

SUPERVISORY COMMITTEE INTERIM AUDIT PROCEDURES

WORKBOOK – 2018

*Instructions and Sample Work
Papers for Completing,
Documenting and Reporting
Interim Audit Duties*

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INTRODUCTION:

One large part of the Supervisory Committee's duties is to perform random audits throughout the year. There are no specific requirements as to how many times per year these interim audits need to be reviewed. The more you do the better the internal controls will be and the sooner mistakes will be detected. This workbook is designed to assist you in adequately performing, documenting and reporting the interim audits you complete during the year.

Although several of the audit steps discussed in this workbook are also used for the annual audit, this workbook does not include all steps necessary to comply with the annual audit requirements. This workbook is intended to provide instruction on the interim audit procedures performed throughout the year. When performing the annual audit section 715 of NCUA's Rules and Regulations should be reviewed to gain a full understanding of what types of audits are allowed for your specific credit union.

This workbook is divided into 5 separate sections as follows:

- Report reviews
- Policy and Operations review
- Account Verifications
- Work paper documentation
- Reporting

Each section provides a summary, instructions, sample work papers and sample reporting formats. Any part of this workbook can be copied and used to assist the supervisory committee in performing the interim audit procedures. The sample work papers and reporting formats are suggestions only. The committee can choose any format for documenting and reporting the duties completed. In addition to this workbook there are other sources available for the supervisory committee to assist in carrying out its duties. The following is a list of these resources:

- Federal Credit Union Act
- Federal Credit Union bylaws
- Supervisory Committee Manual
- State League
- NCUA Examiner and Economic Development Specialist (EDS)
- NCUA Rules and Regulation part 715.00
- CUNA
- Accounting Manual for Federal Credit Unions

Common questions supervisory committees usually ask include what needs to be done, and how often. Included in this workbook are a suggested timetable and a sample audit plan to help you plan your activities. These are just suggested time frames and activities. Your actual audit activities will depend on the credit union and the supervisory committee. Many committees find it is helpful to meet at least quarterly and assign specific duties to each committee member. The more active you are as a committee, the better the internal controls will be and the better you will understand the credit union's operations and your overall responsibilities.

Below is a suggested schedule for review of several different areas.

Audit/ Review	Recommended # of times per year	What to review each time
Follow up on prior audit or examination report	Monthly	All Items from the previous audit / exam outstanding
File Maintenance Review	Monthly or as often as possible	All reports for the month
Review shares under a specified \$ amount	2 times per year	Randomly select at least 10 days throughout the month other than month end
Paid ahead loan report	2 times per year	loans paid ahead 3 months
Loans by Interest Rate Report	2 times per year	All loans
Dormant Account Report	2 times per year	All new dormant accounts on report
Delinquency Review	2 times per year	All accounts for the month
Charge-offs	2 times per year	All loans charged-off
Negative Share Draft Report	Monthly or as often as possible	All accounts listed on report
Review Board Minutes	At least annually	All since last review
Review Policies	At least annually	All since last review
Handle any complaints	On going	All since last review
Loan file review	At least 4 times per year	25% of new loans granted for the period
Review volunteer and employee Loan accounts	2 times per year	All volunteers and employees
Review volunteer and employee Share accounts	2 times per year	All volunteers and employees
Allowance for Loan Loss Account	At least Annually	Review activity in account and validate funding methodology

Audit/ Review	Recommended # of times per year	What to review each time
Perform cash count and review cash internal controls	2 times per year	Count the cash
Review of the Bank Reconciliation	At least quarterly	Review all outstanding items reported on the monthly reconciliations
Reconciliation of Receipts to Deposits	Periodically throughout the year when reviewing bank reconciliation	Review all for the months selected
Review of check disbursement / Expenses	Periodically throughout the year – 2 times per year	All since last review
Account Verification – New Accounts	3 times per year	Any new accounts since last verification
Account Verification – Closed Accounts	3 times per year	Any closed accounts since last verification
Bad Address Review	3 times per year	Any new bad addresses received since last review and follow up on any older bad addresses
Hold Meetings	At least quarterly	Meet to discuss plans, answer questions
Report to the board	Monthly	Report to the board monthly on all activities completed or worked on
Report to the membership	Annually	Report at annual meeting

Sample Audit Plan for 2016 with place for documentation of responsible person and work paper reference code:

Confidential:

Date	Planned Activity	Date Complete & Person	Work paper Code
January 2016	Review the negative share draft report Review the file maintenance reports Review board minutes Review the loan by interest rate report Meet as a committee Review volunteer and officials loans and share accounts Report to the Board. Review the paid ahead loan report Follow up on any item findings from the previous audit, exam		
February 2016	Follow up on any findings from pervious audit Review 10 loan files Review the file maintenance reports Review the negative share draft report Review the paid ahead loan report Review the last 3 months bank reconciliations Reconcile the receipts to deposits Review the dormant account report Report to the board		
March 2016	Follow up on any items from last audit Review the file maintenance reports Review the negative share draft report Report to the board Review the delinquency reports Review the paid ahead loan report Perform new account verification		

Date	Planned Activity	Date Complete & Person	Work paper Code
April 2016	Perform closed account verification Review bad addresses Meet as a committee Follow up on all items from last audit Report to the board Review the file maintenance reports Review the negative share draft account reports Review the loans by interest rate report Review charge-offs Review 10 new loan files		
May 2016	Review the allowance for loan loss account Meet as a committee Review the negative share draft report Review the file maintenance report Review the last 3 months bank reconciliations Reconcile receipts to deposits Follow up on any findings from previous audit Review the paid ahead loan report Review expenses Report to the board		
June 2016	Follow up on all items from the previous audit Report to the board Review the file maintenance reports Review the negative share draft account report Review shares < specified \$ amount report Review loans by interest rate report Review the delinquency reports Perform a cash count Verify new and closed accounts		

Date	Planned Activity	Date Complete & Person	Work paper Code
July 2016	Review loans by interest rate report Review the negative share draft account report Review the file maintenance reports Follow up on any items from previous audit Report to the Board Review the board minutes Review charge-offs Review dormant accounts		
August 2016	Verification of new and closed accounts Follow up on all items from last audit Report to the board Review the file maintenance reports Review the paid ahead loan report Review 10 new loan files Review the negative share draft account report Meet as a committee		
September 2016	Review of bad addresses Review paid ahead loan report Follow up on all items from last audit Review the file maintenance report Review the negative share draft account report Review 3 months of bank reconciliation		
October 2016	Review check disbursement/expenses Follow up on all items from the last audit Review the file maintenance report Review the negative share draft account report Cash count and review internal controls in the cash area Review the allowance for loan loss account Review the volunteer share and loan Accounts		

Date	Planned Activity	Date Complete & Person	Work paper Code
November 2016	Review file maintenance log Review paid ahead loan report Review the negative share draft account report Follow up on all items from last audit Review the shares < Specified \$ amount report Review 10 new loans Review delinquency Meet as a committee		
December 2016	Verification of closed accounts Perform cash count Review bank account reconciliations. Reconcile receipts to deposits Review the file maintenance report Review the negative share draft account report Verify new and closed accounts Review the paid ahead loan report Review expenses		

SAMPLE BLANK PLANNING FORM:

Audit/ Review	Recommended # of times per year	What to review each time

Sample Audit Plan with place for documentation of responsible person and work paper reference code:

Date	Planned Activity	Date Complete & Person	Work Paper Code

**SUPERVISORY COMMITTEE SUMMARY WORK PAPER:
Work Paper Reference Code**

Procedure Performed	Work Paper Reference	Comments/ Findings	Signature & Date

Supervisory Committee Notes:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Examination and Audit Follow-
Up Instructions and Examples*

LAST EXAMINATION REVIEW:

Each time the credit union is examined by NCUA the officials will receive a written report. This report will contain items needing corrective action and other suggestions for improvement. The report is a good place for the committee to gain an understanding of the credit union's overall strengths and weaknesses. It is also a good resource for planning interim audit procedures. The Supervisory Committee should obtain a copy of the examination report from the manager, the board or NCUA. The report should be reviewed to determine the areas in need of correction and follow up.

The examination report contains several sections and may be a little overwhelming. The following items within the report are the areas the supervisory committee should pay special attention to:

- **Document of Resolution** – This is the section in the examination report documenting the items needing correcting as well as the person or persons responsible and the date the corrective actions need to be completed.
- **Examiner's Findings** – This is the section in the examination report documenting technical errors or exceptions.
- **Loan Exceptions** – This is the section in the examination report documenting errors or violations within the loan portfolio.

Instructions for Examination Follow up:

The committee should review each item included in the Document of Resolution, Examiner's Findings, and Loan Exceptions and discuss the progress of each item with the manager. The committee needs to make sure each item is completed as required in the examination report. The committee should verify all items by asking to see any documentation showing the corrections were made. This type of review should be done after each examination until all items are adequately corrected. The committee should report to the board monthly on the progress of compliance with the examination report.

Work Papers and Documentation of Examination follow up:

The progress of correcting each item should be documented and maintained in the supervisory committee's work papers. One easy way to document the progress of each item is to take a copy of the Document of Resolution, Examiner's Findings, and Loan Exceptions and document on the copy the progress being made. It is also good to copy any documentation used to verify the items have been corrected. Each item should be followed up until all items are corrected. The work papers used to document the review should remain with the supervisory committee's other work papers. They may be reviewed by your outside auditor or examiner during the year. They are also a good reference to look back on when performing duties during the year or training new committee members.

Sample Documentation of Examination Follow-Up:

Examination Document of Resolution:

- Fund the allowance for loan loss account by \$10,000 by 10/31/2014. **Management has completed this item. The manger made the entry 10/15/2014.**
- Revise the loan policy to address home equity lending. **This item has not yet been completed.**
- Develop a method for monitoring your risk based pricing policy and practice. **This has not yet been completed.**

Examiner's Findings:

- The fixed asset subsidiary ledger is out of balance with the fixed asset general ledger account. This has been corrected. **The manager made the correcting entry on 10/22/2014.**

Examination Loan Exceptions:

- Account #1234 has a loan secured by a 2009 Toyota Land Cruiser. The title for the 2009 Toyota Land Cruiser is missing from the file. This loan was granted over a year ago and the title should be in the file. **This has not yet been corrected.**
- Account #2493 has a loan with an interest rate exceeding 18%. This was a mistake made when the loan was made it should be 10.8%. **This has not yet been corrected.**

Examination Loan Exceptions Continued:

- Account #9987 has a loan secured by a 2004 chevy Malibu and the value in the loan file is listed as \$10,000. The collateral does not have a value of \$10,000 according to the NADA book value. The credit union either needs to call the loan due, change the interest rate to the unsecured rate, or have the member bring in sufficient collateral to cover the loan. **The member brought in a share certificate and it is pledged as collateral against the loan. The loan rate has been adjusted.**

LAST AUDIT REVIEW:

Like the examination, each time the credit union has its annual audit the officials will receive a written report. Depending on who performs the annual audit and what type of audit was performed will determine what type of report the officials will receive. The report should contain findings or weaknesses noted during the audit. The report should be reviewed by the supervisory committee and followed up on until all findings and weaknesses able to be corrected are corrected.

Instructions for Last Audit Follow Up:

The committee should review the audit and pay special attentions to any findings or recommendations made by the auditor. If you have any questions about the report you can contact your auditor and discuss the report. Like the examination you want to go through the report with the manager and review all findings and recommendations. Document all progress made on the audit findings and recommendations and report to the board on the progress. This type of review should be done after each audit until all items are adequately corrected.

Work Papers and Documentation of Audit follow up:

Like the examination, the progress of correcting each item from the audit should be documented and maintained in the supervisory committee's work papers. One easy way to document the progress of each item is to take a copy of the report or the main items mentioned in the report and document on the copy the progress being made. It is also good to copy any documentation used to verify the items have been corrected. Each item should be followed up until corrected. The work papers used to document the review should remain with the supervisory committee's other work papers. They may be reviewed by your outside auditor or examiner during the year. They are also a good reference to look back on when performing duties during the year or training new committee members.

Sample Documentation of Audit Follow-Up:

Audit Findings:

- The corporate account has not been reconciled since May of 2003.
- The 3 tellers all work out of the same cash drawer
- The board has not been meeting monthly as required.

Audit Recommendations

- It is recommended the credit union purchase separate lockable cash drawers for each teller. **This item was discussed with the manager and they have ordered the drawers.**
- It is recommended the credit union reconcile the corporate account or if unable hire an outside consultant to help. **The credit union has hired an outside consultant who is currently working on the corporate account.**
- It is recommended the credit union revise its loan policy to more clearly address the requirements for obtaining a loan. **This is currently being worked on.**
- It is recommended the loan officers obtain training on home equity lending prior to offering this product to the members. **They are looking for a place to obtain training.**

Supervisory committee notes: management has addressed all recommendations. The board is taking steps to replace all members who miss meetings.

Reporting of Examination and Audit Follow Up:

After you have performed the review of the previous examination and audit you will need to prepare a report to the board of directors. The report should contain a summary of what steps you performed, findings noted, progress made and any follow up needed. The report should be in writing and a copy should be provided to the manager, the board of directors, and one retained by the supervisory committee.

Reporting Sample of Examination Follow up:

The Supervisory Committee reviewed the most recent examination effective 9/30/2014. The Document of Resolution, the Examiner's Findings, and the Loan Exceptions were discussed with the manager and the committee verified all corrections noted. Copies were taken to document the verification of items corrected. The following were the items reviewed by the committee. The status of each item is noted individually. Jim Jones of the supervisory committee will follow up all items remaining outstanding by 5/31/2016:

Examination Document of Resolution:

- Fund the allowance for loan loss account by \$10,000 by 10/31/2014. **Management has completed this item. The supervisory committee viewed the correcting entry on the general ledger. The manger made the entry 10/15/2014.**
- Revise the loan policy to address home equity lending. **Management has not yet completed this item.**
- Develop a method for monitoring your risk based pricing policy and practice. **Management has not yet completed this.**

Examiner's Findings:

- The fixed asset subsidiary ledger is out of balance with the fixed asset general ledger account. This has been corrected. **The supervisory committee viewed the correcting entries, and the corrected subsidiary ledgers prepared by management. The manager made the correcting entries on 10/22/2014.**

Examination Loan Exceptions:

- Account #1234 has a loan secured by a 1999 Toyota Land Cruiser. The title for the 1999 Toyota Land Cruiser is missing from the file. This loan was granted over a year ago and the title should be in the file. **This has not yet been corrected.**
- Account #2493 has a loan with an interest rate exceeding 18%. This was a mistake made when the loan was made it should be 10.8%. **This has not yet been corrected.**
- Account #9987 has a loan secured by a 2004 Chevy Malibu and the value in the loan file is listed as \$10,000. The collateral does not have a value of \$10,000 according to the NADA book value. The credit union either needs to call the loan due, change the interest rate to the unsecured rate, or have the member bring in sufficient collateral to cover the loan. **The member brought in a share certificate and it is pledged as collateral against the loan. The loan rate has been adjusted. This was done 11/15/2014 by the Manager.**

LAST EXAMINATION REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Examination Item and effective date of examination (Finding, Loan Exception, Document of Resolution, etc)	Item Reviewed (Document the item from the examination needing correction)	Has the item been corrected? If yes enter date completed. If no discuss follow up needed	How correction was verified by the Supervisory Committee	Signature of Supervisory Committee Person and Date

Supervisory Committee Notes:

Signature of Supervisory Committee Member

Date of Review:

LAST AUDIT REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Audit Item and effective date of Audit (Finding, Loan Exception, Recommendation, etc)	Item Reviewed (Document the item from the audit needing correction)	Has the item been corrected? If yes enter date completed. If no discuss follow up needed	How Correction was verified by the Supervisory Committee	Signature of Supervisory Committee Person and Date

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

REPORTING FORMAT SAMPLE FOR EXAMINATION OR AUDIT FOLLOW UP:

Effective date of Examination Reviewed:

Effective date of Audit Reviewed:

Date of Supervisory Committee Review:

Person from Supervisory Committee Performing Review:

Items Reviewed:

Items Not yet Corrected:

Follow up Planned:

Comments, Questions or Concerns:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*File Maintenance Report
Review Instructions and
Examples*

MAINTENANCE LOG REPORT:

The file maintenance report, also called the non-financial transactions log or audit report, is a daily report produced automatically by most computer systems. The report will show any non-financial transaction performed manually on the computer system. For example a name was changed, an address was changed, an account was closed, an account was opened or a loan due date was changed. The report will print a summary of all of these types of transactions made during that day.

When reviewing this report pay close attention to any item showing “next due date” in the “item maintained” column. This means someone physically made a change to the loan due date. It is sometimes necessary to change a due date on a loan but there should **ALWAYS** be a documented reason stated by the person who changed it and signed off by the manager. When you review this report you want to find out why all due dates were changed on all loans shown on the report and document the reason. This is a very informative report and it doesn’t take much time to review. It should be reviewed by the supervisory committee monthly.

Maintenance Log Report Instructions:

The maintenance log report is produced daily by most computer systems. You may need to ask the manager to print the report if it hasn’t already been printed. Some systems will allow you to print a specific date range. Some systems will only allow you to print the current day. You want to review at least a month worth of these reports. If you can’t get previous days reports ask the manager to print this report for you daily and save it for you. Management should be familiar with this report and should be reviewing it daily. If management is not regularly reviewing this report the committee should make a recommendation to have management review the report. This recommendation should be written in the report to the board of directors.

Most of these reports are set up similarly: There is a field showing the item changed, a field showing the old value and a field showing the new value. The reports may use different field names but all are basically the same. Below is an example of how these reports are set up:

Maintenance Item / Item Changed	Old Value	New Value
Address	P.O. Box 326	4435 Horse Pass Lane

Maintenance Log Report Instructions Continued:

Pay close attention to any field name or maintenance item showing “**Next Due Date**”. This indicates the next due date on the loan was changed manually. If you ever see “**Next Due Date**” in the field name you want to look at the “**old value**” and the “**new value**” columns. If the “**new value**” has a date later than the “**old value**” date you need to find out why. This could indicate the loan due date was changed to avoid showing up on the delinquency list. There needs to be some documentation in the member’s file showing an extension agreement or a refinance to support why the “**new value** is later than the “**old value**”. If there is not a reasonable documented explanation you need to include it as a finding in your report to the board of directors after you have discussed it with the manager.

