



The Auditor's Report

Background Checks on 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 conduct business on behalf of the credit union. In the 2020 Global Study on Occupation and Fraud Abuse Report to the Nations put out by the Association of Certified Fraud Examiners (ACFE), it was reported that as it related to the Perpetrator's Criminal Background, approximately 89% of the cases reported the fraudster had not been charged or convicted of a fraud-related offense prior to the scheme in question. In addition, the report also reported related to the Perpetrator's Employment Background, that approximately 86% of fraudsters had never been punished or terminated for a fraud-related offense before the frauds in question.

Based on the data provided by the ACFE, it is very important to conduct a detailed background check covering numerous areas on potential employees. Because of far reaching implications, extreme care should be exercised in the selection and retention of credit union employees. Therefore, below are several considerations which a potential employer may want to consider during the hiring process

NCUA RULES AND REGULATIONS

NCUA Rules and Regulation, Part 748, Appendix A establishes provisions which a credit union must consider in its Security Program. Specifically, in order to control and manage risk, the NCUA Regulations require that a credit union assess whether the following security measures specifically related to employees are appropriate and if so, establish:

“Dual controls procedures, segregation of duties, and employee background checks for employees with responsibilities for or access to member information.”

Therefore, a thorough evaluation process is critical in the selection of individuals who will be employed by the credit union. Although resources may be limited in conducting all of the following recommendations, the credit union is strongly urged to consider any or all of the following suggestions while considering prospective employees.

BONDING

The determination of whether potential employees are bondable is important and a good proactive tool against fraud. This is very important for sensitive areas of the credit union and could cover different areas from the tellers in the cash area to the employees who purchase investments for the credit union. The credit union should be aware the search and bondability of potential employees is only as good as the database of the organization. For example, the bondability of tellers may not cover all financial institutions, just credit unions, and only if a claim was filed.

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CREDIT REPORTS

Credit Bureau Reports provide a wealth of information on the potential employee and should be used in part to confirm and verify the information that the potential employee has provided to the credit union. Honesty and full disclosure is important in any working relationship and all parties should have a comfort level with each other. It is not what the potential employee has told you in many instances that is important; it is what the employee has not told you which needs to be considered, and the credit report will give Management a good idea of the candidate's financial responsibilities.

CRIMINAL BACKGROUND CHECKS

Criminal background checks can provide information on convictions of criminal offenses. However, the information is only as good as the database and may only cover a particular area or State. This is why it is important to obtain employment and residential history during the application process on the potential employee to ensure the appropriate databases are searched.

DRIVING HISTORY

Management should identify which employees will be operating the credit union's vehicle or employees who will be operating a vehicle while on credit union business. These employees could create a liability for the credit union that could result in expensive legal fees, a judgment, and even death to others. Depending on the areas or State, information on a candidate's driving history could reveal traffic violations, driving-related offenses, license suspensions, etc. In addition, the potential employee should be asked for any and all information related to prior traffic violations as part of the application process.

EDUCATION RECORDS

Education records, degrees, or certificates granted should be verified. Independent verification should be made between the credit union and the institution. Transcripts received directly from the candidate could be fictitious and/or altered. Therefore, independent copies must be obtained from the institution in order to have a comfort level with the information provided.

PRIOR EMPLOYMENT REFERENCES

One of the most important areas of any background check is verifying the references of the potential employee. Contacting references will provide the credit union with not only the opportunity to confirm and verify the information that the potential employee has provided to the credit union, but possibly also to ask questions and clarify any issues that may develop during the interview process.

Our firm takes this process one step further by informing all potential candidates that we may ask their prior employer to provide us with the candidate's last two written evaluations. In addition, we have the potential candidate sign a release which states:

"I authorize previous employers and other references to provide background information about me, and I waive any claims against them for doing so."

We have had several situations that the potential candidate walked out of the interview once they became aware that we will request their prior evaluations.

PROFESSIONAL LICENSING BOARDS AND AGENCIES

Information from Professional Licensing Boards and Agencies provides information on the existence and current status of an individual's credentials. Important information as to current status and disciplinary actions taken against the licensee are usually revealed in this type of search. The verification is very important especially when the potential candidate's professional designation could be used in the business of the credit union, for example, CPAs, attorneys, appraisers, business lending experts, etc. The verification of this information could be especially critical when these individuals deal with the members who may rely on them for any type of information or guidance.

INTERNET SEARCH

With the availability of the Internet, credit unions should consider conducting several searches of the potential employee on the Internet. In addition, with the popular website, "Facebook" and other websites, the Credit Union may want to search for the potential employee's website to see what the potential employee says about himself/herself and the content of that website

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OTHER BACKGROUND CHECKS

It should be noted that there are numerous other areas which may help in the evaluation of potential employees. These other areas include but are not limited to: Military record searches; civil judgments; drug testing, etc.

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. While the above procedures cannot guarantee that there will not be problems in the future, the items above are proactive measures which could aid the credit union in its search of qualified employees. Background checks can help ensure a safe workplace for existing employees and members. As an employer, you bear the responsibility for providing a safe work environment.

Credit unions may want to consider professional companies which provide a combination of the above services to credit unions for a fee. In addition, several of these services will add to or modify their search for a fee; the credit union should determine where the risks are and develop a plan in the evaluation of potential employees .

