



## Supervisory Override and File Maintenance Reports

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 some of the testing that Supervisory/Audit Committees, Management, and Internal Auditors may want to consider as part of their review process. This article is the third in a series of articles, and covers how to review Supervisory Override and File Maintenance reports.

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 Supervisory Override and File Maintenance reports is an important part of a credit union's internal control program and is a **low-cost fraud detection tool**. Reviewing both of these 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. Therefore, reasonable care should be applied to this critical area of review.

A credit union's system produces a report detailing supervisory overrides as part of a control within the computer system.

*“Supervisory Override* reports are reports that detail transactions that were permitted after obtaining supervisor approval. 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 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 (depending on the credit union). Testing of Supervisory Override reports includes, but is not limited to, the following:

- ▶ Check if the Supervisory Override reports are being independently reviewed. Someone in Management who does not have the ability to perform overrides should review this report. Depending on the size of the credit union and its resources, the Supervisory Override reports should be reviewed on a monthly basis as a minimum.
- ▶ Check if the computer system requires a manual input from a Supervisor, or if the requesting credit union employee can perform the override him/herself.
- ▶ Check if the individual requesting the override is different from the Supervisor. There should be a segregation of duties in this area; however, depending on your credit union's size, there may only be one Supervisor. Therefore, a review of the Supervisory Override report should be performed by another individual.
- ▶ Check the frequency of the overrides to an account. Multiple overrides to an account could reveal problems and/or alteration of information over specific periods of time.
- ▶ Check the frequency of overrides by a Supervisor, and look for any trends or unusual combinations between Supervisors and other credit union personnel.

As you can see, if Management has taken the steps to establish a Supervisory Override, then by its nature, the area has been identified as a sensitive area and should be monitored. Therefore, a review of the Supervisory Override report must be

part of any internal control program of the credit union.

File Maintenance reports should also be reviewed on a regular basis to ensure member data is not manipulated for a fraudulent intent.

*“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 changes: name, interest rates, address, phone number, frequency of loan payments, loan due date changes, additional individuals added to selected accounts, etc.

Testing of File Maintenance reports includes, but is not limited to, the following:

- ▶ Check if changes in dollar amounts were authorized.
- ▶ Check if due date changes on loans were authorized. Were the new due dates approved by appropriate credit union personnel?
- ▶ Check if address changes were authorized. Did the member authorize the address change? Was the authorization in writing, or can it be verified or traced back to correspondence from the member?
- ▶ Check if rate changes were authorized. Was a loan percentage rate decreased or the dividend interest on a share or share equivalent increased for the benefit of an individual?

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- ▶ Check the frequency of changes to fields. Were there changes to specific fields on the same account several times during the year?

File Maintenance reports should be independently reviewed by someone in Management who does not have the ability to make these types of changes. Depending on the credit union's size and resources, file maintenance reports should be reviewed on a monthly basis as a minimum.

A very important point needs to be made in the area of the review of Supervisory Override and File Maintenance reports. External Auditors and Examiners are not at the credit union year round and must not be relied on for this continuous and suggested review. In addition, External Auditors and Examiners usually inform the credit union of the time frame for their visit in order for the credit union to plan for the visits

**“The longer the time frame between reviews, the longer a problem may go undetected”**

and to schedule the employee vacations. If an employee was abusing the system in these areas, it would not be uncommon for the employee to make a change to the various fields prior to the External Auditors' and Examiners' visit in order to avoid detection. Therefore, a review must be performed by the appropriate credit union personnel *throughout* the year in order to detect potential abuse and unauthorized transactions. The longer the time frame between reviews, the longer a problem may go undetected.

Also, informing credit union personnel that a review of all Supervisory Override and File Maintenance reports will be performed throughout the year is

a good proactive approach to the internal control structure. Abuse in these areas is usually reduced if employees know that discovery of these transactions could be detected in the review process. In addition, the credit union should follow a no tolerance policy and fully prosecute any abuses regardless of whom, why, when, and the amount. This type of policy sends a signal to all credit union personnel about the credit union's position on fraud and could deter someone from abusing the system.

Based on the information presented above and the potential for detecting fraudulent activity, we strongly recommend your Supervisory Committee or Internal Auditors include a review of supervisory override and file maintenance reports as part of your annual audit plan. ♦

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