Example #1 of Next Due Date Changed:

Maintenance Item	Old Value	New Value
Next Due Date	1/31/2016	12/31/2016

The above example is showing the next due date on a loan was changed from the “old value” of 1/31/2016 to the “new value” of 12/31/2016. In other words the next payment date on this loan was changed from being due 1/31/2016 to 12/31/2016. When you see this it is a good idea to pull the loan payment history from the computer to see what type of payment history there has been to date. You will also need to pull the loan file. There needs to be documentation in the file relating to the due date change. If there is no documentation this should be written up as a finding in the supervisory committee’s report to the board of directors.

If you see the “**old value**” column date is after the “**new value**” column date this means the due date was pulled back or changed to be due sooner than what the system previously calculated.

Maintenance Log Report Instructions Continued:

Example #2 of Next Due Date Changed:

Maintenance Item	Old Value	New Value
Next Due Date	12/31/2014	6/30/2014

If a member has made larger or more frequent payments than required by the loan contract, the computer system will automatically push the due date ahead based upon the amortization of the loan rather than the loan contract. When this happens the credit union should be pulling these due dates back to be consistent with the loan contract. When the employee pulls the due date back this will show up on the file maintenance report like example #2 above. In this example the computer pushed the next due date for the loan payment ahead to 12/31/2014. An employee pulled the due date back to 6/30/2014, making the “**old value**” date 12/31/2014 and the “**new value**” date 6/30/2014.

If reviewing this particular transaction you would want to find out why the employee pulled the due date back to 6/30/2014. The date should be pulled back to the next regularly scheduled payment due according to the contract. This would be monthly if the contract states payments are due monthly, semimonthly if the contract states payments are due semimonthly, etc. It is a good idea to pull the payment history of the loan from the computer to see what the payment history has been as well as review the loan file. The “**new value**” should correspond to what the loan contract requires.

The reason the credit union needs to pull back due dates is because the system automatically pushes the due date ahead when a larger payment or more frequent payments than required are made. If the dates aren't adjusted the system will not require the member to make a payment for several months. The risk of allowing this to go unchecked is the member's financial condition may change or they may leave town after making a large payment. The credit union wouldn't know if he or she was delinquent until months later making it more difficult to collect. Also some members don't understand when they make a large payment and don't pay for several months the next payment they make will go mostly to interest because interest accrues daily. This can cause some problems with members.

One other example deals with a member who thinks they paid off their loan but they were a few dollars short. The large payment would kick the due date out into the future and may not show up as delinquent for several months or even years. If the member thought he or she already paid off the loan and there is a small balance remaining then the member will not be happy when notified there is still a balance and interest has accrued for the whole period of time since the last payment was received.

Work-papers for Maintenance Log Review:

Documenting your review of the file maintenance log can be done by making a copy of the actual file maintenance logs reviewed. You can make notes on the copy of the log itself or have a separate sheet of paper. You need to document what questions you have and the answers you receive to those questions. If you find any loan due dates changed without an appropriate explanation you need to write these up as findings. This will become part of your work papers and your report to the board. Make sure and talk to the staff and Manager to fully understand the situation before reporting to the board. This could save a lot of misunderstandings in the future. Make sure and follow up on all findings at the next supervisory committee contact and document the results in your work papers and in the report to the board and manager.

Sample maintenance log review work paper

Date of Item	Maintenance Item	Old Value	New Value	Comments
1/31/2016	Next Due Date Account #4400	3/31/2016	9/30/2016	Changed due date. Viewed Extension and approval in the file. No finding
1/31/2016	Next Due Date Account #2200	3/31/2016	9/12/2016	Changed due date Reported finding to board and manager 2/16.

Reporting File Maintenance Review:

After you have performed all of the steps to review the file maintenance log you need to prepare a report to the board of directors and manager. The report should contain a summary of what audit steps you performed, findings noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Reporting Example for Maintenance Log Review:

The supervisory committee performed a review of the file maintenance report for the month of January 2016. All items showing “next due date” in the maintenance field were reviewed. The following findings were noted:

Finding: Account #2200 had a next due date change from 3/31/2016 to 9/12/2016 without any explanation in the file. The manager was going to research this. Follow up was made on 2/18/2016. The committee verified the next due date had been changed back to show 3/31/2016 which is correct.

FILE MAINTENANCE LOG REPORT WORK PAPER:

Work Paper Reference Code:

Maintenance Item / Item Changed	Dates Reviewed	Old Value	New Value	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

SAMPLE FILE MAINTENANCE REPORT FORMAT:

Dates Reviewed:

Findings and recommendations:

Follow Up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Shares < Specified \$ amount
Report Review
Instructions and Examples*

SHARES UNDER SPECIFIED DOLLAR AMOUNT REPORT REVIEW:

This report shows all share accounts with balances under any dollar amount you specify when requesting the report. You want to review this report to find any accounts under the par value or the minimum amount required by your credit union. In many credit unions the minimum amount is \$5.00. It will be necessary to review the policy in this area or ask the manager what the minimum amount is required to open an account. In most cases this report will only include share accounts. A different report will generally need to be pulled for share drafts, certificates or other share types. Usually the accounts shown on this report will show members who have forgotten they had an account at the credit union or closed their account and a dividend posted to the account after the close date.

Instructions for reviewing the Shares Under Specified Dollar Amount Report:

The first step in reviewing this report is to review the credit union's bylaws and policy specifying the minimum amount required in each type of share account. If the credit union doesn't have a written policy addressing this issue, you should include a recommendation in your report to the manager and the board to establish a written policy.

Once you know the minimum share requirements you can ask the manager to pull this report for you. It is not automatically generated by the system but is a very common report available on most systems. You can specify any dollar amount depending on the credit union's minimum share requirement. For example if the minimum amount to open a share account is \$5.00 you can ask for a report showing all share accounts less than \$5.00

When you review the report find out how long each account has been under the required amount. You can do this by asking someone to print out at least the last 6 months history of the account or looking on the system at the history. Also find out if they have an active loan account. Talk to management and find out if they have a policy or procedure on what is required after a share account has been under the required minimum for a specific amount of time. If the credit union doesn't have a policy or procedure in place you should recommend they develop a policy addressing this area. This recommendation should be included in your report to the manager and the board.

You want to review this report on a monthly or quarterly basis but not on the month or quarter end date. It is better to pull the report at different times each month or quarter so you can see if the accounts shown on the report are consistent or if they fluctuate. If they fluctuate there may be a problem and should be reviewed closer.

Shares under a Specified Dollar Amount Work Papers:

Documentation for this review can be done by taking a copy of the report and making any notes on the copy. The notes should explain why the member's account is under the minimum, how long the account has been under the required amount and what steps are being taken to either get the member up to the minimum requirement or to close the account. The supervisory committee should retain all documentation in the work papers.

Sample Work Paper for Shares Under a Specified Dollar Amount:

Name/Acct #	Share Balance	Length of time under \$5.00	Why account is under \$5.00	What steps are being taken?	Recommendation by Supervisory Committee
Jim Smith #1222	-\$300.00	1 year	System transferred an ACH but the funds weren't in the account.	Credit Union has placed the account in collections without any success in collection.	Write the account off due to the length of time and continue collection action.

Reporting Shares under a Specified Dollar Amount Report Review:

After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Report Shares Under \$5.00 Report Review:

The supervisory committee performed a review of the shares under \$5.00 report for the month of January 2016. All accounts listed on the report were reviewed on the system and discussed with management. The following findings and recommendations were noted:

Finding / Recommendation: The credit union doesn't have a written policy addressing how to handle share accounts with less than \$5.00 in them for over 6 months. The committee recommends the credit union develop and adopt a policy addressing this issue.

Sample Report Shares Under \$5.00 Report Review Continued:

Finding / Recommendation: The credit union doesn't have written procedures outlining the steps to take when an account falls below the \$5.00 minimum. Written procedures would provide better direction to the employees on what needs to be done when an account is under the \$5.00 minimum amount.

Finding/ Recommendation: Account #1222 has a -\$300 share balance due to an automatic debit to the account posting without sufficient funds in the account. The account has been negative for more than one year. This account should be written off and a procedure put in place so this type of transaction cannot reoccur.

Finding/ Recommendation: Several share accounts listed on the report have between \$0.01 and \$5.00 in the account but no transactions have posted to these accounts for over 8 months. In some cases the member's statements are being returned to the credit union. The credit should consider adopting the bylaw to fee these accounts to get them closed after they have been under \$5.00 for a specific period of time.

Finding / Recommendation: This report is currently not being reviewed by anyone at the credit union. It is recommended that the manager review this report at least monthly and follow up on all accounts.

Follow up will be made on the progress of correcting the findings by 4/30/2016 by Alex Johnson from the Supervisory Committee.

**SHARES UNDER SPECIFIED DOLLAR AMOUNT REPORT REVIEW SAMPLE
BLANK WORK PAPER:**

Work Paper Reference Code:

Enter dollar amount specified in report

Name/Acct #	Share Balance	Length of time under amt	Why account is under amt	What steps are being taken?	Recommendation by Supervisory Committee

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

**SHARES UNDER SPECIFIED DOLLAR AMOUNT REPORT REVIEW SAMPLE
REPORT FORMAT:**

Dollar Amount Specified for Report:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Paid Ahead Loan Report
Review Instructions and
Examples*

PAID AHEAD LOAN REPORT REVIEW:

The paid ahead loan report is a common report generated by most systems. The Supervisory Committee should review it monthly. It is a good idea to pull the report on different days during the month and not always on the last day of the month. This report can provide very good information and shouldn't take very long to review. The report will show loans with a next due date after whatever future date you specify. For example if you pull the report to show due dates greater than 6/30/2016, the report will show any loan with a next due date after 6/30/2016.

The reason you want to monitor this report is because the system automatically pushes the due date ahead when the member makes larger or more frequent than required payments. If the member makes a large payment and the system pushes the next due date ahead the member will not show up as delinquent until after the next due date shown on the system. Even if a member is paid ahead on the system most loan contracts require regular scheduled payments to continue. It is a good idea to read the loan contract to see what is required.

The risk of allowing this to go unchecked is the member's financial condition may change or they may leave town after making a large payment and the credit union wouldn't know the member was contractually delinquent until months later making it more difficult to collect. Also some members don't understand when they make a large payment and don't pay for several months the next payment they make will go mostly to interest because interest accrues daily. This can cause some problems with members.

One other example deals with a member who thinks they paid off their loan but they were a few dollars short. The large payment would kick the due date out into the future and may not show up as delinquent for several months or even years. If the member thought he or she already paid off the loan and there is a small balance remaining, he or she will not be happy when notified a balance remains and interest has accrued for the whole period of time since the last payment.

Instructions for Reviewing the Paid Ahead Loan Report:

Find out if someone from the credit union is reviewing this report on a regular basis and if they have a written policy regarding paid ahead loans. If they aren't reviewing the report you should include a recommendation to review the report regularly in your report to the board. If they don't have a written policy addressing these types of loans you should include a recommendation to develop a policy in your report to the board.

Ask the employee or manager pull a paid ahead loan report with a date greater than around 3 months ahead into the future. For example if today is 2/1 and you are pulling the report today you would want a paid ahead report showing loans with a next due date greater than 5/1 of the same year

Instructions for Reviewing the Paid Ahead Loan Report:

When reviewing the report focus on the column that says “Next Due”. Look for any dates > 3 months into the future and look back to the column on the report called “Last Financial Date”, or “Last Transaction Date”, this tells you the date of the last financial transaction.

Loans paid ahead should still be receiving payments according to the payment frequency disclosed on the note. For example if you are looking at a report on 2/1/15 and a loan shows the next due date is 11/30/2015 and the last financial transaction date was before 10/31/2015, this loan is contractually delinquent unless it is set up for annual payments or periodic payments. You will need to look at the individual loan files or on the system to see the required frequency of the payments according to the loan contract. It is also a good idea to review the member’s payment history on the computer to see when payments have been received.

Any loans that are paid ahead > 3 months into the future and are not periodic or annual payments should have their due dates pulled back. You can find out the payment history of the member by asking an employee to pull a loan history of the account. This will tell you if the payments have been consistently made on time.

Documentation Paid Ahead Loan Report:

Documenting the review of this report can be done by taking a copy of the paid ahead loan report and writing your notes on the report. You can also use a spreadsheet or any other form to document the review. Make sure your notes include any discussions you have with management concerning any of the accounts. Maintain all documentation in your work papers.

Sample Documentation Paid Ahead Loan Report:

Date of Review	Account #	Next Due Date	Last Transaction Date	Comments
3/31/2016	1234	9/30/2016	3/30/2016	Semiannual pay all payments have been consistently made as required in the contract
4/10/2016	25432	12/31/2016	1/31/2016	Sold collateral due date jumped ahead should be pulled back.

3/31/2016	2214	02/15/2016	10/31/2015	Member has been making larger than required payments. Due date should be pulled back.
4/10/2016	1199	1/30/2017	2/28/2016	Loan disbursement was 2/28/2016 but no payment has ever been received. Loan due date should be pulled back to original due date.

Reporting Paid Ahead Loan Report:

After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Report Paid Ahead Loan Report:

The Supervisory Committee reviewed the paid ahead loan report dated 3/31/2016 and 4/10/2016. All items on the reports were discussed with management. The following findings and recommendations are noted:

Finding: Account #2214 shows a loan paid ahead to 2/15/2016 but no payment has been received since 10/31/2015. Payments in the past were greater than required which pushed the due date ahead. The loan is required to have monthly payments according to the note. This loan is contractually delinquent and the member should be contacted. The due date needs to be pulled back.

Finding: Account #1199 shows a loan paid ahead to 1/30/2017 but no payment has ever been received. The loan was disbursed on 2/28/2016 and monthly payments are required according to the contract. The loan is contractually delinquent and the member should be contacted and collection action should begin immediately.

Finding: Account #25432 shows a loan paid ahead to 12/31/2016 but no payment has been received since 1/31/2016. Review of the loan history showed the loan was delinquent and the collateral was sold and the amount received for the collateral was applied to the loan which pushed the next due date ahead. The loan due date should be pulled back.

Recommendation: The Manger isn't reviewing the paid ahead loan report. The committee recommends the manager review the report at least monthly and follows up on any loans paid ahead further than 3 months into the future.

Recommendation: The credit union doesn't have a written policy for paid ahead loans. The loan contracts state the payments will remain due as scheduled even if the member pays more or more often than required. The committee recommends the credit union develop a policy stating how it will handle paid ahead loans and how it will follow up on those shown to be contractually delinquent.

The committee will follow up by 5/30/2016.

PAID AHEAD LOAN REPORT REVIEW BLANK SAMPLE WORK PAPER:

Work Paper Reference Code:

Date of Review	Account #	Next Due Date	Last Transaction Date	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date:

PAID AHEAD LOAN REPORT REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
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INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Loan by Interest Rate Report
Review Instructions and
Examples*

LOANS BY INTEREST RATE REPORT:

The loan by interest rate report will show all loan interest rates assigned to an active loan. It is an informative report and should only take a few minutes to review. You want to review this report at least quarterly or monthly. It doesn't matter what time of the month or quarter you review it but it is good to vary the date from period to period. The reason for reviewing this report is to catch errors early. You want to look for interest rates higher than the 18%. If you find some loan interest rates higher than 18% you want to find out why and report them in your findings to the board. By regulation credit unions can't charge more than 18% on any loan. You also want to look for any lower than normal loan rates. These should be reviewed and if found to be outside of policy or lower than normal without an adequate explanation they should be reported as a finding in the report to the board.

Instructions for reviewing the Loans by Interest Rate Report:

The first step in auditing this area is to review the credit union's most current lending rates. After you have a copy of the rates, ask someone to pull this report. It is a standard report on most systems. When reviewing this report you want to check for the following areas:

- No loan should be charged >18%. If you see an interest rate >18% you will want to research the situation. Anytime a loan has an interest rate greater than 18% it should be a finding and reported to the board.
- The lowest rate showing should be in line with recent market rates. If any rates are below market you want to research why. In some instances specials are run or workout situations are present. These instances should be documented and approved by the board prior to being set up on the computer system. If you can't find board approval this should be a finding included in the report.

Documentation for the Loans by Interest Rate Report:

To document the review of loans by interest rate report take a copy of the report and document on the report any notes, findings or recommendations you have. You can also use a spreadsheet or other work paper to document this review.

Sample Documentation for the Loans by Interest Rate Report:

Date of review	Type of loan	Market for this type of loan	Interest Rate on report	Credit Union current rate for this type	Comments
3/13/2016	Unsecured	9%	8%	10%	Credit Union ran a special at the end of January 2016. No finding noted.
3/13/2016	Home Equity	6%	2%	6.5%	Board member received a lower rate. Note as finding in report to board.
3/13/2016	New Car	4%	50%	5%	Error when loan officer input interest rate on system. Corrected during audit.

Reporting Loans by Interest Rate Report:

After you have performed the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Loans by Interest Rate Report:

The Supervisory Committee reviewed the Loans by Interest Rate report dated 3/13/2016. All questions were discussed with management. The following finding was noted and remains uncorrected:

Report Date	Loan Type	Market Rate	Rate Charged	Credit Union Rate	Comments
3/13/2016	Home Equity	6%	2%	6.5%	Board member received a lower rate.

Finding: The board member received a preferential rate lower than any other rate offered at the credit union. This loan should be rewritten with a rate that is within in the credit union's current rate. The loan officer should be disciplined and this loan should be reported to the bonding company.

Follow up on this item will be completed by 5/31/2016 by the supervisory committee.

LOANS BY INTEREST RATE REPORT BLANK SAMPLE WORK PAPER:

Work Paper Reference Code:

Date of review	Type of loan	Market Rate for this type of loan	Interest Rate on report	Credit Union current rate for this type	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member

Review Date:

LOAN BY INTEREST RATE REPORT REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Dormant Account Report
Review Instructions and
Examples*

DORMANT ACCOUNTS:

Dormant accounts are share accounts without activity for a specified period of time. Many credit unions classify a share account without activity for at least 6 months as a dormant account. Many computer systems will automatically put an account into dormant status after a specified period of time. In order to remove an account from dormant status the member must make a transaction on the account. The payment of dividends by the credit union will not remove an account from dormant status; the member must actually make a deposit, withdrawal, or transfer to or from the account to remove it from dormant status.

