

THE AUDITOR'S REPORT

A Publication of



Recommended Audit Areas for Committees and Internal Audit Staff - Part I

In today's constantly changing environment, frauds, embezzlements, and dishonesty virtually affect each and every credit union. Because of the sophistication and ingenuity of individuals, fraud, embezzlements, and defalcations are on the rise. This series of articles will outline the 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.

The following is the first in a three part series that will list of areas that the Supervisory Committee and/or Internal Auditor may want to review as part of their overall plan.

File Maintenance Reports:

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.

...fraud, embezzlements, and defalcations are on the rise.

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

- Check if changes in balances 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 percentage 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?
- 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 at a minimum.

Supervisory Override Reports:

Supervisory Override reports are reports that detail transactions that were permitted after obtaining a supervisory override. 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.
- 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.

Continued on page 2

Did you know...that to clarify your Credit Union's relationship, **if any**, with HUD, you may **visit the details tab** on <https://entp.hud.gov/sfnw/public/>. If your credit union plans on becoming or already is a FHA-approved mortgagee, the audit requirements will apply to you.

Audit Tip...To help your auditors help you, as soon as you receive the examiner's request from NCUA check and see if the list includes the prior year workpapers. If it does, contact your auditor **right away**. This will give your auditor sufficient time to ship the workpapers prior to the examiner's visit.

AUDIT AREAS - CONTINUED FROM PAGE 1

- 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 by another individual should be performed.
- 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 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.

Dormant Accounts:

Dormant accounts are defined as a share or share equivalent account in which there has been **no** member generated activity for a specified period of time. Due to the nature of dormant accounts, they are often the target for fraudulent activity.

Testing of dormant accounts includes, but is not limited to, the following:

- One suggestion which has reduced time for the reviewer is to generate a computer report of all dormant accounts which have been removed off of the dormant account listing. Experience has demonstrated that this report is much smaller than the detail listing and will identify which accounts are no longer dormant. The reviewer can now conduct testing of these accounts to determine if they were authorized.
- **Dormant Account Report versus Activity Report:** A Dormant Account Report is a report of **all** of the dormant accounts in the Credit Union. This listing could be three inches thick and contain thousands of accounts. Therefore, to audit this listing, it could take the reviewer a long period of time. **Audit hint:** One suggestion which has reduced time for the reviewer is to generate a computer report of all dormant accounts which have been removed off of the dormant account listing. Experience has demonstrated that this report is much smaller than the detail listing and will identify which accounts are no longer dormant. The reviewer can now conduct testing of these accounts to determine if their removal was authorized.
- **Power Surges and Computers Systems:** Credit Unions should be aware that controls over dormant account should be periodically tested to assure that the controls are still in place. We have seen that at several Credit Unions that a power surge had removed the controls over dormant accounts. In addition, depending on who has access to the computer system, controls can change and therefore, testing of this area is recommended.

As you can see above, a constant review of the dormant account area is suggested as part of a review of internal controls. 📄

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

2011 AICPA CONFERENCE RECAP

The American Institute of Certified Public Accountants Annual National Conference on Credit Unions was held this October 24-26, 2011 at the Grand Floridian Resort in Orlando Florida. This conference provides technical and managerial training sessions to help CPAs and credit union professionals keep current on important issues. Again this year we were fortunate to have Gigi Hyland, National Credit Union Administration (NCUA) Board member, as our keynote speaker. Ms. Hyland provided insight on current and pending NCUA actions relating to natural person and corporate credit unions. Other issues addressed at this year's conference included business combinations, issues affecting the allowance for loan losses account, and accounting for trouble debt restructurings.

In 2012, the conference will be held in San Diego, CA, Oct 22nd-24th. The AICPA Credit Union Conference is an excellent way to keep up-to-date on issues affecting your credit union. Hope to see you there. 📄

Chris Vallez, CPA, MBA, CICA, Partner, Nearman, Maynard, Vallez, CPAs, P.A.

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 FAX (770) 719-1888.

Miami: 10621 N. Kendall Dr., Suite 219, Miami, FL 33176
(305) 598-1730 FAX (305) 595-9316.

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.

