

REVISED HUD AUDIT REQUIREMENTS

Recently the U.S. Department of Housing and Urban Development (HUD) issued interim audit reporting requirements. The update supersedes the annual audit reporting requirements set forth in Mortgagee Letter 2011-25 (ML 11-25) for small supervised lenders and mortgagees and advise these lenders and mortgagees of interim and annual audit reporting requirements. The letter advised small supervised lenders and mortgagees with consolidated assets below \$500 million in assets, that the HUD audit requirements are waived until April 7, 2013. However, For clients with an audit date after December 31, 2012 the audit may be required depending upon further guidance issued by the U.S. Department of Housing and Urban Development. To read the entire article, visit our website at <http://www.nearman.com/news.htm>



AUDIT TIP

The NCUA examiner's are now requesting to look at the prior year's audit workpapers during their exams. As soon as your NCUA audit is scheduled, contact your auditor right away with the date of your exam. This will give your auditor sufficient time to ship the workpapers to the Credit Union prior to the examiner's visit.



In this issue

Audit Areas—Part III P.1

Revised HUD Req. P.1

Audit Tip P.1

2012 Conferences P.2

A PUBLICATION OF



Recommended Audit Areas for Committees and Internal Audit Staff—Part III

In today's constantly changing environment, frauds, embezzlements, and dishonesty affect virtually each and every credit union. Because of the sophistication and ingenuity of individuals, fraud, embezzlements, and defalcations are on the rise. This is the final installment of a series of articles that outlines testing the Supervisory/Audit Committees and Internal Auditors may want to consider. The regular review of specialized reports and areas is an important part of a credit union's internal control program. Reviewing specific 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.

Review of Account Reconciliations

A reconciliation of each general ledger account should be prepared to indicate the individual items that compose the general ledger account balance. Possible errors or frauds can go undetected for an unreasonable period of time, or not found at all, in unreconciled accounts. Credit union management should be aware of the heightened exposure to loss in this situation. The following could be conducted in the review of completed account reconciliations:

- Ensure that the reconciliation was completed timely and prior to the closing of the accounting records for that month.
- Ensure that the account reconciliation was signed off by the preparer and the reviewer.
- Ensure the reconciliation preparer and reviewer is not the same person.
- Ensure that all reconciliations have dates to track how long these items have been on the reconciliation.
- Ensure that there are no old items on the account reconciliation. Old items could be items greater than 60-90 days old.

We recommend each general ledger account be reconciled on a monthly basis and not carry outstanding items for more than three months. Any old items, which have been researched and determined to be uncorrectable, should be written off.

Employee and Official Statements

The review of employee and official accounts is considered a critical part of most credit unions' internal audit plan. This review is important because it looks at the accounts of either those in a position of influence or those in control over credit union assets. The review should look at these individuals' accounts for suspicious and/or unusual activity. In order to perform this review, you first need a report of all employees' and officials' accounts. This report should include both loan and share accounts.

Testing of employees' and officials' accounts should include 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/dividend rates.
- Reversal of fees.
- New loans.
- Check kiting.
- Transfers outside of 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.

Continued on page 2

Recommended Audit Areas for Committees and Internal Audit Staff—Part III Continued

Continued from page 1

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.

Employee and Official Credit Card Statements

Another area, which is most often overlooked in the review process, is the examination of the official and employee *personal credit cards*. Testing of employee and official credit card statements includes the following areas:

- Large draws or purchases and subsequent repayments.
- The official/employee's credit line and changes.
- Finance charges and reversal of fees.
- Journal transactions (i.e. cash advance or payment on credit card at counter).

We have found that most credit unions are unaware of the exposure in the area of personal 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 segregations of duties are in place.

Charge-off per the Board of Director Minutes to the general ledger

A review of the comparison of the charged-off loans approved by the Board of Directors to those in the general ledger should be performed on a monthly basis to ensure that only charge off loans which were approved by the Board of Directors were charged off through the general ledger.

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 their on-going running of the credit union. The review of the above areas by the credit union must be documented with tangible information and retained for the subsequent review by the examiners and auditors in the future.

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.

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

2012 Conferences

Nearman, Maynard, Vallez, CPAs will be "out and about" visiting with the credit union community this year. If you plan on attending any of the following conferences, please stop by our booth. We would love to discuss your credit union's auditing needs.

- Georgia Credit Union Affiliates - May 9-12, 2012 - Savannah, GA
- CUNA CFO Council - May 20-23, 2012 - Fort Lauderdale, FL
- League of Southeastern Credit Unions - June 13-16, 2012 - Orlando, FL
- ACUIA - June 19-22, 2012 - Denver, CO
- AICPA National Conference on Credit Unions—October 22-24, 2012 - San Diego, CA



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
770.719.1888 fax

Miami: 10621 N. Kendall
Dr., Suite 219,
Miami, FL 33176
305.598.1730
305.595.9316 fax

This newsletter is for information purposes only and is not intended to provide investment, legal or accounting advice. Edited by Jennifer Hoskins, CPA, MPA, CTGA, Partner. No part of this newsletter may be reproduced without the written consent of Nearman, Maynard, Vallez, CPAs.