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NCUA Issues 2021 Supervisory Priorities

With a new year and, more importantly, a new administration in Washington, the National Credit Union Administration (NCUA) has issued letter 21-CU-02, NCUA's 2021 Supervisory Priorities. The letter is intended to assist your credit union with preparation for your examination.

The pandemic and the resulting uncertain economic outlook has tested our industry. NCUA has stressed they will continue to offer guidance during this unprecedented time in our country. The extended examination cycle will continue as well as the agency's offsite posture. Examinations will focus on the higher areas of risk, new products/services, and compliance with applicable laws and regulations.

Listed below is a list of the priorities outlined in the letter. For more detailed information about each priority, visit NCUA's website at <https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/ncuas-2021-supervisory-priorities>.

- Allowance for Loan and Lease Losses (ALLL)
- Bank Secrecy Act/Anti-Money Laundering Compliance
- Coronavirus Aid, Relief and Economic Security Act
- Consumer Financial Protection
- Credit Risk Management
- Information Systems and Assurance (Cybersecurity)
- LIBOR Transition
- Liquidity Risk
- Serving Hemp-Related Businesses

The letter also discussed the modernization updates that NCUA has been incorporating into their examinations. In 2019, the agency began testing a new user portal, NCUA Connect, and a new examination tool, the Modern Examination and Risk Identification Tool (MERIT). NCUA Connect is a secure, common entry point for authorized users to access NCUA applications. MERIT is NCUA's new web-based examination platform that replaces AIRES. MERIT streamlines the examination process for credit unions and examiners. Additional information about these applications is available on the NCUA's website.



NCUA is also utilizing an Exam Planning Questionnaire as part of the planning process for exams. This questionnaire will help streamline the scope of the exam, expand offsite-monitoring, and generally increase the efficiency of the exam.

The world has had to adapt to this new (and hopefully temporary) way of life. And NCUA seems committed to help our industry with its streamlined and enhanced initiatives. If we all work together, we will come out on the other side stronger and more efficient.

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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 the credit union industry 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, and commitment. If your Supervisory/Audit Committee, Management, or Board of Directors is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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Bondability Checks vs. Enforcement Actions Screening

Credit unions use careful screening processes prior to hiring a new employee: criminal background checks, bondability review and other important screenings; but did you know that you should also be screening against federal agency regulatory enforcement actions? A bondability check may not always include enforcement actions screening and is simply a check for insurability. Similar to the way you might lose your car insurance coverage from one company for too many accidents and switch to another; bondability might be obtained if an individual has not caused a loss to your bond insurer even with records that include enforcement actions.

The Federal Credit Union Act (FCU Act) Section 205(d)(1) prohibits, "except with the prior written consent of the NCUA Board, any person who has been convicted of any criminal offense involving dishonesty or breach of trust, or who has entered into a pretrial diversion or similar program in connection with a prosecution for such offense, from participating in the affairs of an insured credit union." The NCUA updated and revised its Interpretive Ruling and Policy Statement regarding this section and on January 2, 2020 NCUA IRPS 19-1 took effect, rescinding IRPS 08-1.

How does the updated ruling affect the screening process?

CastleGarde continues to recommend that all prospective employees and prospective members of the credit union's governing bodies (Board of Directors and Supervisory Committee) be screened for regulatory enforcement actions in accordance with Section 205(d)(1) of the Federal Credit Union Act.

Complying with enforcement actions screening.

CastleGarde recommends running four screens per individual – one for each federal regulatory agency: FDIC, OCC, Federal Reserve Board, and NCUA. Searching tools for enforcement actions can be found at each of these primary federal regulator's websites. The screening results from each of the regulatory agencies should be documented by printing or electronically saving a screenshot of the results and preserving them in the individual's personnel file.

If an enforcement action is found, that individual should not be engaged by the Credit Union in any capacity, including volunteer positions, without further review of the Exceptions to Employment Restrictions Under Section 205(d) of the Federal Credit Union Act ("Second Chance IRPS").

FFIEC helps to further streamline this process for credit unions.

FFIEC has provided enforcement search links for all four regulatory agencies - NCUA Enforcement Actions/Administrative Orders, Federal Reserve Enforcement Actions, FDIC Enforcement Decisions and Orders, and OCC Enforcement Actions at <https://www.ffiec.gov/enforcement.htm>.

Additional resources may be available through third-party hiring or employment screening.

Many third-party human resource services include appropriate enforcement actions screening as part of the group of screens performed on behalf of your credit union. Check with your vendor to see if the additional screens may be part of your service package. Examples include: "Financial Industry Sanction Search," "Domestic Financial Related Sanctions," etc.

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CastleGarde is an acknowledged expert provider of credit union information security-based assessments and regulatory compliance program services to over 300 credit unions nationally and internationally. CastleGarde specializes in the area of information security policy and assessments addressing the controls, access, management, and safeguarding of member information as defined by NCUA Reg. 748 Appendix A and B. CastleGarde provides information security program development and documentation review and assessments, external vulnerability/penetration testing as well as onsite vulnerability assessments including physical security reviews to measure the overall effectiveness of your information security controls and related programs. Other services include the performance of General Controls Reviews and a full turnkey offering in Business Continuity Planning. www.castlegarde.com