It is important to review the dormant account report periodically to be sure the credit union is properly monitoring and handling dormant accounts. Accounts in dormant status with large balances are at a greater risk for abuse by employees and need to be monitored closely.

Instructions for Dormant Account Review:

The credit union should have a policy addressing dormant accounts. If the credit union doesn't have a policy this should be a recommendation included in the supervisory committee's report to the board of directors. The committee should review the policy on dormant accounts to gain an understanding of how they are handled. If the credit union doesn't have a written policy the committee needs to find out at what point an account is considered dormant by the credit union.

Most computer systems will allow the credit union to pull a dormant account report. This report can be pulled daily if needed. The committee should ask to have the report printed for review at least twice a year.

When reviewing the dormant account report the committee should pay attention to the following areas:

- Date of last transaction
- Type of last transaction
- Who made the last transaction
- Does this member have an active loan
- Does the credit union have a current address for this member
- Has the credit union tried to contact the Member
- When was the last date of attempted contact with the member

Instructions for Dormant Account Review Continued:

If the report doesn't provide the above information the committee will need to review the share account history and talk to management to find out the information. If a share account is in dormant status and the member has an active loan it is important to review the loan history to ensure payments are being made on time. The committee should determine if the credit union is making efforts to contact the member to notify them of their dormant account status. An internal control function on most computer systems includes the requirement of a supervisory override in order to perform a transaction on a dormant account. A supervisory override is a control requiring management to perform the transaction rather than any employee. It usually causes someone else to become involved in the transaction. This reduces the amount of errors or mishandling of dormant accounts.

Documenting the Review of Dormant Accounts:

To document the review of dormant accounts ask an employee to print out the dormant account report. You can document notes, comments and findings right on the report. It is also a good idea to set up a spreadsheet or another type of form to track the information on the dormant account report. Maintain this report and any notes in the work papers.

Sample Documenting Review of Dormant Accounts:

Member name/ Acct #	Date of Review	Date and Type of last transaction	Balance in dormant share account	Active loan/ Balance of loan/last payment received on loan	Current address	Last date of attempted contact	Comments
Joe Miles #111	3/1/2016	1/15/2014 Deposit	\$5.22	Yes/\$12,000/ 9/5/2014	No	N/A	Active loan but the credit union doesn't have a current address and hasn't tried to contact. The last payment received was 9/2014

Reporting – Dormant Accounts: After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Reporting Sample – Dormant Accounts: The supervisory committee completed a review of dormant accounts on 3/1/2016. The dormant account report was reviewed with the manager. In most cases the dormant accounts on the report are share accounts with less than \$5.00 in them. In some cases members with dormant share accounts were found to have open loans. In these cases the loan history was reviewed to determine the payment history. The findings are noted below:

Finding: The credit union doesn't have a written dormant account policy. It is recommended the credit union develop a written dormant account policy defining when an account is considered dormant and how the credit union will handle all dormant accounts.

Finding: Account #111 is considered dormant as of 3/1/2016. The last transaction on this share account was made 1/15/2014. The member has an open loan with a balance of \$12,000. No payments have been received on this loan since 9/5/2014. This loan is contractually delinquent and the credit union has not tried to make contact with the member. This loan should be added to the delinquency list and collection efforts need to start immediately.

DORMANT ACCOUNTS REVIEW SAMPLE WORK PAPER:
Work Paper Reference Code:

Member name/ Acct #	Date of Review	Date and Type of last transaction	Balance in dormant share account	Active loan/ Balance of loan/ last payment received on loan	Current address	Last date of attempted contact	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member

Date of Review

DORMANT ACCOUNTS REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Delinquency Report Review
Instructions and Examples*

DELINQUENCY REPORT REVIEW:

Since loans are the credit union's largest asset a high delinquency rate can indicate a problem. The credit union staff should be reviewing the delinquency reports at least weekly. The board of directors should receive a copy of the most current month end delinquency report at each board meeting. The Supervisory Committee should review the month end delinquency reports periodically to find out if adequate action is being taken on all delinquent accounts. You want to follow up on any accounts shown on the delinquent list one month but not the next month. If a member is on the delinquent list one month but no payment was made it should remain on the delinquent list unless the loan was extended, refinanced or charged-off by the board.

Instructions for reviewing the delinquency reports:

Review the credit union's collection, extension and charge-off policy. Once you have reviewed the policies, review at least 3-month end delinquency reports in a row. For example pull month end 12/31/2015, 11/30/2015, and 10/31/2015. Look for any changes from month to month on loans delinquent over 2 months. For example if on the 10/31/2015 report Joe Smith was 6 months delinquent but on the 11/30/2015 report he didn't show up at all, you want to find out why he is not delinquent any more. You can find out what happened by reviewing the member's loan history on the computer system. If a person disappears from the delinquency list he made a payment, was charged-off, or has made an extension agreement with the credit union. Extension agreements should be a very rare occurrence and a delinquent member should not be eligible for an extension.

When reviewing the delinquency reports check to make sure no volunteers are on the delinquent list. All volunteers including board, supervisory committee and credit committee need to maintain their accounts in good standing. If they are delinquent they need to bring the account current immediately in order to remain an official volunteer for the credit union.

If you see any delinquent loans not being pursued for collection in compliance with the loan collection policy this should be reported as a finding in your report to the board and the manager. If you see any loans needing to be charged-off according to the charge-off policy but haven't been charged-off, find out why and include these loans in the report to the board and manager.

Documentation Delinquency Report Review:

When reviewing the reports take a copy of them and you can document on the report any notes, findings or recommendations you have. You can also use a spreadsheet or any other form of documentation. Maintain all documentation in your work papers.

Sample Documentation Delinquency Report Review:**Delinquency report for 3/31/2016**

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments
Joe Smith #1234	\$12,000	1/31/2015	4	11/30/2015	Phone call will pay	Collection action according to policy
Lisa Jones #2345	\$13,000	5/30/2014	8	7/31/2015	Phone call will pay	Should have repossessed by now

Delinquency Report for 4/30/2016

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments
Joe Smith #1234	\$12,000	1/31/2015	5	11/30/2015	Phone call will pay	Collection action according to policy
Lisa Jones #2345	\$13,000	5/30/2014	9	7/31/2015	Phone call will pay	Should have repossessed by now

Sample Documentation Delinquency Report Review Continued:

Delinquency Report for 5/31/2016

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments
Jim Roberts #4234	\$2,000	3/1/2013	2	3/31/2016	Phone call will pay	Collection action according to policy
Lisa Jones #2345	\$13,000	5/30/2010	10	7/31/2015	Phone call will pay	Should have repossessed by now

Notes: Joe Smith was on the delinquency report last month but is not on the delinquency report this month. The supervisory committee reviewed payment history and no payment was made, loan wasn't charged-off and an extension wasn't granted. This will be reported as a finding to the board of directors.

Reporting Delinquency Report Review:

After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Delinquency Report Review:

The supervisory committee has performed a review of delinquency. We reviewed the reports for the three months of March, April and May of 2016. The findings are noted below:

Finding: Joe Smith #1234 was showing delinquent on the March and April reports but was not shown on the May report. The account was reviewed and no payments were received and the loan has not been charged-off or extended. This was discussed with the manager and she agreed to follow up. The committee will be following up on this by June 30, 2016.

Finding: Lisa Jones #2345 is listed as 10 months delinquent in May. According to the collection policy the collateral should have been repossessed by now. The collector has only made a few attempts to collect this loan by calling the member. The collection policy is not being followed. The supervisory committee will be following up on this by June 30, 2016.

DELINQUENCY REPORT REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Date of Report:

Month 1

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments

Date of Report

Month 2

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments

DELINQUENCY REPORT REVIEW SAMPLE WORK PAPER:

**Date of Report:
Month 3**

Name/Acct #	Balance outstanding	Date of loan	Months Del	Last pay date	Collector comments	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

DELINQUENCY REPORT REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

SUPERVISORY COMMITTEE INTERIM AUDIT PROCEDURES

WORKBOOK – 2016

*Charge-off Loan Report
Review Instructions and
Examples*

REVIEW OF CHARGE-OFFS:

From time to time members are not able to repay their loans and they need to be written off. The board is responsible for approving all charge-offs **prior** to them actually being written off. It is good to review this area a few times a year.

Instructions for reviewing Charge-offs:

To properly review charge-offs or write-offs review the credit union's charge-off policy, the board minutes for the period of review, and ask someone to pull the history of the "Allowance for loan loss" account #719.00 for the period of review. Review the history of this account and compare it to the board minutes. Any debits posted to this account should represent the charge-offs for the period. You need to trace all charge-offs posted in this account to the board minutes to be sure they were approved **prior** to being charged-off and are for at least the amount approved for charge-off. If you find a discrepancy in the amounts you need to research this to determine why there is a discrepancy. If any amount charged-off has not been approved in the board minutes it needs to be researched as well and included as a finding in the report to the board if no explanation is obtained.

Documentation Charge-offs:

Documenting your work in this area will include making a list of all loans charged-off from the board minutes, and maintaining the print out of the allowance for loan loss account. The documentation should clearly show you traced all charge-offs posted in the allowance for loan loss account to the board minutes. Any discrepancies need to be documented and discussed with the manager. If you find any loans charged-off outside of policy you want to discuss these with the manager also. Report all findings to the board of directors after discussing them with the manager. All documentation used in this review needs to be retained in your work papers.

Sample Documentation Charge-offs:

Account #	Amt charged-off	Amt Approved in board minutes	Comments
2331	\$5,399	\$4,000	Amount approved in board minutes is less than the amount actually charged-off. Discussed with the manager and no reasonable explanation given Will include as finding in report to board.
1098	\$4,400	\$4,500	Amount approved in board minutes is more than the amount actually charged off. This is due to \$100 in the member's account being applied to the loan balance before charge-off. Reasonable and in compliance with policy and procedures. No finding.

Reporting Charge-offs:

After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Charge-offs:

The supervisory committee reviewed the charge-offs for the months of January, February and March 2016. All loans charged-off for the month were compared to the loans approved for charge-off in the board minutes. The findings are noted below:

Finding: Account #2331 was charged-off in the amount of \$5,399 but the amount approved in the board minutes was only \$4,000. The Manager provided no reasonable explanation. The Supervisory Committee will follow up on this by 5/1/2016.

CHARGE-OFF REPORT REVIEW SAMPLE WORK PAPER

Work Paper Reference Code:

Account #	Amt charged-off in General Ledger	Amt Approved in board minutes	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

CHARGE – OFF REPORT REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Negative Share Draft Report
Review Instructions and
Examples*

NEGATIVE SHARE DRAFT REPORT REVIEW

This report should be reviewed monthly and it should not be reviewed at the same time each month and not at month end. This report will tell you the share draft accounts with negative balances. Many times the negative amounts will be from fees but in some instances they will be from checks the credit union paid when the member didn't have adequate funds in the account.

The credit union pulls a report each day to see what checks came through but will not automatically post to the members account because of lack of funds. The credit union reviews this report and looks to see if the member has authorized a transfer from savings to cover the over draft or has an overdraft line of credit available to cover the overdraft. A transfer is made from the share account or the overdraft account if available to cover the amount. In some instances the member doesn't have sufficient funds or credit available to cover the amount of the draft. When this occurs the check is either returned NSF or paid by the credit union. If the credit union is covering NSF checks and the member doesn't have either funds or a line of credit available the credit union **must** have a written policy addressing this issue.

Instructions for Reviewing the Negative Share Draft Report:

The supervisory committee should review the credit union's overdraft policy and procedure before reviewing this area. The credit union **must** have a policy outlining how NSF checks will be handled. This policy is required in the rules and regulations part 701.21(c) 3. The credit union should have a procedure outlining the steps to be taken when dealing with overdrawn checking accounts. If the credit union doesn't have a policy and is covering NSF checks, the supervisory committee should include this as a finding in the report to the board of directors. If the credit union doesn't have a written procedure the supervisory committee should include this as a recommendation in the report to the board of directors.

Once the policy and procedures are reviewed the committee should review the overdraft reports for a period of several days in a row. Pay special attention to the fees charged in the policy versus the fees actually charged to the members. If you see any action taken by the credit union outside of policy this is an area you should discuss with the manager. For example if you see a member who has overdrawn his account and not been charged a fee but the policy states all members who overdraw will be charged a fee. In this case the actual procedure differs from the policy. You would want to find out why and if there are "special" situations when a member would not be charged. If this is the case they need to be stated in the policy.

Instructions for Reviewing the Negative Share Draft Report Continued:

Pay attention to accounts with large negative amounts and any negative account outstanding for longer than 45 calendar days. If any officials or employees are listed on the overdraft report they need to be treated like any other member. If a fee would be charged to a member it must be charged to an official or an employee.

Documentation Negative Share Draft Report:

When documenting your work in this area you can copy the actual report and make any notes or findings on the report. Document any exceptions you find and report them to the Manager and the board. Maintain copies of all the reports and any analysis you have done along with any findings.

Sample Documentation Negative Share Draft Report:

Date of Review	Acct #	Amt Negative	NSF or fees causing negative amount	Last transaction Date	Comments
1/20/2016	1228	-\$239	Fees and NSF	1/19/2016	Only 1 day since overdrawn. In compliance with policy No finding
1/20/2016	4335	-\$15,000	NSF	1/10/2016	No fee charged. Member related to the loan officer. Exceeds maximum amount of NSF allowed in policy. Will be included in findings.

Reporting Negative Share Draft Report Review:

After you have performed all of the audit steps to review this report you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Negative Share Draft Report Review:

The supervisory committee completed a review of NSF as of 1/20/2016. All NSF's on report were reviewed with management. The findings and recommendations follow:

Finding: Account #4335 has a negative amount of \$15,000. This member is related to the loan officer and was not ever charged an overdraft fee. The amount overdrawn exceeds the credit union's policy. It doesn't appear any collection action has been taken on the account. The bond company should be notified. The supervisory committee will follow up on this item monthly until corrected.

**NEGATIVE SHARE DRAFT REPORT REVIEW SAMPLE WORK PAPER:
Work Paper Reference Code:**

Date of Review	Acct #	Amt Negative	NSF or fees	Last transaction Date	Comments

Supervisory Committee Notes:

Supervisory Committee Signature

Date of Review:

NEGATIVE SHARE DRAFT REPORT REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Board Minute Review
Instructions and Examples*

REVIEW OF BOARD MINUTES:

It is important for the supervisory committee to review the board minutes from time to time. This is especially important when there are new members on the committee, the committee has been inactive, or no one from the committee is attending the board meetings.

At least one person from the committee should attend the monthly board meetings. This will help keep the committee informed on the credit union's overall activities and an overall idea of how business is conducted. For example if the board has a hard time getting a quorum to meet or if the same people miss meetings regularly this may indicate a lack of interest or commitment from the board.

Instructions Review of Board Minutes: The Supervisory Committee should review the board minutes a few times throughout the year. When reviewing the board minutes or attending the board meetings pay particular attention to the following items:

- Make sure a quorum was present
- Make sure the minutes are signed
- Determine if new members were approved
- Determine if dividend rates were set and or declared
- Determine if delinquency was discussed and acted on
- Determine if all motions and votes were done correctly
- Determine if all information contained in the minutes makes sense and is clear to the reader.
- Determine if expenses were approved
- Determine if the financial information was presented to the board
- Determine if the charge-offs were approved
- Items Tabled
- Loans to officials aggregate >\$20,000 are approved by the board of directors
- The person whose loan is being voted on should be excused from the meeting
- The board provides the manager with an annual evaluation
- Is the quorum of the board made up of people related in some way, family or business?
- Is the board acting in the best interest of the credit union?

Annual Meeting Minutes Review Instructions:

When reviewing the minutes or attending the annual meeting it is a good idea to review the bylaws and the Federal Credit Union Act if you are unclear how the annual meeting is suppose to be handled. You will also want to pay attention the following areas:

- Report was given by the Manager
- Report was given by the Supervisory Committee
- Report was given by the Credit Committee if applicable
- Nominations were handled correctly
- Notice of the annual meeting was provided according to the Bylaws
- Votes were handled correctly

Documenting Board Minute Review:

To document the review of the minutes the committee can make notes on a piece of paper. You can also take copies of important items from the minutes. Document the dates reviewed, questions, comments, findings and follow up needed.

Sample Documenting Board Minute Review:

Date of meeting	Quorum & Minutes Signed	New members approved/Dividend rates set and declared	Delinquency discussed/ Expenses approved	Motions and votes made correctly/Financial information presented to the board	Information in minutes made sense and was clear and accurate	Items Tabled
3/12/2016	Yes/Yes	Yes/Yes	Yes / Yes	Yes/Yes	Yes	Building

Notes on board minutes: Item about the building was tabled again at this meeting. Looking back at previous meetings the building issue has been tabled for over 9 months and it doesn't appear progress is being made.

Reporting Board Minutes Review:

After you have read through the minutes for the months selected you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Board Minute Review:

The supervisory committee has reviewed the board minutes for the months of January 2016 – March 2016. The following findings and recommendations are noted:

Recommendation: The building issue has been tabled for more than 9 months. The supervisory committee recommends the board set a deadline for a decision to be made on the building and move on.

Finding: the Secretary of the Board did not sign the minutes for the January meeting

Finding: The charge-offs approved in the March meeting were not listed individually, just a total was provided in the minutes. It is recommended the secretary list the individual charge-offs separately or include a report from the loan officer so it is clear which loan accounts were charged-off, and what the individual amounts are.

Finding: The bylaws state anyone on the board who misses more than 3 meetings will have his position declared vacant. Review of the minutes revealed Karla Johnson has not been at a board meeting since November of 2014. Her position should be declared vacant by the board.

