



Montana's Credit Unions
Minnesota Credit Union Network

Supervisory Committee Audit Basics
September 25, 2019 10 AM MST

SPEAKER



- Becky Frederick
- CERTIFICATIONS
- Certified Accredited Payments Risk Professional (APRP) by National Automated Clearing House Association (NACHA)
- Certified Regulatory Compliance Manager (CRCM) by the Institute of Certified Bankers (ICB)
- Certified BSA Compliance Specialist by Credit Union National Association
- Certified Information Privacy Professional / United States (CIPP/US) and as a Certified Information Privacy Professional/Canada (CIPP/C) by the International Association of Privacy Professionals (IAPP)
- Juris Doctor

AGENDA

- Annual Appendix A Audit
 - Deposit Account Reconciliations
 - Teller and Vault Cash
 - Investments
 - Loans
 - Allowance for Loan Losses
 - Member Shares and Deposits
 - Verification of Member Accounts
 - Regular Reserves and Undivided Earnings
 - Board of Directors Minutes
 - Examination Reports
 - Internal Controls
 - Supervisory Committee Reviews
- Member Account Verification Audit
- Supervisory Committee Annual Workplan



ANNUAL APPEDIX A AUDIT

- Annual Audit
 - Must cover period elapsed since prior annual audit
 - Must be performed at least once a year, but does not have to be done at the same time every year
- The Auditor certifies that the audit will address the complete scope of the requirements of NCUA §715.7(c)
- The Auditor should deliver a written report of the audit to the Supervisory Committee within three weeks of completion of the onsite portion of the audit
- The Auditor should provide unconditional access to the complete set of original working papers to the NCUA staff or state examination staff and retain the working papers for a minimum of three years from the date of the written report



MONTANA REQUIREMENTS FOR ANNUAL AUDIT

Montana Code Annotated 2017

TITLE 32. FINANCIAL INSTITUTIONS

CHAPTER 3. CREDIT UNIONS

Part 4. Operation and Officers

Audits

32-3-417. Audits. (1) The board of directors or supervisory committee shall make or cause to be made a comprehensive annual audit of the books and affairs of the credit union and shall submit a report of that audit to the board of directors and a summary of that report to the members at the next annual meeting of the credit union. The board or committee shall make or cause to be made any supplementary audits or examinations as it considers necessary or as are required by the department of administration or by the board of directors and submit reports of these supplementary audits to the board of directors.

(2) The board of directors or supervisory committee shall verify the records of the credit union consistent with 12 CFR 715.8 and 12 CFR 741.202.



SUPERVISORY COMMITTEE AUDIT BASICS

Annual Audit NCUA §715 must cover:

- Deposit Account Reconciliations
- Teller and Vault Cash
- Investments
- Loans
 - Approval and Processing
 - Findings
 - Delinquencies
 - Accrued Interest Receivable
- Allowance for Loan Losses



SUPERVISORY COMMITTEE AUDIT BASICS

Annual Audit NCUA §715 must cover (Continued):

- Member Shares and Deposits
 - Reconciliation
 - Overdrafts
 - Accrued Interest/Dividends Payable
- Verification of Member Accounts
- Regular Reserves and Undivided Earnings
- Minutes and Examination Reports
- Internal Controls
 - Teller Controls
 - Dormant Accounts
 - Returned Statements
 - No Mail Accounts
 - Share File Maintenance
 - Wire Transfers



SUPERVISORY COMMITTEE AUDIT BASICS

Supervisory Committee

- Internal Controls
- Dormant accounts, with attention to fraudulent patterns, overrides, and managerial adjustments.
- Member confirmation of all Do Not Mail requests
- File maintenance report verified by the Supervisory Committee to include staff identification
- Negative share accounts reports are reviewed and adhere to policy
- Loans by interest rate are verified for accuracy
- Monthly financial statements
- Periodic review of bank reconciliations
- New and closed memberships



MEMBER ACCOUNT VERIFICATION AUDIT

Member Account Verification

- Performed at least once every two years
- The verification must be a controlled process
- This means that there must be DIRECT contact by the Supervisory Committee with the members



MEMBER ACCOUNT VERIFICATION AUDIT

Types of Verifications

- Positive Verification – You send a notice to the member and expect a reply back, regardless of the accuracy of the balance; and
- Negative Verification – You send a notice and expect a reply only if the balance is incorrect

Which One Should You Use?

- A Negative Verification is acceptable, especially for small credit unions, and is usually the best way to go for CU's that have good internal controls in place
- A Positive Verification must be used if you are doing a statistical sample (selecting only a certain number of accounts), when internal controls are weak, for dormant accounts with unusual activity and large balance accounts



SUPERVISORY COMMITTEE WORKPLAN

	First Quarter	
January	February	March
Review Audit Schedule	Review Check Disbursements	Review New and Closed Accounts
Surprise Teller and Vault Audit	Review Outstanding Checks	Review Dormant Accounts
Second Quarter		
April	May	June
Review Negative Shares Reports	Review Corporate Credit Card Statements and Expenses	Surprise Teller and Vault Audit
Review Deposit Account Reconciliations	Review Delinquent Loans and Charge-offs	Review Employee and Volunteer Loans



SUPERVISORY COMMITTEE WORKPLAN

	Third Quarter	
July	August	September
Review File Maintenance Reports	Surprise Teller and Vault Audit	Review New and Closed Accounts
Review Member Complaints	Review Deposit Account Reconciliations	Review Loan Files and Loan Denials
Fourth Quarter		
October	November	December
Review Returned Mail Log and Process	Review Employee and Volunteer Accounts	Review Loans By Interest Rate
Review Prepaid Accounts	Review Audit Findings	Review Investment Accounts



ADDITIONAL AUDITS AND REVIEWS

- BSA Reviews
- SAFE Act Audits
- Website Reviews
- Member Verification Audit
- Branch Operation Audits
- Funds Transfer/Wire Processing Reviews
- Mortgage File Reviews
- Quarterly Compliance Reviews
- Staff and Volunteers Accounts Audit



ADDITIONAL AUDITS AND REVIEWS

- Branch Operation Audits
- Funds Transfer/Wire Processing Reviews
- Mortgage File Reviews
- Quarterly Compliance Reviews
- Staff and Volunteers Accounts Audit



FEES

- Appendix A Audits: \$3,500-\$5,000
- Member Verification Audits: \$500-\$750
- BSA Reviews: \$750-\$1,500
- SAFE Act Reviews: \$750-\$1,500
- Website Reviews: \$700-\$1,200



CONTACT INFORMATION

Becky Frederick
Compliance and Audit Consultant
Minnesota Credit Union Network
555 Wabasha Street North, Suite #200
St. Paul, MN 55102

Direct: (651) 288-5509
Toll-free: (800) 477-1034
Cell: (612) 757-4014
bfrederick@mncun.org

