

The Auditor's Report



In this issue

Procedures For Departing CU Employees **P.1**

RIVIO Report Sharing **P.3**

FASB Update **P.4**

League Conference Recap **P.4**

A PUBLICATION OF



Procedures For Departing Credit Union Employees

One of the most valuable assets of a Credit Union is its employees. Credit Union employees serve as personal representatives of the Credit Union, usually have first contact with members and potential members, and they conduct business on behalf of the Credit Union. Because of far reaching implications, extreme care should be exercised in the selection and retention of the Credit Union employees. However, there may be situations where a Credit Union employee leaves the employment of the Credit Union either by their choice or in the event of a termination. In either case, the Credit Union needs to act quickly to ensure that the assets and operations are adequately protected during this period. The Credit Union must take the appropriate steps to remove any access and control the Credit Union employee has, to ensure certain Credit Union property has been returned or is properly accounted for during this departure. These control areas include but are not limited to, physical access to the Credit Union's buildings and systems, signature authority of Credit Union accounts, accountability of Credit Union property and assets, Credit Union policies and procedures, and finalization of various human resource matters.

This article provides guidance that the Board of Directors, Supervisory/Audit Committees, Risk Management, and Internal Audit Departments should consider as part of their review when there is a departure of a Credit Union employee. Depending on the departure of this employee by either resignation and/or termination, it is highly recommended that the Credit Union's Attorney be consulted. The following should be considered by the Credit Union at a minimum:

Communication with Credit Union Staff – The Board of Directors should develop a standard response concerning the departure of this employee depending on the position of the departing employee. In certain cases,

the Board should meet with the rest of the Credit Union staff to notify them of the change. In addition, the Board should stress that any conversation or response to this person should be reported to the appropriate pre-determined Credit Union individual. To suppress rumors and/or miscommunications, the staff should know they can be held accountable for conversations regarding the change and should not discuss it with anyone except to give the standard response developed by the Board.

Signature Authority – This is one of the most important areas which needs to be addressed by the Credit Union. Since the third-party vendors may not be aware of the departure of this Credit Union employee, this former employee may still be able to conduct transactions on behalf of the Credit Union. Therefore, the procedures for removing the former employee's signature authority from Credit Union accounts may include contacting the following third-party vendors:

- Safekeeping institutions
- Investment brokers
- Certificates of deposit
- Bank accounts
- NCUA and/or State Examiners
- Corporate Credit Unions
- CUSOs
- Institutions granting lines-of-credit
- Credit Union deposit accounts
- Credit Card Servicer
- Attorneys
- Security company
- Trustee of the Credit Union's pension plan
- Data processing vendor
- Insurance companies
- Alarm company of the Credit Union

Continued on page 2

Procedures For Departing Credit Union Employees - Continued from page 1



A letter should be sent by a Credit Union representative and in many cases, depending on the departing employee's position, it could be the Chairperson of the Board, the Credit Union Attorney and/or a designated Credit Union individual. This letter should be sent to all vendors detailing the name of the departing employee, their last day at the Credit Union

and requesting that this former employee be removed from the account. In addition, the letter would also add a replacement as an authorized signer on this account. It is also recommended that you send this request certified mail, return receipt and signature requested for documentation purposes. For a sample of a letter to be sent, please contact us at: info@nearman.com. It is also highly recommended that the Credit Union contact their Attorney concerning this process and the content of the letter.

Access to Systems– Access to the Credit Union's systems by the former employee must be removed immediately. (Systems include the Credit Union's computer systems, third-party applications, remote access, website, home banking application, internet, e-mail, servers, modems, etc.). It is very important that the former employee be taken off the computer system immediately and the Credit Union should also ensure that this individual cannot access the computer system via remote access.

Under no circumstances should the Credit Union allow any terminated employee to return to his/her computer. When the process of the termination is taking place, the IT Department of the Credit Union should have taken this individual off the system prior to this meeting. In addition, during this termination, the former employee should be informed that his personal belongings will be inventoried by two individuals under dual control and the contents will be returned to this individual at a later date.

Physical Access – The Credit Union must ensure that safe guards to the physical access to the buildings, branches, vault, safe deposit boxes, ATMs, night deposit box, etc. is removed upon the departure of the former employee. The following should be collected as it relates to keys and/or access codes to the following:

- Doors,
- Key cards, Badge/ID card, Security pass
- Passwords (Network/computer, screen saver, voice mail, etc.

- Credit Union automobile
- Night deposit box, ATMs
- Safe deposit boxes
- File cabinet keys
- Parking permits
- Access to the safe or vault (possible key/combination)

It is very important that all combinations and security codes be changed immediately, any delay places the Credit Union at risk!

Credit Union Property – During the course of the employment of this former employee, he/she may have had access to Credit Union property. The Credit Union should determine if the property has been returned as of the departure date. Credit Union property includes, but may not be limited to, the following:

- Cell phones
- I-Pads, Tablets
- FedLine Advantage tokens
- Automobiles
- Corporate credit cards
- External hard drives and USB sticks
- Lap top computers
- Printers and supplies
- Modems
- Business cards, Name plates
- Credit Union letterhead

If the former employee had use of the Credit Union automobile, this individual should be removed from the insurance policy.

Safety Deposit Box – If this former employee had access to the Credit Union's own safe deposit box (either at the Credit Union or at another institution), the contents of the safe deposit box should be examined under dual control.

Policies – Depending on the position of this departing Credit Union employee, the Credit Union's policies may need to be updated to remove any reference to this individual. Areas which we have seen which could include references to a former employee by name may include the following:
firm.