The Committee will follow up on all findings by 6/30/2016

BOARD MINUTE REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Date of meeting	Quorum	New members approved	Delinquency discussed	Expenses Approved	Motions and Votes made correctly	Financial information presented to the board	Information in minutes made sense and was clear and accurate	Items Tabled	Dividend Rates Set and Declared	Minutes Signed

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:



BOARD MINUTE REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Policy Review
Instructions and Examples*

POLICY REVIEW:

The supervisory committee should review the credit unions policies at least annually. In most cases the policies will be reviewed during the individual audit of an area. For example the committee will review the loan policy prior to reviewing any loans. When the board updates a policy the supervisory committee should receive a copy of the new policy complete with all changes. The main reasons for reviewing policies annually are to:

- Ensure the credit union has a policy for each area of operation
- Ensure all policies are in compliance with applicable regulations
- Ensure the credit union is following policy
- Ensure the credit union is reviewing the policies at least annually and making changes as needed
- Ensure the Supervisory committee has the most recent adopted policy for each area

Instructions for Reviewing Policy:

When reviewing policies the committee needs to first obtain a copy of all current credit union policies. The committee should make sure the credit union has all required policies. If a policy is specifically required by regulation the committee should determine if the policy is in compliance with the regulation. Generally every area of operation should have a policy whether it is required by regulation or not. Below is a list of required policies and the corresponding regulation:

Investment Policy	NCUA R&R section 703.3
Loan Policy	NCUA R&R section 701.21
Collection Policy	Acct Manual
Charge-off Policy	Acct Manual
Records Preservation Policy	Acct Manual
Security Policy	Letters to credit union #109
Bank Secrecy Act Policy	NCUA R&R 748.2
OFAC policy	Patriot Act
Member Identification Policy	Patriot Act
Succession Policy	Letter to Credit unions #161
Asset Liability Management	Letter to Credit Unions #161
Electronic Systems Policy	Reg E
Funds Availability Policy	Reg CC
Fair Credit Reporting Policy	Fair Credit Reporting Act
Overdraft Policy	NCUA R&R Section 701
Privacy Policy	Gramm-Leach Bliley Act (Privacy Act)
Allowance for Loan/ Lease Loss	Letter to credit unions 02-CU-09
Truth in Savings	NCUA R&R Section 707
Disaster Recovery	NCUA R&R Section 749

Instructions for Reviewing Policy Continued:

In all cases the committee needs to determine

- If the policy in place provides adequate guidance for the employees to carry out their duties and the overall credit union's mission.
- If the policy is clear and easy to understand.
- Has the policy been approved by the board of directors
- Has the policy been provided to all employees responsible for the area the policy covers

Documenting the Policy Review:

When documenting the policy review it is a good idea to take a copy of each policy. Notes, comments and recommendations can be made right on the policy copy. Any work papers can be used to document the review of the policy. These can be hand made work papers or computer generated work papers. Maintain the copies of the policies in the committees work papers.

Sample Documenting Policy Review:

Policy Reviewed	Date of Review & Person Reviewed by	Compared to applicable regulation	Approved by board of directors/ Last date reviewed by board of directors	Are employees aware of policy?
Investment	5/7/2016 / Joe Johnson	Yes	11/30/2013 11/30/2013	No
Negative share draft	5/13/2016 /Linda Smith	Yes	1/31/2013 1/31/2013	No
Loans	5/22/2016/Alex Adams	Yes	? 2/4/2012	No

Comments: The policies reviewed have not been given to the employees. Several areas highlighted in the policy need to be updated to comply with revised regulations. Several areas in the policies reviewed need to be changed to be more clear. The board of directors has not ever approved the loan policy. The board has not reviewed the policies reviewed annually.

Reporting Policy Review:

After you have read through the policies you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Policy Review:

The Supervisory Committee reviewed the Investment, Negative share draft and Loan policies in May of 2016. Several findings were noted during this review. The findings are detailed below:

Finding: The policies reviewed have not been given to the employees.

Finding: The investment policy does not comply with part 703 of NCUA's Rules and Regulations.

Finding: The loan policy is vague and needs to be revised to be more clear. This is specifically needed in the section on collections and debt to income ratio guidelines.

Finding: Review of the loan policy and the board minutes revealed the board of directors has not ever approved the loan policy. The policy was last reviewed in 2012 by the board but not ever formally adopted.

Finding: the board has not reviewed the policies reviewed annually.

The board of directors is asked to review the findings and respond to the Supervisory Committee by 7/31/2016. Follow up will continue in this area monthly by the supervisory committee.

POLICY REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Policy Reviewed	Date of Review & Person Reviewed by	Compared to applicable regulation	Approved by board of directors/ Last date reviewed by board of directors	Are employees aware of policy?

Supervisory Committee Notes:

Signature of Supervisory Committee Member name

Date of Review:

POLICY REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Handling Complaints
Instructions and Examples*

COMPLAINTS:

One of the Supervisory committee's on-going duties is to handle member complaints. One of the most important things in this area is to remain impartial and independent to ensure you treat all members fairly. A member might complain either directly to you or to the National Credit Union Administration (NCUA). If NCUA receives the complaint it will generally be referred to the supervisory committee and request you investigate the complaint and furnish the NCUA regional office with a written report. The regional office will then send the member a full response letter.

Instructions for handling complaints:

If a member brings a complaint to you have them put it in writing and sign the complaint. This will provide you with documentation of the complaint and proof of what the member is saying. If it is possible you should contact the person who complained and interview him or her. These interviews should be done in private. It is important to keep an open mind and not make any judgment until after you have investigated the entire matter. If you find the complaint is routine or simply a disagreement, inform the member he or she can resolve it directly with the credit union staff.

If you determine the complaint is something not able to be handled by the credit union staff the following steps should be taken:

- Review the pertinent policies and procedures and determine their compliance with credit union regulations and laws.
- Review credit union practices, (unwritten procedures) and if they comply with the credit union's written policies
- Interview appropriate credit union employees and officials.
- Do all of the investigation yourself as able. Don't rely on credit union staff to do it for you.
- Keep all documentation of the items you reviewed in your work papers and document the steps you took to complete the investigation.
- Do not initiate a joint meeting between the member and the credit union staff or officials.
- Keep in mind the credit union staff or officials may become defensive when you are investigating the matter.
- If you feel you are too close to the person complaining to get involved and nobody on the supervisory committee is able to do the work you will need to find an outside source to complete the investigation.

Instructions for Handling Complaints Continued:

- Once you have investigated the complaint in full and have reached a determination document your analysis of the complaint, the steps taken and any suggestions for corrective action needed by the credit union.
- If you received this complaint directly from the member you will want to write a response to the member signed by the supervisory committee.
- If you received this complaint from NCUA you will need to prepare and submit the written response to NCUA's regional office. Write the report in a clear, concise and factual manner. NCUA will usually send the report to the complainant as part of the final response to the individual.
- Make sure and maintain a file of all complaints and resolutions.

Documentation - Complaints

Documenting the complaint is very important for the supervisory committee. Make sure and keep all correspondence you receive concerning the complaint. The correspondence may be from the member, the credit union employees or the NCUA. When documenting the investigation take copies of all items used. If copies aren't allowed take very clear notes on what you did to investigate and the analysis used to make a determination on the case. Maintain all documentation in the complaint file. The documentation will be helpful in future complaints, training, and if your examiner or auditor wants to review the complaints.

Sample Documentation - Complaints:

The member writes the following complaint:

Dear Supervisory Committee:

I recently overdrew my checking account and was charged \$15.00 per bad check. I don't have an overdraft line of credit but have not ever been charged in the past for writing bad checks at your credit union. I didn't receive a notice of a change in charges and am questioning why I was charged these fees. Can you please investigate and let me know.

Sincerely,

Upset Member name

Sample Documentation – Complaints Continued:

Credit union overdraft policy and fee structure states any member who bounces a check will be charged a \$15.00 fee. The policy has been in place for over 5 years. The fees haven't ever changed since the policy has been in place. A copy of the policy and fee schedule is attached.

Review of the member's checking account history revealed over 40 bad checks in a 1 year time period without any charges. The credit union's policy also states members who abuse their checking accounts will have their account closed after bouncing more than 4 checks in a 6 month period. Per policy this member should have always been charged a fee and should have had his checking account closed long ago.

Discussion with the staff revealed they have all been provided copies of the overdraft policy and are aware of what it says. They don't have any unwritten policies they follow in addition to the written policies and procedures in this area.

It was revealed by an employee who requested to be anonymous the member who is complaining had been dating the person (Sue) who is in charge of deciding what checks get returned and what accounts get charged when a member overdraws his or her account. The couple has recently split and this employee thinks it is probably why the member is suddenly getting charged.

This issue was investigated further and Sue admitted to allowing her ex boyfriend to bounce checks whenever he needed without being charged a fee.

Conclusion and Recommendation:

The employee (Sue) has not been following the overdraft policy for the past year. There may be other accounts she is handling similarly to this one. The Supervisory committee will write a response to the member and explain the credit union's policy and fee schedule. The committee will also investigate further to see if there are any other accounts not being charged overdraft fees. The committee recommends the employee be fired.

Reporting Complaints:

Once the complaint has been fully investigated the supervisory committee needs to submit a report to the board of directors, write a response to the member or NCUA if applicable.

Sample Report to the Board Complaints:

The Supervisory committee investigated a complaint from member #1199 concerning his checking account. See the attached letter from the member. The committee reviewed the credit union's policy in this area, discussed the procedures with the staff and reviewed the member's checking account history for a year. It was determined the employee had been giving the member preferential treatment over the past year and had not been following credit union policy. The supervisory committee recommends the employee should be fired.

Sample Response to the member Complaints:

Dear member:

The supervisory committee has investigated your complaint concerning your checking account. You stated in your complaint (restate the member's complaint you received in his words). The credit union policy adopted in 2014 states all members who overdraw their accounts will be charged \$15.00 per bounced check. The recent charges to your account are in compliance with the credit union's policy and fee structure.

Review of your checking account history revealed you should have been charged a total of \$600 over the past year due to the number of overdrafts on your account. We were at fault in not charging you these fees over the last year so we will not charge you for any of the past overdrafts.

Should you have any questions on this matter please feel free to contact a supervisory committee member.

Sincerely

Supervisory committee chairperson

Sample Response to NCUA Complaints:

The Supervisory committee investigated a complaint from member #1199 concerning his checking account. See the attached letter from the member. The committee reviewed the credit union's policy in this area, discussed the procedures with the staff and reviewed the member's checking account history for a year. The policy was adopted in 1999 and clearly states any member who bounces a check will be charged a \$15.00 fee. It was determined the fees charged for the bounced checks are consistent with the credit union's policy in this area.

**COMPLAINTS SAMPLE WORK PAPER:
Work Paper Reference Code:**

**Summary of complaint
(Attach copy of written complaint)**

Summary of Research (Include a copy of any documentation you used)

Conclusion and Recommendation:

**Attach the following
Response Sent to Member (if applicable)
Response Sent to NCUA (if applicable)**

Signature of Supervisory Committee Member

Date

COMPLAINT SAMPLE REPORT FORMAT:

Date:

Complaint Summary: (attach copy of letter if necessary)

Summary of Research Performed, Conclusion Reached and Response sent to either member or NCUA:

Follow up Needed:

Signature of Supervisory Committee Member:

Date

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Loan Review
Instructions and Examples*

LOAN REVIEW:

In most credit unions loans are the largest asset. Loans also can be the highest risk area in a credit union. The loan review is one of the most important areas for the supervisory committee to review. The committee should try and review some loans monthly or quarterly. However often, the review should be frequent and ongoing. When reviewing loans the committee should pay attention to the following areas:

- Loans are made in accordance with policy
- The loan files are in the credit union and contain the needed documentation
- All members are provided the same opportunity to apply for a loan
- The loan criteria used is written in a policy and the same criteria is used for everyone
- The rates charged are those the board has approved
- The rates charged are not ever greater than 18%
- The policy contains enough information to provide guidance to the loan officers and the supervisory committee when reviewing the loan files
- The loan policy is up to date and is reviewed at least annually by the board
- Members who apply for a loan but do not meet the criteria set forth in the policy are provided with a loan denial form
- The person who approves the loan should not ever disburse the funds
- Any differences in policy and actual need to be written up as loan exceptions. Any missing documentation also needs to be written up as loan exceptions Follow up on any previous exceptions from previous audits until they are corrected
- Maintain the loan review worksheets you used to review the loans and document your exceptions. Also maintain any exceptions you reported to the board and any corrections noted

Loan Review Instructions:

Before reviewing any loan files the committee should obtain a copy of the most recent loan policy and loan rates approved by the board of directors. It is good to keep these items with you when you are reviewing files to answer any questions. When you are reviewing files and you can't determine if the credit union followed policy, the policy may need to be updated to be more specific. If you feel it is vague your report to the board and management should include a recommendation to improve the policy. You want to include specific areas where you feel it could be improved. If you are reviewing loans regularly, (monthly or quarterly), you can focus on the new loans granted since you last reviewed loans. If you are not reviewing loans regularly you can review a random sample of new and old loans to get a diverse selection.

Loan Review Instructions Continued:

A loan trial balance is a computer-generated report showing all loans containing a balance. The trial balance provides all of the necessary information you will need to pull a sample of loans. It is a good idea to go over the codes listed on the loan trial balance with the manager. You may want to write down the loan codes the credit union uses. You can ask an employee or the manager for the most recent loan trial balance. In some instances there may be more than one type of trial balance. Make sure and ask the manager if the loan trial balance you are working from contains all of the loans. In some instances if the credit union has credit card loans or real estate loans, they may be on a separate loan trial balance.

You will also want to obtain the credit committee minutes or the loan officer minutes before looking at any loan files. Each credit union is required to maintain credit committee minutes if they have a credit committee. If they do not have a credit committee the loan officers should have loan officer minutes. The minutes are basically a list of loans approved by that loan officer or credit committee and those loans not approved or denied.

Once you have selected the loans you want to review ask the credit union employee to print out a loan payment history and the loan profile screen for each loan you are going to review. This will show you all of the loan terms as they are in the system as well as the payment history. You can use these print outs as your work papers to write your comments or questions. You can also use other work papers if you prefer but using the print outs can make the review easier. If the credit union can't get you the print outs ask someone to show you how to review the information on the computer screen. This is another method of verifying the information on the computer screen matches what is in the file. Once you have selected the loans and have the computer print outs have someone from the credit union pull the loan files for the loans you will be reviewing.

Once you have the loan files pulled and the computer print outs you want to compare the information from the computer screen or print out to what is actually written in the file. For example if a loan rate on the loan screen or print out says 5% but the rate on the note in the file says 5.5% there is a discrepancy and it should be discussed with the manager. Also if you see on the note the loan is unsecured but the computer has the loan coded as a secured loan, there is a discrepancy and you need to discuss this with the manager.

Once you have determined the information in the file is the same as the information contained in the computer system for the loan you want to go through the loan file and make sure the required documentation is present. If you have not ever looked at a loan file before you will have several questions for the loan officer or manager. It will be necessary for you to ask them questions until you are familiar with the needed documentation.

Loan Review Instructions Continued

Below is a table showing the required documentation items for each type of loan.

Documentation	Secured Titled	Secured non Titled	Unsecured closed End	Unsecured Open End	Share Secured	Home Equity	Official > \$20,000 aggregate
Signed Application	X	X	X	X	X	X	X
Security Agreement	X	X			X	X	X
Signed note/Disclosure	X	X	X	X	X	X	X
Signed credit agreement	X	X	X	X	X	X	X
Title/lien holder filed notice, mortgage	X				X	X	X
UCC-1		X					
Documented Value of collateral	X	X	X	X	X	X	X
Debt to income ratio	X	X	X	X	X	X	X
Credit report	X	X	X	X		X	X
Approval signed in the file	X	X	X	X	X	X	X
Lien search		X				X	
Proof of shares in account					X		
Proof of insurance	X	X				X	
Right of recession						X	
Flood Search						X	
How rate was figured if Risk Based Pricing	X	X	X	X	X	X	X

Loan Review Instructions Continued:

It is common to find items missing from loan files. When this happens it is referred to as a loan exception. Document all loan exceptions in your work papers and review them with the manager and the loan officer before reporting them to the board. In some cases it may be the item is misfiled or the loan was recently granted and they haven't received the items yet. It also may be the item was in the file but was accidentally overlooked. Document all items in your work papers and report all loan exceptions to the board after you have discussed them with the manager.

Documenting the Loan Review:

As stated above the documentation for the loan review can be the print outs from the computer system for the specific loan. You can also use paper or a computer worksheet to document your loan review. Tables or spreadsheets work well for loan reviews. They allow you to place check marks next to the documentation found in the file. This also helps in training new supervisory committee members. The documentation should contain the following items:

- Loans reviewed
- Documentation missing
- Date reviewed
- Follow up on previous loans reviewed if any
- Findings noted
- Notes or questions
- Answers to questions

Sample Documentation for the loan review:

Loan #1

Name: Joe Smith

Account # 1234

Date of loan: 3/3/2013

Amount of Loan: \$20,000

Rate of loan: 20%

Approval signature in file: Approved by MJ

Debt Ratio: Debt to income ratio 70%

Application Signed: Yes

Note Signed: No

Collateral: The loan file lists the collateral as a 2013 Camry

Collateral value noted in file: Value listed at \$40,000

Proof of Title in file with credit union listed as 1st lien holder: Yes

Proof of insurance with credit union listed as 1st loss payee: Yes

Sample Documentation for the loan review Loan #1 Continued:

Comments: The loan rate charged was 20%. The member did not sign the note. The debt to income ratio is 70%. These were discussed with the manager and she indicated this loan was granted by a loan officer recently fired.

Loan Exception:

The loan rate is 20% and should be lowered to a maximum of 18%. The debt to income ratio is 70% and the maximum debt to income ratio allowed per policy is 45%. The note isn't signed by the member, making the member not contractually liable for the loan. The member needs to be contacted.

Loan #2

Name: Tim Johnson

Account # 3939

Date of loan: 4/12/2013

Amount of Loan: \$10,000

Rate of loan: 2%

Approval signature in file: Approved by ST

Debt Ratio: Debt to income ratio 17%

Application Signed: Yes

Note Signed: Yes

Collateral: The loan file lists the collateral as certificate secured

Collateral value noted in file: Value listed at \$10,000

Proof of Title in file with credit union listed as 1st lien holder: N/A

Proof of insurance with credit union listed as 1st loss payee: N/A

Shares Pledged on the computer system: Yes

Comments: The loan rate is 2% on the system but the note states the loan rate should be 5.2%. It appears a mistake was made when the loan was put into the system. This was discussed with the manager and corrected during the review.

Loan Exception: A loan for account #3939 was set up at a 2% rate of interest but should have been 5.2%. This was corrected during the audit. It is recommended the credit union review the interest rate report immediately and on- going to determine if any other loans are set up incorrectly.

