



## Official And Employee Statement Review

As part of our continuing service to credit unions, we will publish a series of articles on auditing areas of the credit union. The articles will outline testing that Supervisory or Audit Committees, Management, and the Internal Auditors may want to consider in each area. This article is the second in a series of articles, and it outlines how to review official & employee statements.

One of the most sensitive areas of testing in a credit union is the area of reviewing official and employee statements. The degree of the review, the dollar limits established, and the selection of who is reviewed has resulted in friction, misunderstandings, and the resignation of employees, members of the Supervisory/Audit Committee, Board of Directors, and Management. Therefore, reasonable care should be applied to this sensitive area.

“Credit union officials and employees owe a fiduciary duty to the credit union to act in good faith.....”

Credit union officials and employees owe a fiduciary duty to the credit union to act in good faith in the performance of their duties. Most officials and employees take their fiduciary duty seriously and perform their duties in accordance with the policies and procedures of the credit union. However, not all officials and employees share this loyalty to the credit union. As part of your overall monitoring process, official and employee credit union statements should be reviewed periodically.

**The first step** is to determine who will conduct the review. Will it be a

member of the Management team, the Supervisory/Audit Committee, the Internal Auditor, Board of Directors, or an independent CPA firm? **The second step** is to determine the time period in which the testing will take place. Usually, a three-month period is selected; however, depending on the situation and what the credit union wants to achieve, the period reviewed could be as short as one month and as long as several years. **The third step** is to select a sample of officials and employees. Some credit unions perform a review all of the officials and a sample of the employees. The sample of employees usually will include those individuals who are in very sensitive credit union positions where fraudulent activity could occur. **The fourth step** is to make sure to include all accounts of relatives of the officials and employees in this review. This step is critical because there have been situations where relatives' accounts have been used for fraudulent activity. **The fifth step**, which is sometimes overlooked, is to make sure that someone (other than the reviewer) reviews the statement of the individual performing the review (with the exception of the CPA firm). Approximately 90% of the time, the individual performing the review is excluded from the review process. Therefore, someone needs to review the reviewer.

The *credit union statement* of officials and employees should be reviewed for suspicious activity, which includes but is not limited to the following areas:

- ▶ Large deposits.
- ▶ Loan repayments *without* corresponding finance charges.
- ▶ Unusually high amounts of activity in dollars and number of transactions.
- ▶ Journal transactions.

- ▶ Changing interest and dividend rates.
- ▶ Reversal of fees.
- ▶ New loans.
- ▶ Check kiting.
- ▶ Transfers outside of (to/from) the employee/official account.

Most of the areas of concern above are self-explanatory; however, *large deposits* could consist of IRS refunds, a new loan taken out at other institutions, life insurance proceeds, sale of property, or fraudulent activity. These large deposits should be traced to the deposit slip and original check if applicable. Journal transactions include transactions such as NSF fees, savings bond entries, credit card advances, etc. If the reviewer sees a new loan on the employee or official statement, the loan file should be checked for proper documentation and approval. Check kiting involves frequent corresponding deposits and withdrawals in similar amounts throughout the month.

Any questions or problems with the above areas should be researched further until resolved. Issues, which are not resolved, should be brought to the attention of the appropriate individuals at the credit union.

Another area, which is most often overlooked in the review process, is the examination of the officials and employees *personal credit cards at the credit union*. The review of official and employee credit card statements should include but not be limited to the following:

- ▶ Large draws or purchases and subsequent repayments.
- ▶ Changes to the official's and/or employee's credit line.

*Continued on page 2*

- ▶ Finance charges and reversal of fees.
- ▶ Journal transactions (i.e. cash advance or payment on the credit card at counter).

We have found that most credit unions are unaware of the exposure in the area of personal credit union credit cards and do **not include this area in their review**. Recent trends have found it is a common occurrence to see large draws from individual credit card accounts with subsequent payments to these accounts from unauthorized credit union transactions. Therefore, controls over the receipt and payment of credit card proceeds should be monitored to ensure the proper safeguards and segregation of duties are in place.

Because of the constant changing environment of the credit union, another area overlooked in the review process is related accounts. These relationships are not always apparent, and therefore, updated information is needed to ensure that reviews of the correct accounts are being performed. One method to

help ensure updated information is used in the review process is to have the officials and employees fill out an “**Annual Disclosure Statement**.” A Disclosure Statement is an updated list of related accounts of the officials and employees of the credit union. The Disclosure Statement should cover issues such as related accounts at the credit union, loans which the credit union employee is a co-signer on, vendor relationships, etc. The Disclosure Statement should be filled out at date of hire and signed and witnessed annually thereafter. In addition, the officials and employees must inform the credit union of any subsequent changes during the year. This procedure is critical because of the constantly changing relationships at the credit union and also, updated information must be included as part of the monitoring process.

As you can see, the Supervisory/Audit Committee, Management, CPA firm, or some designated individual should implement a review procedure to help ensure official and employee account transactions are valid and have been properly recorded. All officials and employees should

periodically disclose to Management all personal and other related accounts that are maintained at the credit union to facilitate this procedure. Informing employees this procedure is being performed provides a further deterrent to fraud.

One word of advice is that you should **not** jump to conclusions until the issues are fully researched. There is an old saying, “no matter how thin the pancake, it has two sides”; therefore, all items must be investigated and documented prior to making accusations. The resolution of discrepancies is the most critical part of a statement review and can have a disastrous outcome. Remember, you will be questioning an individual's work ethic and integrity and you will only get one chance. Therefore, it is critical that you are correct in your conclusions. For questions or more information, please give us a call at (800) 288-0293. We have provided a copy of a Disclosure Statement on our webpage at [www.nearman.com](http://www.nearman.com). ♦

*Cecil D. Maynard, CPA, MPA, CFE  
Director of Audit Services*