- Disaster Recovery Plan
- Investment policy
- Allowance for loan losses account
- Personnel and/or training policies
- List of employees and officials
- BSA Policy

Continued on page 3

Procedures For Departing Credit Union Employees - Continued from page 2

Prepaid Invoices – The Credit Union should identify any prepaid invoices for items such as conferences, registrations, associated travel, subscriptions and either cancel or request a refund of such items.

Procedures – Depending on the position of this departing Credit Union employee, the Credit Union's procedures may need to be updated to ensure various areas are covered. Areas which need to be examined by the Credit Union cover numerous areas some of which may include removing the former employee from the following:

- As an authorized check signer and confiscate the plates/machine and notify the processor of the change
- The payroll system
- The webpage
- The Credit Union's newsletter
- FinCEN 314a notifications
- Lending authority

Human Resources – This is a very sensitive area and should be handled by the Human Resource Department and the Credit Union Attorney. The areas of the Human Resource area include but are not limited to the following:

- Vacation accrual and payment
- Life insurance cancellation
- Notification of COBRA eligibility
- Removal from the payroll system
- Removal from the 401K plan as trustee
- Notification of participant termination from the 401K plan, etc.
- Terms of any employment contract

Professional Associations – In the event the former employee had any membership in any professional associations that the Credit Union had paid on behalf of this individual, the Credit Union may want to contact these organizations to cancel and/or transfer the membership to the new Credit Union employee filling that position.

Removal of terminated employee – I have been asked in the past by several Credit Unions who are in the

process of terminating an employee if the Credit Union should have a police officer escort this terminated employee off the premises. While this is a judgment call and may appear to be extreme, this practice can defuse a difficult situation especially due to the uncertainty of how this individual will respond to being terminated. As a rule, the Credit Union may want this process as part of policy so that it is not a surprise to anyone in the event of a termination. In addition, and more important, this practice will provide peace of mind for all parties involved including the existing Credit Union staff and prevent this former employee from going back to work areas.

One last point, depending on the reasons for the termination, a more intense review of this former employee areas may be needed, and could cover additional areas of the Credit Union's operations. Terminations are never easy for all parties; however, in the event of a termination, and if time permits, the Credit Union should ensure that the process is smooth and the Credit Union is prepared, with several of the recommendations listed above, especially the removal of this individual from the Credit Union's core computer system.

Based on the information presented in this article, we strongly recommend that Credit Unions consider the recommendations we have discussed above. Credit union employees owe a fiduciary duty to the Credit Union to act in good faith in the performance of their duties. Most employees take their fiduciary duty seriously and perform their duties in accordance with the policies and procedures of the Credit Union. However, not all employees share this loyalty to the Credit Union, and in some instances, may be terminated from the Credit Union. While the above procedures are a good start to this process, the actual process of having a plan in place in the event of departing employees is a proactive measure which could aid the Credit Union during this process. One last recommendation is that a checklist and/or forms could be developed from the above information by the Credit Union to fit their needs

*Cecil D. Maynard, CPA, MPA, CFE, FCPA, CFF,
Partner, Nearman, Maynard, Vallez, CPAs*



Nearman, Maynard, Vallez, CPAs is now utilizing RIVIO Clearinghouse in order to share reports with the NCUA. RIVIO, a service of CPA.com, an AICPA Company is a platform that facilitates the exchange of documents. This system provides a secure environment that allows you to share your report with third parties at no cost to you. Providing the report using the RIVIO platform has been approved by the NCUA as an acceptable method for receiving the report. Learn more at rivio.com.



ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to credit unions has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, & commitment. If your Supervisory/ Audit Committee or Management is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

Website:
www.nearman.com
E-mail: info@nearman.com
Toll-free: 800.288.0293

Atlanta: 205 Brandywine Blvd., Suite 100, Fayetteville, GA 30214 770.461.5706

Miami: 10621 N. Kendall Dr., Suite 219, Miami, FL 33176 305.598.1730

This newsletter is for information purposes only and is not intended to provide investment, legal, or accounting advice. Edited by Erin Doolittle, Marketing Coordinator. No part of this newsletter may be reproduced without the written consent of Nearman, Maynard, Vallez, CPAs.

FASB Update

In January 2016, The FASB issued ASU No. 2016-01 "Financial Instruments – Overall – Recognition and Measurement of Financial Assets and Financial Liabilities", (Subtopic 825-10). The main objective in developing this Update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information.

The Update has two areas of interest to credit unions. One is the removal of the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The other has a more significant potential impact.

The ASU requires entities to record equity securities at fair value with adjustments to fair value recorded through the income statement. Currently many securities meeting the definition of an equity security are recorded as available-for-sale with fair value adjustments recorded as part of other accumulated comprehensive income. Securities meeting the definition of an equity security include any ownership interest in an entity. Credit unions with investments in mutual funds, stocks, limited partnerships, and trusts could see unacceptable levels of earnings volatility on their income statements. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.

Removing the disclosure of fair value of financial instruments is available for implementation immediately upon issuance of the ASU. The effective date for the accounting for equity securities for credit unions is for fiscal years beginning after December 15, 2018. Credit Union's may adopt this ASU early with fiscal years beginning after December 15, 2017.



League Conference Recap

We would like to thank everyone who visited our booth at the following conferences: Cornerstone Credit Union League in Fort Worth, the Tennessee Credit Union League in Gatlinburg, the Georgia Credit Union Affiliates in Savannah, the Carolinas Credit Union League in Pinehurst, the League of Southeastern Credit Unions in Orlando, and the Association of Credit Union Internal Auditors in San Antonio. We really enjoy seeing old friends and making new friends in the credit union industry. We had a great time having attendees try our "Nearman Scratch & Win" lottery game. Thank you for taking the time to play.



Stay tuned to where we will be in 2018. We hope to see you out and about.



***"Exclusively Serving
The Credit Union
Industry"***