Reporting Loan Review: After you have reviewed the selected loan files you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, loan exceptions and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Loan Review: The Supervisory Committee performed a random review of 25 loan files on March 4, 2016. The following exceptions were noted during the loan review:

Loan Exception: A loan for account #3939 was set up at a 2% rate of interest but should have been 5.2%. This was corrected during the audit.

Recommendation: It is recommended the credit union review the interest rate report and determine if any other loans are set up incorrectly.

Loan Exception:

The loan rate is 20% and should be lowered to a maximum of 18%. The debt to income ratio is 70% and the maximum debt to income ratio allowed per policy is 45%. The note isn't signed by the member, making the member not liable for the loan. The member needs to be contacted.

Recommendation: Contact the member and have them sign the note. Provide training to staff on the lending policy and loan rates.

LOAN REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Name / Account #	Signed Application/ Signed Security Agreement	Signed Note / Security Agreement Disclosure	Title/lien holder filed notice, mortgage/ UCC-1	Documented Value of collateral/ Proof of Collateral	Debt to income ratio	Credit report	Approval signed in the file	Proof of insurance	Right of recession	Flood Search	Lien search

Supervisory Committee Notes:

LOAN REVIEW SAMPLE REPORT FORMAT:

Number of Loans Reviewed

Date of Review

Loan Exceptions/ Recommendations:

Acct # Name

Exception / Recommendation:

Acct # Name

Exception / Recommendation:

Acct # Name

Exception / Recommendation:

Acct # Name

Exception / Recommendation:

Signature of Supervisory Committee Member

Date:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Employee and Official Loan
Review Instructions and
Examples*

OFFICIAL AND EMPLOYEE LOAN REVIEW:

It can sometimes be uncomfortable reviewing this area but it is for the protection of the employees and officials as well as the overall credit union. When reviewing this area you want to make sure all loan policies were followed without exception unless approved by the board of directors. You want to make sure the officials and employees are treated like any other member would be treated. Preferential rates are not allowed to be given to officials. If employees are eligible to receive a preferential rate per the policy the credit union should have a method for ensuring the rate is changed should the employee leave the credit union's employment.

Instruction for Reviewing Official and Employee Loans:

Reviewing the officials and employees loans is basically the same as reviewing any other loan. Before reviewing any loan files the committee should obtain a copy of the most recent loan policy and loan rates approved by the board of directors. It is good to keep these items with you when you are reviewing files to answer any questions. When you are reviewing files and you can't determine if the credit union followed policy, the policy may need to be updated to be more specific. If you feel it is vague your report to the board and management should include a recommendation to improve the policy. You want to include specific areas where you feel it could be improved. If you are reviewing loans regularly, (monthly or quarterly), you can focus on the new loans granted to employees and officials. If you are not reviewing loans regularly you can review a random sample of new and old loans to get a diverse selection.

A loan trial balance is a computer-generated report showing the loans containing a balance. The trial balance provides all of the necessary information you will need to pull a sample of loans. It is a good idea to go over the codes listed on the loan trial balance with the manager. You may want to write down the loan codes the credit union uses. You can ask an employee or the manager for the most recent loan trial balance. In some instances there may be more than one type of trial balance. Make sure and ask the manager if the loan trial balance you are working from contains all of the loans. In some instances if the credit union has credit card loans or real estate loans, they may be on a separate loan trial balance.

You will also want to obtain the credit committee minutes or the loan officer minutes and board minutes before looking at any employee or official's loan files. Each credit union is required to maintain credit committee minutes if they have a credit committee. If they do not have a credit committee the loan officers should have loan officer minutes. The minutes are basically a list of loans approved by that loan officer or credit committee and those loans not approved or denied. All loans to officials over \$20,000 in aggregate not share secured must be approved by the board of directors.

Instruction for Reviewing Official and Employee Loans Continued:

You will need to ask for a current list of employees, employee's immediate family members, officials and their immediate families with their account numbers. It is a good idea to start with any loans listed as an exception in the most recent examination or audit. If there were none you can also review any new loans granted within the last six months or since you have last reviewed this type of loan.

Once you have selected the loans you want to review ask the credit union employee to print out a loan payment history and the loan profile screen for each loan you are going to review. This will show you all of the loan terms as they are in the system as well as the payment history. You can use these print outs as your work papers to write your comments or questions. You can also use other work papers if you prefer but using the print outs can make the review easier. If the credit union can't get you the print outs ask someone to show you how to review the information on the computer screen. This is another method used to verify the information on the computer screen matches what is in the file. Once you have selected the loans and have the computer print outs ask someone from the credit union pull the loan files for the loans you will be reviewing.

Once you have the loan files pulled and the computer print outs you want to compare the information from the computer screen or print out to what is actually written in the file. For example if a loan rate on the loan screen or print out says 5% but the rate on the note in the file says 5.5% there is a discrepancy and it should be discussed with the manager. Also if you see on the note the loan is unsecured but the computer has the loan coded as a secured loan, there is a discrepancy and you need to discuss this with the manager.

Once you have determined the information in the file is the same as the information contained in the computer system for the specific loan you want to go through the loan file and make sure the required documentation is present. If you have not ever looked at a loan file before you will have several questions for the loan officer or manager. It will be necessary for you to ask them questions until you are familiar with the needed documentation.

Instructions for Reviewing Official and Employee Loans Continued:

A few additional items you want to pay attention to when reviewing employees and official's loans are:

- If the loans made to officials are in aggregate > \$20,000 and not secured by shares the board is required to approve the loan. The aggregate includes any loans the officials are signed as the borrower, co-borrower, co-signer or guarantor
- An employee should never approve his or her own loan
- An employee should never approve loans to relatives or close friends
- No special exceptions were made for the employee or official when the loan was granted. This includes specific single exceptions to policy not generally made for other members
- No special exceptions were made for the official when the loan was granted. This includes reduction in fees or interest rates
- The employee or official is not delinquent
- Family members of employees and officials are also considered in this review
- Does the credit union have a policy in place addressing what happens when an employee leaves employment at the credit union and has a loan with a discounted rate

One other area you want to pay attention to is business lending. Part 723 of NCUA Rules and Regulations prohibits any senior management (CEO, vice president, comptroller, CFO, or any associated or immediately family member of them) to obtain a member business loan. Other than these special areas you will review the loan file just like any other loan file.

Instructions for Reviewing Employee and Official Loans Continued:

Below is a list of items needed in the files for the specified types of loans.

Documentation	Secured Titled	Secured non Titled	Unsecured closed End	Unsecured Open End	Share Secured	Home Equity	Official > \$20,000 aggregate
Signed Application	X	X	X	X	X	X	X
Security Agreement	X	X			X	X	X
Signed note/Disclosure	X	X	X	X	X	X	X
Signed credit agreement	X	X	X	X	X	X	X
Title/lien holder filed notice, mortgage	X				X	X	X
UCC-1		X					
Documented Value of collateral	X	X	X	X	X	X	X
Debt to income ratio	X	X	X	X	X	X	X
Credit report	X	X	X	X		X	X
Approval signed in the file	X	X	X	X	X	X	X
Lien search		X				X	
Proof of shares in account					X		
Proof of insurance	X	X				X	
Right of recession						X	
Flood Search						X	
How rate was figured if Risk Based Pricing	X	X	X	X	X	X	X

As with any loan review all questions need to be reviewed with the loan officer and manager before they are reported to the board. Document all items in your work papers and report all loan exceptions to the board after you have discussed them with the manager.

Documenting Employee and Official Loan Review:

The documentation for the loan review can be the print outs from the computer system for the specific loan. You can also use paper or a computer worksheet to document your loan review. Tables or spreadsheets also work well for loan reviews. They allow you to place check marks next to the documentation found in the file. This also helps in training new supervisory committee members. The documentation should contain the following items:

- Loans reviewed
- Documentation needed in the file
- Date reviewed
- Follow up on previous loans reviewed if any
- Findings noted
- Notes or questions
- Answers to questions

Sample Documentation Employee and Official Loan Review:

Name: Kelly Jensen

Account # 2993

Date of loan: 5/1/2013

Amount of Loan: \$15,000

Rate of loan: 4%

Approval signature in file: Approved by ST

Debt Ratio: Debt to income ratio 27%

Application Signed: Yes

Note Signed: Yes

Collateral: The loan file lists the collateral as a 2010 Chevy Malibu

Collateral value noted in file: Value listed at \$12,000

Proof of Title in file with credit union listed as 1st lien holder: N/A

Proof of insurance with credit union listed as 1st loss payee: N/A

Shares Pledged on the computer system: N/A

Comments: This loan is granted to a board member. The loan rate is 4% but this is lower than the normal rate for this type of loan. This was discussed with the Manager and he indicated all volunteers receive a 2% discount on loans. This board member has a cumulative loan balance at the credit union of \$40,000 and this loan was not approved by the board but by a loan officer.

Loan Exception: The loan is granted to a board member and a preferential rate of 4% was given. The loan policy doesn't address any preferential treatment but discussion with the manager revealed the officials are allowed a 2% discount on all loans. This practice of allowing officials must be stopped immediately. The board member has a cumulative loan balance of \$40,000 but this loan was approved by the loan officer. This loan needs to be approved by the board of directors.

Reporting Employee and Official Loan Review:

After you have reviewed the selected loan files you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, loan exceptions and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting:

The supervisory committee reviewed official and employee loans. The following loan exceptions were noted:

Loan Exception:

The loan is granted to a board member and a preferential rate of 4% was given. The loan policy doesn't address any preferential treatment but discussion with the manager revealed the officials are allowed a 2% discount on all loans. This practice of allowing officials must be stopped immediately. The board member has a cumulative loan balance of \$40,000 but this loan was approved by the loan officer. This loan needs to be approved by the board of directors.

Finding: The practice of allowing special rates to officials must stop immediately.

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Employee and Official Share
Account Review
Instructions and Examples*

EMPLOYEE AND OFFICIAL SHARE ACCOUNT REVIEW:

Review of the employee and official share accounts should be a regular part of the Supervisory Committee duties. This review is done to enhance internal controls and protect the employees and officials.

When reviewing these accounts you should pay special attention to the following areas:

- Make sure all applicable fees were charged as necessary in accordance with the credit union's policy
- Review to see if any fees were reversed after being charged because the person was an employee or official
- Review to make sure the employee or official earns the same dividend rate approved by the board of directors for all members
- Review to determine if the checking account has been negative and if applicable fees were charged
- Review to determine if the savings account is below the required minimum balance
- Review to determine if the employee or official has an account other than a regular savings account and if he or she also has a required savings account. All members are required to maintain a regular savings account before any other type of account is opened

Instructions for Reviewing Employee and Official Share Accounts:

Ask the manager for the following: policies relating to all types of share accounts. Ask the manager for a list of employees and officials, family members and account numbers for each. Ask the manager or an employee to provide you with either computer access, print outs of at least 3-6 months of activity of each account or microfiche showing the member's statements. You should review at least 3-6 months activity in these accounts.

Documentation Official and Employee Share Accounts:

If you are using computer print outs or fiche print outs of the member's accounts you can use these as the work papers to document any comments, questions or findings. If you are just reviewing the computer screen you can use paper or a computer to document each account you reviewed and any findings you have.

Make sure to document the following areas at a minimum:

- Name
- Account #
- Relationship to the credit union (employee or official or family member)
- The accounts reviewed
- Questions / Concerns
- Recommendations

Sample Documentation Official and Employee Share Account Review:

Name/ Account # Lisa Simpson #2299

Official or employee or family Member: Board member

Accounts reviewed: share and share draft account January 1, 2016 – June 30, 2016

Questions or concerns: Several fees were reversed on the share draft account. This item was discussed with the manager and she indicated all NSF related fees will be reversed if the member brings in the funds by 10:00am the next morning. This is not addressed in the policy. This item was also discussed with the other credit union employees and it is an unwritten policy all employees follow.

Finding: A board member #2299 had a total of \$300 in NSF fees reversed from January 2016 – June 2016. The credit union's share draft policy does not address this issue. Discussion with the manager and staff indicated this is an unwritten policy and is up to the discretion of the manager.

Recommendation: Revise the share draft policy to specifically address when NSF fees will be reversed for members. Without a written policy addressing this issue it is not clear if preferential treatment is given.

Reporting Employee and Official Share Account Review:

After you have reviewed the selected employee and official share accounts you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Employee and Official Share Account Review:

The Supervisory Committee reviewed employee and official share accounts for the months of January 2016- June 2016. The following findings and recommendations were noted:

Finding: A board member #2299 had a total of \$300 in NSF fees reversed from January 2016 – June 2016. The credit union's share draft policy does not address this issue. Discussion with the manager and staff indicated this is an unwritten policy and is up to the discretion of the manager.

Recommendation: Revise the share draft policy to specifically address when NSF fees will be reversed for members. Without a written policy addressing this issue, it is not clear if preferential treatment is given.

EMPLOYEE AND OFFICIAL SHARE ACCOUNT REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Name	Account #	Relationship to Credit Union (Employee, Official, Family Member)	Accounts Reviewed	Questions / Concerns Noted	Recommendations and Follow up

Supervisory Committee Notes:

Signature of Supervisory Committee Member
Date

**EMPLOYEE/OFFICIAL SHARE ACCOUNT REVIEW SAMPLE REPORT
FORMAT:**

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Allowance for Loan and Lease
Loss Account Review
Instructions and Examples*

ALLOWANCE FOR LOAN AND LEASE LOSS ACCOUNT:

There are two parts to reviewing the allowance for loan loss account. The first is the review of the activity in the account. The second is the review of the methodology management is using to fund the account. The Supervisory committee is responsible for reviewing both of these areas. The allowance for loan and lease loss account is usually account #719.00 in most credit unions. It is used to record loan charge-offs, recoveries on loans previously charged-off, and increases and decreases to the account for funding purposes. The credit union is required to have a policy outlining the methodology used to fund the account. This account will also be reviewed at each examination and annual audit. The committee should review this account a few times during the year to monitor the activity and once a year to review the funding methodology the credit union is using.

Instructions for Reviewing the Allowance for Loan Loss Account:

Activity Review:

To review the activity in this account the supervisory committee will need the board minutes and the general ledger history of this account. The history printed should go back to the last time the committee reviewed the account. If the committee has not ever reviewed the account, the history should go back to the last audit effective date, or the last examination effective date, whichever is most recent. If the history is going to be pulled since the last effective audit or examination date the committee should also have a copy of the audit or examination report to use as a resource.

In some cases the credit union may not be able to pull a complete history of this account due to the credit union purging the computer system. If they cannot pull a full history the credit union should have a monthly print out of this account in the general ledger month end reports.

There are three types of entries allowed to be posted to the allowance for loan loss account. The first is the charge-off of a delinquent loan. This will be posted as a debit to this account. The second is a recovery of a previously charged-off loan. This will be posted as a credit to this account. The third is an entry to either fund the account or decrease the amount in the account. To fund the account a credit will be posted and to reduce the amount in this account a debit will be posted. The description field should provide enough detail to understand the type of entry posted.

Instructions for Reviewing Charge-offs (Debits):

When reviewing the history of the account start with the charge-offs. The description field should indicate what the entry is. For example it might say "Wilson charge-off". The committee needs to trace all charge-offs posted to the general ledger account to the board minutes. The charge-off entry in the general ledger should not be made until the board approves the charge-off. Pay attention to the date the entry was made to charge off the loan and the date the charge-off was approved by the board. For example if a loan was charged off 4/12 and the board didn't approve the charge-off until 6/1 this could indicate a problem. This would be an item to be discussed with the manager and could be a possible finding if there isn't an adequate explanation about the difference in dates.

The charge-off should be posted in the general ledger immediately after the board approves it unless there is a special circumstance. For example if the board approved the loan to be charged-off on 3/1 the entry in the general ledger should be made by 3/2. If the entry to charge-off the loan is much later there needs to be an explanation. This would be an item to be discussed with the manager and could be a possible finding if there isn't an adequate explanation about the difference in dates.

The amount charged-off in the account should match the amount approved for charge-off in the board minutes. If any discrepancy exists it needs to be researched. In some instances the amount in the board minutes will be slightly more than the amount actually charged-off. This is usually due to the member having some funds in a share account. The credit union will apply the balance of the funds in the share account to the loan before charging it off. Make sure and verify the amount in the share account applied to the loan prior to charge-off. Make sure it is the difference between the amount approved for charge-off and the amount actually charged-off in the general ledger. Also make sure all the funds in the account were applied to the loan balance. If only part of the funds were used this would be an item to be discussed with the manager and could be a possible finding if there isn't an adequate explanation about the difference in amounts.

If the amount in the board minutes is ever less than the amount actually posted to the account this would be an item to be discussed with the manager and could be a possible finding if there isn't an adequate explanation about the difference in amounts. Make sure and document all questions, comments or findings in the work papers and follow up with management to ask any questions before reporting any findings to the board of directors.

Instructions for Reviewing Recoveries (Credits):

When a member makes a payment on a loan previously charged-off a credit will be posted to this account. When reviewing the recoveries trace the amount of the recovery posted to any documentation supporting the entry. The documentation may include a remittance from a collection agency or a note from the member. Make sure the amount sent to the credit union was accounted for correctly.

Instructions for Reviewing Funding (Debits and Credits):

Funding and decreasing the account are two other entries allowed in this account. An entry of this type usually will take place quarterly. A reduction to the account is recorded as a debit to the allowance for loan loss account and a credit to the provision for loan loss account, usually account #300. Funding the account is recorded as a credit to the allowance for loan loss account and a debit to the provision for loan loss account. The credit union should have a methodology and a policy used to determine how much is needed in the account each quarter. They should also have their computation and analysis well documented. The board is required to approve any entries to fund or decrease the account. The committee needs to review the policy and the calculation to determine if it was done correctly and if the amount needed was actually posted to the account. For example if the calculation indicates the credit union needs to fund the allowance for loan loss account by \$20,000 and they only fund it by \$10,000 this could indicate a problem. This should be discussed with management and written up as a finding if there is not an adequate explanation for the difference in the calculation and actual entry made to fund the account.

