THE AUDITOR'S REPORT

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ACCOUNTING & AUDITING

The Area Of Dormant Accounts

.As part of our continuing service to credit unions, we are publishing a series of articles on auditing different areas of the credit union. The articles outline the testing the Supervisory/Audit Committees, Management, Risk Management, and Internal Audit Departments may want to consider as part of their review process. This article is the fifth in a series of articles, and covers the area of 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 are usually targets for fraudulent activity. It is not uncommon for credit unions to have thousands of dormant accounts at their credit union; therefore, internal controls need to be in place at the credit union to safeguard against unauthorized transactions. These controls include but are not limited to a ***computer flag on the account designated as dormant***, ***dormant account reports generated for review***, ***override reports***, etc. The following information should be considered in the review and maintenance ofdormant accounts.

Computer flags: A computer flag is a control, which is displayed on the computer screen and alerts the tellers that the account they are trying to access has been designated as dormant. Depending on the computer system, the removal of this "flag" may require a supervisory override by another individual who has a certain security level ***or*** it may be removed by the teller. In most cases, the removal of this member from the dormant account listing will result in this transaction being recorded on a "***supervisory override report***" which can subsequently be reviewed. For information on supervisory override reports, see **Vol. 03 No. 1** at our website, **www.nearman.com** which is the third article in a series of articles on auditing.

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Deposits and Withdrawals: The removal of an account from the dormant account listing should be examined very carefully to ensure the transaction was properly authorized by the member. Removal of a dormant account from dormant status is usually accomplished by a transaction, which is usually a withdrawal or a deposit to the dormant account. A credit union should have procedures in place to properly identify anyone make a transaction on a dormant account. When testing if a .ransaction was authorized, it is not uncommon that the reviewer of these accounts test only withdrawals to these accounts.

However, the modern day fraudster will make a deposit to the dormant account, which will take the dormant account off of the dormant accounting listing. Once the account is off of the dormant account listing, it is not subject to the internal controls established by the credit union, and therefore, the fraudster can deplete the account down to zero. Audit hint: When testing why an account is no longer dormant, the reviewer should test not only withdrawals, but Also deposits to determine if the removal of the dormant account from the dormancy list was authorized. Procedures should be reviewed to ensure they include obtaining appropriate identification when a transaction is made on a dormant account. The reviewer should also periodically test these controls by attempting to make not only a withdrawal to a dormant account, but also a deposit to dormant accounts.

Dormant Account Report versus Activity Report: A Dormant Account Report is a report of all of the dormant accounts at the credit union. This listing could be three inches thick and contain over thousands of accounts. Therefore, to audit this listing, it could take the reviewer a long period of time. Audit hint: One suggestion, which has reduced time for the reviewer is to generate a computer report of all dormant accounts which have been removed off of the dormant account listing. Experience has demonstrated that this report is much smaller than the detail listing and will identify which accounts are no longer dormant. The reviewer can now conduct testing of these accounts to determine if they were authorized.

Power Surges and Computers Systems: Credit Unions should be aware that controls over dormant accounts should be periodically tested to assure that the controls arestill inplace.

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We have seen at several credit unions that a power surge had removed the controls over dormant accounts. In addition, depending on who has access to the computer system, controls can change and therefore, testing of this area is recommended.

Practical Consideration: Several of our audit clients have enjoyed a high degree of success in the marketing area by targeting high balance accounts on the dormant list. For instance, based on a review of the individual account balances, Management establishes a benchmark (for example $10,000) and initiates a mailing campaign. This mailing campaign provides these members with a $10 voucher which can be presented by the member to any teller. Once presented, the teller will register a deposit in this member's account and provide this member with marketing material. This procedure may accomplish the following at a minimum:

- Reintroduces these members to the new programs, services, and interest rates the members may not be aware of since their last visit to the credit union.
- Gives the member the opportunity to meet with a Members Services Representative to discuss the services available.
- Removes these members from the dormant list, which reduces the number of accounts, which are reviewed by the credit union.
- Potential increase in income related to the generation of loans or providing other services to these members.

Feedback from our clients who implemented the suggestion above has shown that effective results can be achieved.

Based on the information presented above and the potential for detecting fraudulent activity, we strongly recommend the credit union consider the recommendations listed above. Most of the items above are ***proactive measures*** and a ***psychological deterrent*** which should aid the credit union in its monitoring of this sensitive area.◆

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