



Computer Conversions and Specialized Reports

As part of our continuing service to credit unions, we are publishing two articles on computer system conversions. The first article, which follows below, discusses some suggested computer reports the Credit Union may want to consider prior to a computer conversion. In addition, these reports should be discussed with the potential vendor to determine if the vendor currently provides and/or could develop these specialized reports for use by the credit union. The second article covers items to consider in a conversion and gives examples of tests the credit union staff can perform to check the common problem areas of conversions. The second article will be published in the next newsletter scheduled for mid 2007.

One of the most critical areas of exposure in a credit union today, which usually results in high dollar losses to a credit union, is manipulation of credit union and member data. The regular review of specialized reports is an important part of a credit union's internal control program. Reviewing specific reports can also serve as a fraud prevention tool in that employees may be deterred from fraudulent activity if they know these areas are reviewed on a regular basis.

The specialized reports are listed below with the "fields" that should be included in the computerized reports. In addition, the credit union may want to add and/or modify the data below in order to meet any of your credit union's specific requirements.

File Maintenance Reports:

File Maintenance Reports are reports that detail changes to selected fields of credit union information reflecting a ***before and after*** change to information. Examples of the types of information changes that would appear on the file maintenance reports include but are not limited to the following: name, interest rates, address, phone number, frequency of loan payments, loan due date changes, additional individuals added to selected accounts, etc.

Therefore, a listing of each file maintenance change ***before and after*** should be included in this report. Also, the credit union employee who made the file maintenance change should be reflected on this report.

Supervisory Override Reports:

Supervisory Override reports are reports that detail transactions that were permitted after obtaining a supervisory override. These types of transactions are usually "**blocked**" in the computer system; the system will not allow the transaction to occur until a Supervisor "**keys**" in a code or physically turns a key at a terminal. Supervisory override controls are established due to the sensitive nature of the transaction and the need to verify that the transaction should take place. Some examples where supervisory overrides may be required include the following: any type of access to dormant accounts; employee access to their own, immediate family member, or another employee's account; putting a no-mail code on a member account; and some file maintenance changes such as loan due dates or interest rate changes. Therefore, a listing of the specific supervisory override by the credit union employee and Supervisor who performed the override should be reflected in this report.

Dormant Accounts:

Dormant accounts are defined as a share or share equivalent account in which there has been ***no*** member generated activity for a specified period of time. Due to the nature of dormant accounts and the inactivity of these accounts, they could be the target for fraudulent activity. One suggestion, which has reduced time for the reviewer, is to generate a computer report of all dormant accounts that have been removed from the dormant account listing. Experience has demonstrated this report is much smaller than the detail listing and will identify accounts no longer dormant. The reviewer can now conduct testing of these accounts to determine if removal from dormant status was authorized.

The computer-generated report should list All dormant accounts removed from dormant status on a monthly basis.

Loans Paid Ahead 2-months and greater:

The objective of reviewing a "Loans Paid Ahead Report" is to ensure the next payment due date for these loans is correctly stated and in accordance with the specific terms of the loan note for each loan type.

This computer-generated report is usually requested to indicate all loans with a next payment due date two months or more into the future.

Loans rates >18% and <3%:

Interest rates for loans should be equivalent to the original terms on the loan agreement between the member and the credit union. However, interest rates on loans could be different from the original terms on the loan agreement due to many reasons. Because of potential problems, the interest rates of loans should be tested on a periodic basis to ensure the information is correct and pursuant to the intended loan interest rate.

The report should reflect any loans with interest rates above 18% and below 3%.

Accrued Interest greater than \$1,000:

There are a number of valid reasons why the accrued interest on a loan may be higher than the established benchmark. Some of these reasons include, but are not limited to, the following: the loan is on the delinquency list, the loan has a high balance (i.e., mortgage loan) and/or a high interest rate., the loan could be a student loan (interest is due at a later date), the loan has a balloon payment at maturity of the loan, or the credit union is receiving partial payments. If the credit union can explain any of the loans on its accrued interest report with one of the reasons listed above, it can

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Eliminate that loan from its list without further investigation. Any remaining loans on the report should be researched to determine why they appear on the list.

A detailed report of all member loans with accrued interest balances greater than \$1,000 should include the following: member name, member account number, current loan balance, interest rate, collateral code, last payment date, and total amount.

Zero Balance Loans with Accrued Interest:

Zero balance loans should **not** have any accrued interest. Therefore, a review of a report of zero balance loans with accrued interest should be examined to ensure there are no such accounts.

A detailed report of all zero balance loans with accrued interest should include: member name, member account number, current loan balance, current interest accrual, collateral code.

Employee and Official Statements:

A share and loan trial balance report for credit union officials and executive management should be produced for the credit union's review. The *credit union statement* of officials and employees should be reviewed for suspicious and/or unusual activity. You should see if a report of all employees and officials can be run with totals for the two major categories; *loans and share and share equivalents*.

This report should contain a listing of all accounts that belong to the employees and officials of the credit union.

Negative Share Report:

A negative share report reflecting all members' share, share

draft, or other deposit accounts with a balance below zero as of a specified date should be produced and reviewed by the credit union.

The negative share report should include the member's name, account number, balance, and date the account became negative.

No-MailAccounts:

There should be a review of the procedures for the handling of member accounts coded as "no-mail." No-mail accounts include accounts with incorrect addresses, as well as accounts requested by the member to be no-mail. No-mail accounts represent a higher degree of risk due to the fact that the members are generally not regularly reviewing their account activity.

A detail report of all accounts coded as "no-mail" by credit union employees should be produced. Also, the credit union employee who coded these accounts as no-mail along with the date the account was coded as a no-mail account should be reflected on this report.

Feedback from our clients who have implemented the suggestions above has shown that effective results can be achieved. In addition, working with the computer vendor at the beginning of the conversion resulted in the specialized reports being developed based on the credit union's specific requirements. Given the potential for detecting fraudulent activity, we strongly recommend credit unions consider the recommendations listed above. Most of the reports above are *proactive measures*, which should aid your credit union in monitoring these sensitive areas.

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