You will need to determine if the entry to fund or decrease the balance was posted correctly. The amount posted to the allowance for loan loss when funding or decreasing the account balance should also be the amount posted to the provision for loan loss account. You will need to review the amount posted in the provision for loan loss account and make sure it is the same as the amount posted to fund the allowance for loan loss. If any differences exist they need to be discussed with management and written up as a finding if there is not an adequate explanation for the difference in the amounts posted to the two accounts.

Validating the methodology:

The credit union is required to develop a policy outlining their methodology for funding the allowance for loan loss account. The methodology should make sense for the credit union and should be applied consistently. The board of directors is to include in its policy internal controls procedures requiring an outside party independent of the allowance for loan loss estimation process to confirm the effectiveness of the methodology used.

The supervisory committee is required to review the policies relating to the methodology and validation requirements. The committee needs to review them to make sure they exist and are being followed. See Letter to Credit Unions 02-cu-09 and Interpretive Ruling and Policy Statement 02-3 for more information on the requirements for validation of the allowance for loan and lease loss account.

Documentation -Activity Review Allowance for Loan Loss Account:

To document the review of the allowance for loan and lease loss account take a copy of the history of the account for the period being reviewed. If the credit union is able to print a history of the account all notes, questions, and comments can be written right on the history print out. If the credit union is unable to print a complete history copies can be taken of the history in the month end general ledger. Another way to document the activity in this account is to use an excel spreadsheet showing the debits, credits and explanations of all entries in the account. As always a piece of paper can be used to document the activity and explanation of the activity in the account.

Documentation Sample for Activity Review:

<u>Date</u>	<u>Debit</u>	<u>Credit</u>	<u>Purpose</u>	<u>\$ Approval in Bd Min</u>	<u>Comments</u>
3/1	\$5,000		C/O Smith	\$5,394	\$394 in share account applied to loan b/4 charge-off
3/12		\$500	Recovery	N/A	Recovery on Smith
3/15	\$600		C/O Carlson	\$0	charge-off not approved in board minutes
3/31		\$2000	Fund ALL	yes	Funded \$2,000 but per calculation \$10,000 should have been added. The debit for this entry was not posted to the provision for loan loss account. It was taken from the regular reserve account. This was an error.

Reporting – Activity Review:

After you have reviewed the activity in the allowance for loan and lease account you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting – Activity Review

The supervisory committee completed a review of the entries made in the allowance for loan and lease loss account. All charge-off entries were traced to the board minutes; all funding entries were also traced to the board minutes and to the calculation used. The recoveries were trace to the available documentation. The findings and recommendations are below:

Findings:

An entry on 3/15 for \$600 was a charge-off for Carlson but was not ever approved in the board minutes.

An entry on 3/31 in the allowance for loan and lease loss account funded the account by \$2,000 but the debit of this entry was made to the regular reserve and should have been made to the provision for loss account. The credit union's calculation revealed the account needed to be funded by \$10,000. The account should have been increased by \$10,000 but was only increased by \$2,000. Discussion with the manager revealed the credit union could not afford to fund the account by the whole \$10,000 so they only posted \$2,000. It was posted to regular reserve so earnings would not be impacted. This is an error and the entry to fund the allowance for loan loss should be a debit for \$10,000 to provision for loan loss and a credit to allowance for loan loss. This correcting entry needs to be made to properly fund the account. In addition the entry to reverse the incorrect posting needs to be posted. The correcting entry is a debit to the allowance for loan loss for \$2,000 and a credit to the regular reserve for \$2,000.

Management is asked to respond on the progress of correcting these items by 7/31/2016.

Documentation - Funding methodology:

To document the review of the funding methodology and validation, take a copy of the credit union's policy and the calculation used to fund the account. Document any discussion with management as to why this methodology makes sense for this credit union. Take a copy of any validation they have received from an outside source and include this in your work papers. The credit union is required to have a policy and documentation addressing this area. If they do not this would be a finding included in the report to the board of directors. Also if they have not yet validated their methodology this would also be included as a finding in the report to the board of directors. This validation process should be done at least annually.

Documentation Sample Funding Methodology:

The credit union' funding methodology is based on a 3 year historical loss ratio of three different loan pools. The loan pools are unsecured, secured and real estate. The credit union has reviewed the history of charge-offs for several years and these loan pools appear reasonable for this credit union. The credit union is not using any outside economic factors at this time. They don't feel there are any outside factors to take into consideration for their losses. The board has approved the methodology and is aware of the way it is calculated. The manager reports each quarter on the calculation and the amount the account needs to be funded or decreased. The methodology appears reasonable and the credit union has consistently applied this methodology over the last year. The credit union last received a validation from an outside CPA firm on 3/1/2016.

Reporting Funding Methodology:

After you have reviewed the policies, the methodology used and the validation you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Funding Methodology:

The Supervisory Committee reviewed the policies relating to the funding methodology used and the validation process for the allowance for loan and lease loss. We reviewed the account from 1/1/2016 to 6/30/2016. The findings and recommendations are noted below:

Finding: The credit union doesn't have a written policy defining the funding methodology and validation requirements. Discussion with the Manager indicated this is being done, but not in written form. The credit union needs to put its policy in writing to be in full compliance.

Finding: The account was funded by \$3,000 in June of 2016 but the board did not approve the amount funded in the board minutes. This needs to be corrected. All increases and decreases to the allowance for loan and lease account related to funding the account must be approved by the board of directors prior to the entry being made.

Finding: The credit union has not yet validated their methodology used to fund the allowance for lease loss. This needs to be completed to be in compliance.

Management is asked to respond to the Supervisory committee on the progress in correcting the above findings. Please respond by 9/30/2016. Follow up will be done monthly after we receive your response.

**ALLOWANCE FOR LOAN LOSS ACCOUNT SAMPLE WORK PAPER:
ACTIVITY REVIEW**

Work Paper Reference Code:

DATE	DEBIT	CREDIT	PURPOSE	APPROVAL IN BD MINUTES	COMMENTS

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

**ALLOWANCE FOR LOAN LOSS REVIEW SAMPLE WORK PAPER FUNDING
METHODOLOGY:**

Work Paper Reference Code:

Date Reviewed	Written Policy in place	Funding Methodology Validated by whom	Documentation Supporting Computation	Board approves all funding transactions	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member:

Date of Review:

**ALLOWANCE FOR LOAN AND LEASE LOSS REVIEW SAMPLE REPORT
FORMAT:**

ACTIVITY REVIEW AND FUNDING METHODOLOGY:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Cash Count
Instructions and Examples*

CASH COUNT:

The cash count is a very common area reviewed by supervisory committees. A cash count should be done a couple of times during the year. When performing the cash count the supervisory committee should not only be looking for all the cash to be present but the following areas as well:

- Internal controls in the cash area
- Adequate policy for handling cash

Instructions for Cash Count:

The cash count must be conducted on a surprise basis. Do not let any employee, management or volunteer know of the scheduled cash count. When performing on going cash counts throughout the year perform them at different times within the months and during different business hours. The less consistent the cash counts are the better. When planning the cash count keep in mind the credit unions busy days and times. It is not a good idea to perform a cash count on days when the credit union is usually busy with higher than normal amounts of teller traffic, for example payday.

It is preferable to count the teller change fund before any transactions take place. If the count takes place before any transactions are processed, then the main part of the count will be to count the currency and coin. If the cash count takes place after the teller posts transactions, then all of the transactions must be summarized to balance the drawer. This method will take more time to complete the count.

When the committee conducts the cash count make sure there are at least 2 people at all times when there is cash present. This should include at least one credit union employee. No one from the committee should ever be alone with an open cash drawer or an open vault. Before beginning the cash count ask the teller if the drawer contains any bait money. This is pre-recorded money set aside in the case of a robbery. Ask the teller to watch you count the cash in his or her drawer and verify the amount you counted. You and the teller must sign the cash count sheet when the count is completed. A separate cash count sheet must be completed for each teller, vault and any automated teller machine (ATM) owned. After counting all cash and cash items, if applicable, total the cash sheet and compare the total amount with the teller proof sheet generated from the computer.

Make sure all teller and vault change funds are counted. Complete a worksheet to document and total all cash accounts counted. This total should match the general ledger balance for the day. Investigate any difference noted between the amount actually counted and the amount recorded in the general ledger. Include any significant difference in the audit report to the board of directors.

Instructions for Cash Count Continued:

Counting the cash and cash equivalents is only part of the cash count. It is also necessary for the committee to review the internal controls in the cash area. The checklist included at the end of this section can be used to review the internal controls. Any question answered “no” needs to be discussed with the manager and included as a finding in the report to the board if an adequate explanation isn’t provided. Keep in mind in small credit unions with few employees some questions may be answered no but because of the credit union’s size and number of employees there is no way to correct the situation. When this happens the supervisory committee should continue to report the item to the board but should note the issue is due to the number of employees.

For example a credit union has 1 employee and the employee needs cash out of his or her account. The employee tries unsuccessfully to contact volunteers who have check signing authority. The employee may write the check to him or herself and sign the check. This would be considered a violation of internal control but under the circumstance had to be done. In this case the employee should report it to the board and explain the circumstances at the next board meeting. .

Documenting Cash Count:

When documenting the cash count the committee needs to document all information. This includes the day and time of the count, who was present, what was counted and any differences noted. If any internal control weaknesses were noted this also should be documented in the work papers and included in the report to the board of directors. The committee can document the cash count by using any type of spreadsheet or form. The documentation should also include copies of the general ledger balance, and the teller proof sheet generated from the computer. As with any documentation the supervisory committee person responsible should sign the documentation.

Sample Documentation for Cash Count:

Date: 3/12/2016

Time: 3:00pm

Teller Name: Joe Johnson

Those present: Joe Johnson a teller, Jim Smith and Lisa Simpson from the Supervisory Committee

Vault Counted: Yes

All drawers counted: Yes

Differences noted: None

Sample Documentation for Cash Count Continued:

Coins	# of Loose	# of Rolls	Total
Pennies	100		\$1.00
Nickels	20		\$1.00
Dimes	200		\$20.00
Quarters		1	\$10.00
Halves	2		\$1.00
Dollars	5		\$5.00
Currency			
Ones	50		\$50
Twos	0		
Fives	20		\$100
Tens	20		\$200
Twenties	20		\$400
Fifties	1		\$50
Hundreds	5		\$500
Other Items	N/A		
Mutilated currency	0		
Bait Money	N/A		
Stamps	N/A		
Tickets	N/A		
Un-deposited checks and Money orders	\$5,000 Checks		\$5,000
Total cash items			6338.00
Less General ledger change fund balance			1,338.00
Less un-deposited checks and money orders			5000.00
Difference – cash (short) or over:			0

Sample Documentation for Cash Count Continued:

I hereby certify the funds shown on the “Total cash checks and cash items” line were counted by _____ from the Supervisory Committee in my presence this _____ day of _____, at (a.m. p.m.) and returned to me intact. These funds represent all funds of the credit union for which I am accountable. If there is a cash short or over condition noted, I agree with the difference.

Credit Union Employee Signature:

Counted by Supervisory Committee Representative Signature:

Reporting: Cash Count:

After you have completed the cash count you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Cash Count:

The supervisory committee conducted a cash count on 1/13/2016. All teller drawers and the vault were counted. Lisa from the credit union supervised all counts and signed off on all counts. All coin, currency and un-deposited checks were counted and compared with the teller proof sheet. No differences were noted in the cash count. The internal controls in the cash area were also reviewed as part of the cash count. The findings are noted below:

Finding: All tellers use the same cash drawer during the day. This does not provide protection for the employees or control the risk of theft.

Recommendation: It is recommended the credit union purchase 2 additional cash drawers with self locking devices so each employee can have his or her own cash drawer. This will provide added internal control and protection for the employees.

The Supervisory Committee will follow up on this area by 3/31/2016.

INTERNAL CONTROL CHECK LIST – CASH AREA:

- (1) Are checks that have been outstanding for a substantial period transferred to Accounts Payable (The Accounting Manual for FCUs suggests transfer to Accounts Payable after the check has been outstanding 90 days)?
- (2) Is a procedure in place to follow up on checks of a material size that have been outstanding for a substantial period?
- (3) Are adjusting entries to the bank reconciliation cleared in a timely manner (should not exceed 60 days)?
- (4) Are deposits made in accordance with Article XV, Sect 1 of the FCU Bylaws?
- (5) Is the bank reconciliation prepared by someone who is not involved in other cash functions?
- (6) Do the internal/external auditors periodically prepare the bank reconciliations on a surprise basis?
- (7) Has the credit union established a procedure to insure that the bank reconciliation will be completed promptly each month?
- (8) Are voided or spoiled checks marked as such and retained?
- (9) Is signing blank checks against credit union policy?
- (10) Is the daily change fund activity properly recorded and identified in the Journal & Cash Record?
- (11) Are checks to replenish the change fund made payable to the credit union only?
- (12) If the change fund is replenished by a direct cash shipment from the bank, does the credit union promptly receive a debit slip from the bank?
- (13) Are currency shipments received and counted under dual control?
- (14) Has the board of directors established an amount for the change fund?

Amt approved Temporary?

Amt Approved Permanent?
- (15) Is management made aware of all adjustments to the change fund?

INTERNAL CONTROL CHECK LIST – CASH AREA CONTINUED:

- (16) Are adjustments of a substantial size approved by the board of directors?
- (17) If the credit union maintains branch offices, has the credit union instituted procedures to assure accountability to the main office for change fund activity?
- (18) Is there an adequate ATM cash loading procedure?
- (19) Do all tellers have sole access to their own cash supply, and are all spare keys kept under dual control?
- (20) Do all tellers have their own controlled cash drawer in the safe or vault to store their cash supply during non-working hours?
- (21) Is each teller's cash verified periodically on a surprise basis by the head teller or internal/external auditors?
- (22) Are cash drawers provided with locking devices to protect the cash during periods of teller absence?
- (23) Is an individual cumulative over and short record maintained for all persons handling cash?
- (24) Are material teller differences required to be reported to management for clearance?
- (25) Are teller transactions identified?
- (26) Are maximum amounts established for tellers cashing checks or disbursing share withdrawals without approval?
- (27) Are tellers prohibited from processing their own checks and processing transactions on their own share and loan accounts?
- (28) Are tellers required to clear all checks from their funds daily?
- (29) Are the cash supplies assigned to the tellers kept at a reasonable minimum?
- (30) Are teller duties restricted to teller operations?
- (31) Are mail receipts opened and recorded under dual control?
- (32) Are deposits made in night depositories opened and recorded under dual control?

CASH COUNT SAMPLE WORK PAPER:

Work Paper Reference Code:

Date:

Time:

Teller Name:

Those present:

Vault Counted:

All Drawers Counted:

Differences noted:

Coins	# of Loose	# of Rolls	Total
Pennies			
Nickels			
Dimes			
Quarters			
Halves			
Dollars			
Currency			
Ones			
Twos			
Fives			
Tens			
Twenties			
Fifties			
Hundreds			
Other Items			
Mutilated currency			
Bait Money			
Stamps			
Tickets			
Un-deposited checks and Money orders			
Total cash items			
Less General ledger change fund balance			
Less un-deposited checks and money orders			
Difference – cash (short) or over:			

CASH COUNT SAMPLE WORK PAPER CONTINUED:

I hereby certify the funds shown on the "Total cash checks and cash items" line were counted by _____ from the Supervisory Committee in my presence this _____ day of _____, at (a.m. p.m.) and returned to me intact. These funds represent all funds of the credit union for which I am accountable. If there is a cash short or over condition noted, I agree with the difference

Credit Union Employee Signature:

Counted by Supervisory Committee Representative Signature:

CASH COUNT SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Bank Reconciliation Review
Instructions and Examples*

REVIEW OF BANK RECONCILIATION:

The bank reconciliation is one of the most important areas for the supervisory committee to review. This review helps to detect errors before they become problems. It is also a way to enhance the credit union's internal controls. This is especially true in a small credit union where duties are not always segregated. The Supervisory Committee is encouraged to review the bank reconciliation at least quarterly if not more often.

Instructions for Reviewing the Bank Reconciliation

The following steps will help you to review the bank reconciliation:

Review the general ledger trial balance to see how many different bank accounts the credit union has. Credit unions often use more than one bank account to maintain checking, and cash accounts. Some are at a local bank, a credit union or at the corporate credit union. If there is more than one account complete the review of one account before moving on to the next account. Obtain the last 3 months of the reconciliations for each bank, corporate and cash account. There may be several different cash or bank accounts. If there is more than one account complete the review of one account before moving on to the next account.

The corporate will be used for consistency purposes in the following instructions.

- Obtain the last 3 months of the corporate statements. Make copies of the corporate statements and make copies of the reconciliations corresponding to the statements. These copies will help when reviewing the account and making notes. They should be maintained in the work papers for documentation purposes.
- Review all outstanding items on the corporate reconciliation. Trace all outstanding items from the earliest reconciliation to the next month corporate statement to make sure all items have properly cleared. For example trace all outstanding items from the January reconciliation to the February corporate statement.
- If any items remain outstanding make sure they are shown on the next month corporate reconciliation.
- Any items not cleared need to be researched and explained. Common items that could remain outstanding include checks not yet cashed by the member or the vendor. Errors from previous statements are also common items remaining outstanding.

Instructions for Reviewing the Bank Reconciliation Continued:

- If any deposits in transit items have not cleared on the next month corporate statement you need to find out why and document this. Usually a deposit in transit at the end of the month should be on the next month bank /corporate statement within 5 days of the end of the previous month. Any deposit in transit items not on the next month corporate statement need to be discussed with management and reported as findings to the board of directors. Each of these items will need to be followed up on until they post on the corporate statement.
- If any checks remain outstanding over 90 days they need to be moved to a payable account and researched. Efforts should be made to contact the payee of the check to make sure they received it.

Documenting Review of Bank Reconciliation:

To properly document the review of the bank reconciliation take a copy of all bank statements and the corresponding reconciliations. Document next to all outstanding items listed on the reconciliation the date they cleared on the next month statement or the date the credit union posted them. If they remain outstanding circle them to make sure to ask management about them and follow up. All of these items need to be included on the next month's bank reconciliation. If the item didn't clear or get posted by the credit union and management couldn't provide a satisfactory explanation it needs to be included as a finding in the report to the board.

