fees as required by Section 1.13 (Network Administration Fees). (Article One, Section 1.13)*

Finding:

Not Applicable

### **8.2.f 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:

Not Applicable

### **8.2.g Data Security Framework**

*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:

Site-Four has adopted and put in place the necessary policies and procedures to safeguard Protected Information as required.

## **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:*

### **8.3.a Prenote Verifications**

*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:

Not Applicable

### **8.3.b Sending Notifications of Change (NOCs)**

*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:

Not Applicable – Each individual credit union processes and queues their own notifications of change and Site-Four is only responsible for transmitting them into the ACH network.

*“We’re here to help!”*

### **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. (Article Three, subsections 3.1.1 and 3.8.2)*

#### Finding:

All entries are accepted and transmitted to client credit unions. DNE transactions are provided to client credit unions on a separate report.

### **8.3.d Credit 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 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 the amount is made available to the Receiver for withdrawal at the opening of business on the Settlement Date. Verify 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:

Morning credits for participating credit unions are posted no later than 6:00 am CST. Midday files are retrieved and posted, based on each individual credit union's parameters, around 3:00 pm CST. This midday file may contain SAME DAY ACH transactions. Final posting is completed, most generally debits but again based on the participating credit union's parameters, no later than 11:00 pm CST.

### **8.3.e Account Statement Content**

*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:

All required information is printed on the account statement.

### **8.3.f Timely Returns 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:

Each individual client credit union queues their own returns and Site-Four transmits them to the ACH Operator no later than 4:00 pm CST.

*“We're here to help!”*

### **8.3.g Re-presented check (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:

Represented check entries (RCK) are returned with other returns at the appropriate time and queued by individual client credit unions.

### **8.3.h 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:

Credit transactions are returned with all other returns at the appropriate time.

### **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 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 a Single Entry IAT, PPD, TEL or WEB Entry, to a Consumer Account. (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:

Not Applicable - Each individual client credit union is responsible for accepting stop pay orders and submitting the information to Site-Four through the CU\*BASE software platform.

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

*“We’re here to help!”*

Finding:

Not Applicable - Obtaining a Written Statement of Unauthorized Debit (WSUD) is the responsibility of each client credit union.

**8.3.k 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:

Not Applicable - Site-Four is not responsible for providing sample UCC 4A disclosures to client credit unions.

**8.3.l Payment Related 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:

Addenda information is made available to Site-Four's client credit unions for them to provide to their members, if requested.

*“We’re here to help!”*