Sample Documentation Review of Bank Reconciliation:

Outstanding Items on Corporate reconciliation	Date cleared or posted
Deposit in transit \$300,000 1/31	Posted on corporate statement 2/1/ and 2/3
Deposit in transit \$40,000 1/31	Not showing on corporate statement in February or March. Discussed with the manager and she took the deposit home and can't find it.
Checks outstanding	
#1234 \$40.00	cleared 2/10
#1235 \$56.44	cleared 2/12
#1237 \$33.98	cleared 2/14
#1239 \$199.00	cleared 2/6
#1240 \$430.29	cleared 2/5

Sample Documentation Continued Review of Bank Reconciliation:

Outstanding Items on Corporate reconciliation	Date cleared or posted
--	-------------------------------

Dividends not yet posted by credit union
But on corporate statement:

\$13.20	posted by cu 2/4
\$22.33	posted by cu 2/4
\$11.29	posted by cu 2/4

Note: The January, February and March reconciliation were reviewed on October 12. The credit union hasn't completed a formal reconciliation of the corporate account since March. This is a finding for the report to the board.

Reporting Review of Bank Reconciliation:

After you have reviewed the bank or corporate statements and bank or corporate reconciliations for the months selected you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Bank Reconciliation:

The Supervisory Committee reviewed the bank reconciliation for the corporate statement for the months of January, February and March of 2016. All items from the reconciliations were traced to the corporate statements and the general ledger for the following months. The following summarizes any findings noted during the review:

Finding: The corporate reconciliation hasn't been reconciled since March, 2016. The review of the reconciliations was done October 12, 2016. The reconciliations need to be brought up to date immediately.

Recommendation: Hire an outside person to reconcile the corporate account for April, 2016 to current.

Finding: A deposit in transit in the amount of \$40,000 was listed on the January, February and March corporate reconciliation but did not ever post on the corporate statement. The manager indicated she took the deposit home and lost it.

Recommendation: Research to see the existence of the \$40,000 deposit and what it consisted of.

Sample Reporting Bank Reconciliation Continued:

Recommendation: Implement a policy to discontinue allowing employees to take any deposits to their home.

All items will be followed up by 10/31/2016 and monthly as needed.

Reporting Sample #2 Bank Reconciliation

The supervisory Committee reviewed the bank reconciliation for the First National Bank account statement for the months of July, August and September of 2016. All outstanding items listed on the reconciliation were traced to the credit union's books as well as the First National Bank account statements. The following findings were noted:

Finding:

The July First National Bank Reconciliation wasn't prepared until September 20th. It is recommended the credit union adopt a policy requiring all bank reconciliations be prepared no later than 10 days after receiving the bank statement.

Finding:

None of the First National Bank Reconciliations were signed by the preparer. It is a recommendation the person who prepares the reconciliation sign and dates them.

Finding:

An item in the amount of \$53,902 is shown as a deposit in transit on the July, August and September bank reconciliation. This item has not yet shown up on the bank First National Bank statement and should be researched. Discussion with the Manager revealed this deposit was made on July 20th but hasn't been credited by the bank.

Finding:

A check for the amount of \$10,000 is shown on the July, August, and September First National Bank reconciliations. This item was written to a member for a loan but it appears has not ever been cashed.

Recommendation:

The credit union should contact the member and research what is happening with this check.

All items will be followed up by the Supervisory Committee by October 31, 2016 and monthly as needed.

REVIEW OF BANK RECONCILIATION SAMPLE WORK PAPER:
Work Paper Reference Code:

Dates Reviewed

Outstanding Items on Corporate reconciliation

Date cleared or posted

Signature of Supervisory Committee Member
Date

RECONCILIATION REVIEW SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Reconciliation of Receipts to
Deposits Instructions and
Examples*

RECONCILIATION OF RECEIPTS TO DEPOSITS:

Article XV of the Federal Credit Union Bylaws requires all funds received in the credit union in aggregate over \$300 be deposited into the credit union's depository no later than the second banking day after their receipt. Aggregate deposits of \$300 or less may be held for up to 1 week before they need to be deposited. The supervisory committee should review this area periodically to ensure receipts are deposited within the time frame required by the bylaws. They also should review this area to make sure the amount of the funds deposited on the credit union books are the same amount deposited into the credit union's depository. Review of this area will also help reduce errors and enhance internal controls.

Instructions for Reviewing Reconciliation of Receipts to Deposits:

The committee should review this area a few times per year. It is good to review several days at a time when performing this review. After the time period is selected the committee should obtain the bank statement or statements for the period. The committee should also obtain the daily work from the tellers and the cash account general ledger history for the days being reviewed. Go through the daily work for the period and write down all receipts. These will be evidenced by a receipt ticket located in the daily work. Trace these receipts to the general ledger history. Make sure there are no differences. After tracing them to the general ledger review the bank statement and trace all receipts to the deposits on the bank statement. The amounts should be the same and the days between the receipt and the deposit should be no larger than 3 business days unless the total deposit was less than \$300. If any differences exist or any deposits are not found on the statement for several days after receipt these items need to be discussed with management and possibly included as findings in the report to the board of directors.

Documentation – Reconciliation of Receipts to Deposits:

To properly document the reconciliation of receipts to deposits take copies of the general ledger account history and the bank statement or statements for the time period being reviewed. Any notes, comments or findings can be documented right on the copies. It will also be necessary to develop a checklist or spreadsheet type work paper to document the amounts of the receipts and the day they were received and compare them to the amount and the day of deposit. This will also capture any differences noted.

Sample Documentation – Reconciliation of Receipts to Deposits:

Date credit union received Deposit	Amount received per daily work	Amount received per entry in G/L	Date depository received deposit	Amount of deposit on bank statements	# of days between receipt and deposit	Difference in \$ received and deposited
1/5/2016	\$6,533	\$6,533	1/6/2016	\$6,533	1	0
1/6/2016	\$10,329	\$10,329	1/10/2016	\$10,329	4	0
1/7/2016	\$22,510	\$22,510	1/18/2016	\$22,010	11	\$500
1/8/2016	\$12,223	\$12,223	1/10/2016	\$12,023	2	\$200

Comments: The funds received on 1/6 weren't deposited until 1/10

The funds received 1/7/2016 were posted at the credit union as \$22,501 but were posted on the bank statement as \$22,010.

The funds received 1/8/2016 were posted at the credit union as \$12,223 but were posted on the bank statement as \$12,023

The funds received on 1/7 weren't deposited until 1/18 – 11 days difference.

All items were discussed with management and the findings will be reported to the board of directors.

Reporting – Reconciliation of Receipts to Deposits:

After you have reviewed the selected days of receipts and deposits you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting – Reconciliation of Receipts to Deposits

The supervisory committee reviewed the receipts to deposits for the dates of 1/5/2016 – 1/8/2016. The committee reviewed the daily work and compared it to the amount entered in the general ledger. This was then compared to the bank statement for January. The findings are noted below:

Finding: The funds received on 1/6 weren't deposited until 1/10.

Finding: The funds received on 1/7 were posted at the credit union as \$22,501 but were posted on the bank statement as \$22,010

Sample Reporting – Reconciliation of Receipts to Deposits Continued:

Finding: The funds received on 1/7 weren't deposited until 1/18 – 11 days after they were received at the credit union.

Finding: The funds received 1/8 were posted at the credit union as \$12,223 but were posted on the bank statement as \$12,023

Management is asked to review the findings and prepare a written report to the supervisory committee on all corrective action taken. The supervisory committee will follow up on all items by 1/31/2016.

RECONCILIATION OF RECEIPTS TO DEPOSITS SAMPLE WORK PAPER:

Work Paper Reference Code:

Date credit union received Deposit	Amount received per daily work	Amount received per entry in G/L	Date depository received deposit	Amount of deposit on bank statements	# of days between receipt and deposit	Difference in \$ received and deposited

Supervisory Committee Notes:

Signature of Supervisory Committee Member
Date

**RECONCILIATION OF RECEIPTS TO DEPOSITS SAMPLE REPORT
FORMAT:**

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

SUPERVISORY COMMITTEE INTERIM AUDIT PROCEDURES

WORKBOOK – 2016

*Check Disbursement / Expense
Review Instructions and
Examples*

CHECK DISBURSEMENT REVIEW:

It is a good idea for the supervisory committee to review the check disbursements periodically. This can be in conjunction with the bank reconciliation review, the expense review or on its own. Review of check disbursements allows errors to be caught early before they become problems. It also enhances the internal controls, especially in small credit unions where there are fewer employees. When performing the check disbursement review you want to pay attention to the following areas:

- The check written was appropriately approved and paid in accordance with policy
- The check written was for the amount of the invoice
- The check written was signed by someone having check signing authority
- The expense was properly recorded in the general ledger

Check disbursement Review Instructions:

Obtain a copy of the credit union's policy regarding operating expenses. Some credit unions require board approval for all operating expenses. Some allow the manager to pay all expenses within the budget and some may require the manager to obtain permission to purchase an item over a specific dollar amount. If the credit union doesn't have a policy addressing expenses this would be a recommendation the committee should have in its report to the manager and the board of directors. The recommendation would be to develop a policy for expense approval and disbursement. The policy should include who specifically should have the authority to approve expenses, and write checks.

Ask the manager for the check register, the cancelled checks, if available and the history of the general ledger account the checks run through. This may be the corporate account or a local bank account depending on how the credit union sets this up. Review the check register and pull a sample of checks written within the period. Depending on how often this area is reviewed will determine how many checks to be pulled. It is good to review at least 10 checks per quarter.

Trace the check numbers from the register to the actual checks or check copies. Make sure the amounts and the vendor shown in the check register are the same on the actual check or check copy. If any differences exist you need to document and research why there is a difference. Any unexplained differences need to be included as findings in the report to the board of directors.

Check disbursement Review Instructions Continued:

Review the signature on the check. Determine the person who signed the check has check- signing authority. If the person who signed the check doesn't have formal check signing authority this should be included as a finding in the report to the board of directors. Also review the check to make sure individuals are not writing checks to themselves. If an individual writes a check to him or herself it should be researched as to why and any unexplained incidences need to be included as findings in the report to the board of directors.

For example the credit union has one employee and a check is written to the one employee for salary expense and signed by the same employee. The committee needs to discuss this with the manager and determine what the procedure is and if any changes can be made to have someone else sign the employees pay check.

If a particular expense needs approval review the invoice or the board minutes to determine if the appropriate expense approval was given. Trace all checks reviewed to the actual invoice from the vendor.

For example if a check was written to CUNA mutual find the invoice from CUNA Mutual and make sure the amount on the check and the amount on the invoice are the same. If any differences exist you need to research and find out why a difference exists. Any unexplained differences need to be included as findings in the report to the board of directors.

Trace the amount of the check to the general ledger cash account. The amount credited in the cash account should be the same as the check amount. If any difference exists this needs to be researched as to why there is a difference. Any unexplained differences need to be included as findings in the report to the board of directors.

Trace the amount of the check to the general ledger account where the amount was expensed or debited. Make sure this is the appropriate general ledger expense account for this item and the item was a necessary expense. Obtain the copy of the invoice to determine the correct general ledger account was used for this particular item.

For example you find a check written to Macy's department store in the amount of \$400.00, the invoice shows jewelry as the purchase and it was charged to miscellaneous expense. This item should be discussed with the manager and included as a finding in the report to the board if found not to be an appropriate expense.

Documenting the review of Check Disbursements:

A check disbursement worksheet can be used to document the review in this area. This worksheet should be completed as the committee goes through the check register, checks and invoices. The person reviewing this area needs to sign and date the worksheet when it is completed. Any findings or items needing to be further researched need to be documented in the work papers. If any findings are noted make sure and discuss them with the manager before bringing them to the board. If the manager does not provide adequate explanations the items need to be reported to the board in writing.

Sample Documentation Check Disbursements:

Sample Check Written Month / Year	Check # Amount of Check	Vendor Name	Purpose of Expense & Account Charged	Check Signed by Authorized Signor	Expense Approved By
1/18/2016	#1234 \$5,000	Nebraska Lottery	Tickets for Lottery Account # 719	Teller	Not Approved

Comments: The check was written over \$1,000 and the policy requires for the board approve all expenses over \$1,000 unless specifically included in the budget. The expense does not appear to be something the credit union would pay for. This is reported as a finding to the Manager and the Board. Jane Doe will make follow up at the next audit by 3/15/2016.

Month / Year	Check# and amount	Vendor Name	Purpose of Expense and Acct Charged	Check Signed by Authorized Signor	Expense Approved by
1/23/2016	#1290 \$2,390	CUNA Mutual	Bond Insurance Expense #268	Manager	Included in Budget

Comments:

Check written to regular credit union vendor for amount shown on invoice. The supervisory committee traced the check to the invoice and noted approval on the invoice. The amount was included in the credit union's budget for 2016 and is within the amount budgeted. No finding noted on this check.

Sample Documentation Continued Check Disbursements:

Month / Year	Check# and amount	Vendor Name	Purpose of Expense and Acct Charged	Check Signed by Authorized Signor	Expense Approved by
1/31/2016	#1298 \$10,000	Manager's Name	Salary Expense #201	Manager	Manager

Comments:

Check written for the manager's 2-week salary but appears excessive based on salary information of \$25,000 per year. The manager signed his or her own check and disbursed the funds him or herself. This item is reported as a finding to the Manger and the Board. Follow up will be made by John Smith by 3/15/2016.

Reporting: After you have reviewed the check disbursements selected you will need to prepare a report to the board of directors. The report should contain a summary of what audit steps you performed, findings and recommendation noted if any, and any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Check Disbursements:

The supervisory committee performed a review of check disbursements. Ten checks from the month of January 2016 were reviewed. All checks were traced to the check register, the general ledger accounts, and the individual invoices. All findings and recommendations are summarized below:

Finding: check #1298 was written for \$10,000. It appears it was written for the manager's salary but is higher than normal salary amount. The manager signed the check.

Finding: Check #1234 was written over \$1,000 and the policy calls for all expenses over \$1,000 to be approved by the board unless specifically included in the budget. The expense does not appear to be a necessary credit union expense.

Management is asked to review the findings and prepare a written report to the supervisory committee on all corrective action taken. The supervisory committee will follow up on all items by 3/15/2016.

CHECK DISBURSEMENT /EXPENSE REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Sample Check Written Month / Year	Check # Amount of Check	Vendor Name	Purpose of Expense & Account Charged	Check Signed by Authorized Signor	Expense Approved By

Supervisory Committee Notes:

Signature of Supervisory Committee Member
Date

CHECK DISBURSEMENT / EXPENSE REVIEW REPORT FORMAT

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*New Account Verification
Instructions and Examples*

ACCOUNT VERIFICATION NEW ACCOUNTS:

The membership account verification is required on all accounts at least every 2 years. As part of the Supervisory Committee's ongoing audit duties, the verification of new accounts is also required. One purpose in performing the new account verifications is to verify the member did actually open the account and the address, deposit, and balance information is correct. The other goal is to welcome the member to the credit union and introduce the supervisory committee as the watchdog of the credit union. This way the members are informed about who you are and are aware of the internal controls in place to protect their funds.

Instructions for Completing the New Account Verification:

Obtain the listing of new accounts from the credit union. Verify in the board minutes these new members have been approved by the board of directors. Send the new members a letter asking them to verify they opened an account with the credit union. Include in the letter the member's personal information and balance of the account recently opened. Ask the member to verify the information or contact the supervisory committee if any of the information is incorrect. The letter should also welcome the new member and explain the role of the supervisory committee.

When the committee sends out the verification they need to make sure to use an address independent of the credit union as a return address on the outside envelope mailed to the member. This independent address should also be listed on the inside of the verification and the member instructed to send any problems or questions to this independent address rather than the credit union's address.

The committee needs to be sure it does all of the work to write the letter and stuff the envelopes on its own. Do not allow management or operating staff to prepare or mail the verifications on their own. In some cases staff assistance may be required. If so, staff should be well supervised by the committee.

New accounts should be verified on an ongoing basis.

Documentation for new account verification:

Documenting the new account verification can be done by taking a copy of the new member listing. This copy can be used to make any notes, comments or findings. The listing should be compared against the board minutes to verify all new members on the list were approved in the board minutes. The committee should also maintain documentation of all letters sent, to whom they were sent and if any responses were received. The Supervisory Committee person or persons responsible should also sign and date the work papers. The work papers should be retained by the committee for review by the examiner or outside auditor.

Sample Documentation – New Account Verification:

New members per the credit union October 2003:

Joe Smith Account # 1234

Lisa Sampson Account #1235

Troy Johnson Account #1236

Steve Anderson Account #1237

Mary Carlson #1238

Mandy Jones #1239

Alexandria Carmichael #1240

All members on the above list were approved in the board minutes documented November 21, 2016.

A letter was sent to all members on the above list on November 30, 2016. No responses were received.

No findings were noted during this review

Supervisory Committee Signature and date

The letter sent to all members is included attached

Sample New Account Verification Letter

Use credit union letterhead

Date

Supervisory Committee Member
Address
City, State zip code

Name and address of member
Account number

Dear New member (name)

We, the Supervisory committee of XYZ Federal Credit Union, would like to take this opportunity to welcome you as a new member. One of our duties as a Supervisory Committee is to verify new member accounts. Our records show your address and phone number as (enter address and phone number). If you did not open an account with our credit union on (date opened) with a deposit of (enter the deposit amount) or if any of your personal information is incorrect please contact us immediately at:

Supervisory Committee Person
Address
City, State Zip Code

We are very happy you have chosen to become a member of our credit union and look forward to serving you.

Sincerely

Supervisory Committee Chairperson
XYZ Federal Credit Union

Reporting New Account Verification: After you have completed the new member account verification you will need to prepare a report to the board of directors. The report should contain a summary of what steps you performed, findings and recommendation noted if any, as well as any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting New Account Verification:

The Supervisory committee completed a new account verification for all new members added in October 2016. The new member list was obtained from the manager and compared to the members approved in the November 2016 board minutes. The supervisory committee sent a verification letter to all members on the list. No responses have been received from any new members contacted. No findings were noted in this verification and no follow up is needed.

ACCOUNT VERIFICATION NEW ACCOUNTS SAMPLE WORK PAPER:

Work Paper Reference Code:

List of New Members	Date approved by the board	Date member Joined	Verification letter sent / date	Response Received	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member

Date

NEW ACCOUNT VERIFICATION SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Closed Account Verification
Instructions and Examples*

ACCOUNT VERIFICATION CLOSED ACCOUNTS:

The membership account verification is required on all accounts at least every 2 years. As part of the Supervisory Committee's ongoing audit duties, the verification of closed accounts is also required. One purpose in performing the closed account verifications is to verify the member did actually close the account and to find out if the credit union can improve its service in any way.

Instructions for Completing the Closed Account Verification:

Obtain the listing of closed accounts from the credit union for a specific time period. Compare this list with the share trial balance or the history of the member's account on the computer. The manager or employee can print out the member's share account history for the month. Send the letter to all members who closed their accounts during the period. The letter should state the purpose of the letter is to verify the account has been closed and to ask for the member to provide the credit union with any feedback on the past service received.

When the committee sends out the verification they need to make sure to use an address independent of the credit union as a return address on the outside envelope mailed to the member. This independent address should also be listed on the inside of the verification and the member instructed to send any problems or questions to this address rather than the credit union's address.

The committee needs to be sure it does all of the work to write the letter and stuff the envelopes on its own. Do not allow management or operating staff to prepare or mail the verifications on their own. In some cases staff assistance may be required. If so, staff should be well supervised by the committee.

When verifying closed accounts it is common to receive many of the verifications back due to bad addresses. For all undeliverable statements determine the reason the statements were returned. Contact the credit union to find out if they have a current address for any statements returned undeliverable to the committee. If not, maintain the letters returned as part of the work papers.

Closed accounts should be verified on an ongoing basis.

Documentation for closed account verification:

Documenting the closed account verification can be done by taking a copy of the closed account listing. This copy can be used to make any notes, comments or findings. The listing should be compared against the share trial balance to verify all accounts on the list were closed on the credit unions books. The committee should also maintain documentation of all letters sent, to whom they were sent and if any responses were received. The Supervisory Committee person or persons responsible should also sign and date the work papers. The work papers should be retained by the committee for review by the examiner or outside auditor. Any verification letters returned due to bad addresses should also be retained by the committee in the work papers.

Sample Documentation – Closed Account Verification:

Closed Account List per the credit union October 2016:

Joe Smith Account # 1234	Bad address
Lisa Sampson Account #1235	Bad address
Troy Johnson Account #1236	Bad address
Steve Anderson Account #1237	
Mary Carlson #1238	
Mandy Jones #1239	
Alexandria Carmichael #1240	

All account numbers were closed in the share trial balance in October, 2016.

A letter was sent to all members on the above list on November 14, 2016. No responses were received. Three letters were returned due to bad addresses. The credit union doesn't have a current address for these individuals.

No findings were noted during this review

Supervisory Committee Signature and date

The letter sent to all members is included attached

Use credit union letterhead

Date

Supervisory Committee Member
Address
City, State zip code

Name and address of member
Account number

Dear member (name)

We, the Supervisory committee of XYZ Federal Credit Union, would like to take this opportunity to thank you for your past membership in our credit union. One of our duties as a Supervisory Committee is to verify closed member accounts. If you did not close an account with our credit union please contact us immediately at:

Supervisory Committee Person
Address
City, State Zip Code

We are continually trying to improve our member service and invite you to provide us with any feedback concerning our products or services you experienced during your membership in the credit union.

Sincerely,

Joe Smith
Chairperson of the Supervisory Committee

Reporting Closed Account Verification:

After you have completed the closed account verification you will need to prepare a report to the board of directors. The report should contain a summary of what steps you performed, findings and recommendation noted if any, as well as any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting Closed Account Verification:

The Supervisory committee completed a closed account verification for all members who closed their accounts in October 2016. The closed member list was obtained from the manager and compared to the month end share trial balance in October, 2016. The supervisory committee sent a verification letter to all members on the list. Three letters were returned due to bad addresses and are being retained by the supervisory committee. No findings were noted in this verification. Follow up on all letters returned undeliverable will be performed in conjunction with our review of accounts with bad addresses. No other follow up is needed.

Letters returned due to bad addresses:

#1234 Joe Smith

#2233 Linda Jones

#4455 Trevor Carlson

CLOSED ACCOUNT VERIFICATION SAMPLE WORK PAPER

Work Paper Reference Code:

List of New Members	Date Account Closed	Method of closing account	Verification letter sent / date	Response Received	Comments

Supervisory Committee Notes:

Signature of Supervisory Committee Member
Date

CLOSED ACCOUNT VERIFICATION SAMPLE REPORT FORMAT:

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

**SUPERVISORY
COMMITTEE
INTERIM AUDIT
PROCEDURES**

WORKBOOK – 2016

*Bad Address Account Review
Instructions and Examples*

BAD ADDRESS / UNDELIVERABLE STATEMENTS REVIEW:

The credit union receives undeliverable statements regularly. The credit union should have a system in place to update the member's address and resend the statements. Undeliverable statements can become a time consuming issue for small credit unions. The credit union should have a policy in place to address how they will handle any undeliverable statements.

The Supervisory committee is responsible for reviewing any statements returned to the credit union due to bad addresses. The purpose of this review is to enhance internal controls and ensure the credit union is handling these types of accounts properly.

Instructions for Reviewing Undeliverable Statements

The first step in reviewing this area is to obtain the credit union's policy on undeliverable statements. If the credit union doesn't have a written policy this would be a recommendation to be included in the report to the board and management. After reading the policy, obtain any undeliverable statements the credit union has. Make a list of all statements and discuss with management why they are undeliverable. Discuss what steps the credit union has taken to update the address and how long the statements for each account have been returned to the credit union. In some cases it will not be possible to update the member's address and the funds will need to be turned over to the state. In some cases the credit union will fee the accounts until they no longer have a balance.

As part of the ongoing audit duties the Supervisory Committee should review the members with bad addresses and what is being done to try and contact them.

Documentation Undeliverable Statements:

To properly document the review of accounts with bad addresses do the following:

- 1 Make a list of all members with undeliverable statements and bad addresses
- 2 Record the number of returned statements the credit union has for this member
- 3 Record any attempts the credit union has made to update the member's new address
- 4 Record the number and types of accounts the member has
- 5 Record if any transactions have taken place on the account other than dividends since the statements have become undeliverable
- 6 Record any follow up action needed on each account
- 7 Record if the credit union has an adequate policy in place addressing bad addresses

When documenting these items a spreadsheet or other format works well. Maintain the returned statements with the other documentation in your work papers.

Sample Documentation Bad Address Review:

Name / Acct #	Date of Review	# of returned statements for member	Number/ types/balance of accounts	Policy in Place	Attempts made to contact Member	Follow up Needed	Transactions made on account since bad address
Dave Smith #2233	3/31/2016	3	1 share account \$5.00 balance	No	Several per discussion with the manager	Continue to try and find the member's address	No
Pat Rogers #4455	3/31/2016	9	1 share account \$5.00 balance, 1 loan account \$12,000 balance – no payments received from past year	No	Several per discussion with the manager. Pulled new credit report but no new information on report	Loan needs to be turned over to collection	Yes, a few loan payments but loan is delinquent

Notes: The credit union doesn't have a policy on bad addresses. This will be a recommendation. The credit union needs to turn over account #4455 to collections.

Reporting- Bad Address Review:

After you have completed the review of bad addresses you will need to prepare a report to the board of directors. The report should contain a summary of what steps you performed, findings and recommendation noted if any, as well as any follow up needed. The report should be written and a copy should be provided to the manager the board of directors, and one retained by the supervisory committee.

Sample Reporting – Bad Address Review:

The supervisory committee reviewed all undeliverable statements the credit union has as of 3/31/2016. The following findings and recommendations were noted:

Finding: The credit union doesn't have a policy on bad addresses. The board needs to implement a policy providing direction on how to handle bad addresses. The policy should address if the credit union can fee the accounts after a specified amount of time or when the accounts need to be turned over to the state.

Sample Reporting – Bad Address Review Continued:

Finding: Account #4455 has had 9 statements returned to the credit union because of a bad address. Discussion with the manager revealed the credit union has made several attempts to contact this member but has been unsuccessful. The member has a loan outstanding with a balance of \$12,000. The credit union needs to turn this account over to collections.

The supervisory committee will continue to follow up on the undeliverable statements periodically.

BAD ADDRESS / UNDELIVERABLE STATEMENTS REVIEW SAMPLE WORK PAPER:

Work Paper Reference Code:

Name / Acct #	Date of Review	# of returned statements for member	Number/ types/balance of accounts	Policy in Place	Attempts made to contact Member	Follow up Needed	Transactions made on account since bad address

Supervisory Committee Notes:

Signature of Supervisory Committee Member
Date

**BAD ADDRESS / UNDELIVERABLE STATEMENTS SAMPLE REPORT
FORMAT:**

Date Reviewed:

Findings / Recommendations:

Follow up Needed:

Signature of Supervisory Committee Member:

Date of Review:

SUPERVISORY COMMITTEE INTERIM AUDIT PROCEDURES

WORKBOOK – 2016

*Work Paper Documentation and
Supervisory Committee Meeting
Minutes Instructions and
Examples*

SUPERVISORY COMMITTEE DOCUMENTING AND REPORTING:

Work papers are one of the most important parts of the supervisory committee's duties. They are also one of the most common areas left out of the supervisory committee's audit work. The work papers should be used to document all work performed. They should contain all notes and analysis of the audit work completed. The work papers are the property of the supervisory committee and don't need to be in a particular format. They should be in an understandable format and able to be reviewed later by the committee, examiners and auditors to determine what steps were completed and what conclusions were formed. When copying items during the audit to be included in the work papers it is important to black out any names, account numbers, social security numbers, and any other confidential information.

Work papers are also used in training new supervisory committee members. Previous work papers are often used as a tool when performing audit steps the committee isn't familiar with. Many times the committee will look at the previous work papers and ask "what did we do last time?" It is essential for the committee to maintain their work papers in an accessible location so they can be used as a tool for the future.

Work Paper Instructions / Samples

Work papers:

The work papers should be very detailed and show all of the work and analysis you performed. It is a good idea to keep a summary sheet of all the work the committee performs monthly. This helps the committee know what areas have been reviewed. The work papers are your property and need to be maintained off site from the credit union or in a locked cabinet at the credit union. If you use a locked cabinet at the credit union you want to make sure the committee members are the only ones with access to the work papers. The work papers should be maintained for review by your outside auditor or examiner.

Work Paper Instructions / Samples Continued:

The format below can be used as a summary sheet to document your work performed. If you need to attach a finding sheet or comment sheet for any items needing correcting this should be referenced in the summary. The procedure performed is a summary of what audit steps were completed. The work paper reference is any name you have given your work paper. This is used to make it easier to later find the work paper used in the specific audit. The comments / finding column should document any comments, questions or findings the committee has for management. And the signature and date should document who performed the audit step and the date it was completed.

Procedure Performed	Work Paper Reference	Comments/ Findings	Signature & Date
Reviewed 14 random loan files (sample)	L-1	See attached work paper and report for findings	Joe Smith 1/1/2016
Counted Cash as of 2/3/2016 (sample)	C-1	No findings noted	Joe smith, George Jones & Teller 1/3/2016
Reviewed file maintenance reports for August (sample)	FM-1	See attached summary for findings	Joe Smith 9/30/2014

SUPERVISORY COMMITTEE INTERIM AUDIT PROCEDURES

WORKBOOK – 2016

*Reporting to the Board of
Directors, and the Membership
Instructions and Examples*

REPORTING:

The Supervisory Committee needs to report to the board every month on its activities. If no activity has been performed a report should be made to the board stating no activity was performed. Reporting monthly to the board helps keep them informed on the supervisory committee duties and any items needing attention. The report to the board of directors is different from your work papers you maintain. The report is a summary of what duties you did or didn't perform, the findings noted and any follow up needed. A copy of all reports you provide to the board should be provided to the manager and a copy maintained as part of your work papers.

Reporting Instructions / Samples – Report to the Board

The supervisory Committee is responsible for documenting all work performed in its work papers. It is also responsible for the following reporting:

- Report to the board at each monthly board meeting
- Report to the members at the annual meeting
- Documenting all supervisory committee activities in the minutes

After the Supervisory Committee completes a review a report needs to be made to the Board of directors. The report should contain the following information:

- Date of the audit
- What was audited
- What findings were noted if any
- What correction is needed
- Recommendations on any changes or action needed
- Request date of completion if needed

Maintain a copy of all reports given to the board with your work papers.

Sample Report to the Board:

The following audit findings were discovered during the 6/31/2016 audit of the board minutes. The board is asked to review this report and correct all items able. We also ask the board submit a report back to the Supervisory Committee by 9/30/2016 showing progress on correcting the items noted.

Sample Report to the Board Continued:

Findings:

- The March 4, 2016 board minutes from were not signed by the chairman of the board
- The December 5th 2014 board minutes were not signed
- The Chairman of the board did not sign the December 20th, 2014 board minutes.
- Deposits of receipts are not always done in compliance with the bylaws which require deposits over \$300 to be deposited within 3 business days of the receipt of the funds.

Sample Report to the board on Internal Control Review:

The internal controls were reviewed and an internal control checklist was prepared. Since the credit union only has 1 employee the internal controls are weak but will remain as such due to the lack of separation of duties. The following are weaknesses noted in the internal controls and suggestions for improving them:

- Review of the cash internal controls revealed that the Board has not established a change fund limit for the vault and office. **RECOMMENDATION: A change fund limit should be established in writing by the board of directors.**
- Review of the cash internal controls revealed that the credit union does not have written cash over and short policy. **RECOMMENDATION: The board should develop a written cash over and short policy.**
- Review of the policies revealed that some of the policies have not been reviewed since 2009: **RECOMMENDATION: The board should formally review all policies annually and document this review in the board minutes.**
- A written policy is not in place for the purchase or depreciation of furniture and fixtures. **RECOMMENDATION: The board should formally adopt a policy outlining the depreciation methods and lives to be used.**
- A charge-off policy has not been formally developed and adopted by the Board of Directors. **RECOMMENDATION: The board should formally establish a policy for the write off of any loans.**
- A reconciliation of all liability accounts is not prepared on a monthly basis. **RECOMENDATION: A detailed reconciliation should be developed monthly for all liability accounts detailing what makes up each account.**

Sample Report to the board on Internal Control Review Continued:

- Review of the share internal controls revealed the credit union has not yet developed a share policy. **RECOMMENDATION: A written share policy should be developed to ensure improved internal controls.**
- **Sample Report to the board on Internal Control Review Continued:**
- There is not yet a standard procedure for annually evaluating the Manager's performance. **RECOMMENDATION: A written policy should be developed and adopted by the board of directors to establish an evaluation procedure for the manager.**

Reporting to the Membership at the Annual Meeting:

One of the responsibilities of the supervisory committee is to report to the membership at the annual meeting. This report should provide an overview of who the supervisory committee is and what its duties are. It should also summarize any activities performed throughout the year. No confidential information should ever be disclosed during this meeting like a CAMEL code rating or names of delinquent members. Below is a sample annual meeting report to the membership.

Sample Report to the Membership

SUPERVISORY COMMITTEE REPORT FOR THE 32ND ANNUAL MEETING OF XYZ FEDERAL CREDIT UNION:

My name is (whoever is going to give the report). I am on the Supervisory Committee of XYZ Credit Union. Also on the committee are: (list the other members)

The job of the supervisory committee is to act as a “watchdog” for the credit union. We are charged with the responsibility of conducting or causing an annual audit of the credit union's records and a bi-annual verification of member's accounts. This is federal requirement and we report our compliance to our regulator, the National Credit Union Administration (NCUA) on a continual basis. Performing these duties enhances the internal controls of the credit union and allows us to ensure the safety and soundness of your funds.

We are also responsible for handling all member complaints, conducting any random audits as needed, and keeping our board of directors informed of our activities. We report all activities directly to the board of directors monthly.

In addition to the activities we perform annually, your credit union also receives an examination by the National Credit Union Administration, the insurer, and regulator. This examination also enhances the safety and soundness of the credit union.

Sample Report to the Membership Continued:

SUPERVISORY COMMITTEE REPORT FOR THE 32ND ANNUAL MEETING OF XYZ FEDERAL CREDIT UNION:

In 2014 we conducted the audit for year ending December 31, 2013 and are currently in the process of conducting the audit for the year ending December 31, 2014.

If you ever see a notice on your statement that an audit of your account is being conducted it means we are checking to make sure the amounts reported to you on your statement agrees to your own personal records. If there are ever any discrepancies noted during an audit please contact the Supervisory Committee so we can research the discrepancy and follow up.

Supervisory Committee Meeting Minutes:

It is important for the committee to meet periodically to discuss and assign the activities planned. The meetings also can be used to help each other with questions, concerns, or provide further instruction or training on an item. They also may be used to compile the audit information and develop a report for the board. Many supervisory committees find it helpful to meet about an hour before the scheduled board meeting. This way one of the committee members can also attend the board meeting and have a complete report for the board. Regardless of when the committee meets it is necessary for the committee to maintain minutes of the meetings. The minutes should document the date, who was present and what issues were discussed. Below is a sample format for supervisory committee minutes.

**SUPERVISORY COMMITTEE SUMMARY WORK PAPER:
Work Paper Reference Code**

Procedure Performed	Work Paper Reference	Comments/ Findings	Signature & Date

Supervisory Committee Notes:

Sample supervisory committee minutes:

Date: 1/13/2016

In Attendance: Lisa Johnson, Joe Smith, and Randy Thompson

The committee met with the Manager at 9:00am on 1/13/2016 and discussed the lending polices. We provided a list of loans we compiled from the loan trial balance to the loan officer. All loan files were pulled along with the copies of the member's loan information from the computer.

The committee reviewed all loan files pulled. Exceptions, questions and comments were documented and discussed with the Manager. A final report will be presented to the Board at the next regular meeting. All work papers were given to Randy so he can write up the report for the board. The work papers will be returned to Lisa to maintain at her residence.

Attached are the loan exceptions from the loan review. The individual loan work papers are kept in the Supervisory Committee Folder.

Respectfully submitted

Secretary

Chairman

SAMPLE SUPERVISORY COMMITTEE MINUTES FORMAT

Date:

In Attendance:

Absent:

Discussion on previous audit work completed:

Discussion of outstanding findings

Discussion of outstanding audit work

Assignment of duties

Problems/ Concerns/ Questions

Next Meeting Date

Respectfully submitted

Secretary

Chairman