



Examination Priority

- Fraud is a costly problem for credit unions and the NCUSIF
- The NCUA's 2018 exam priorities include a focus on internal controls and fraud
- Examiners expect credit unions will be able to detect and address irregularities

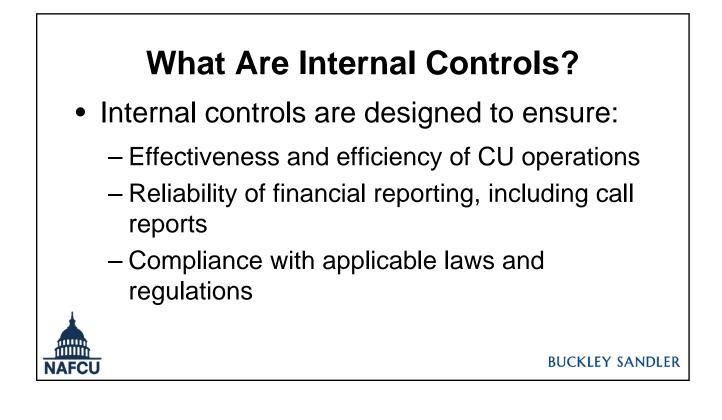
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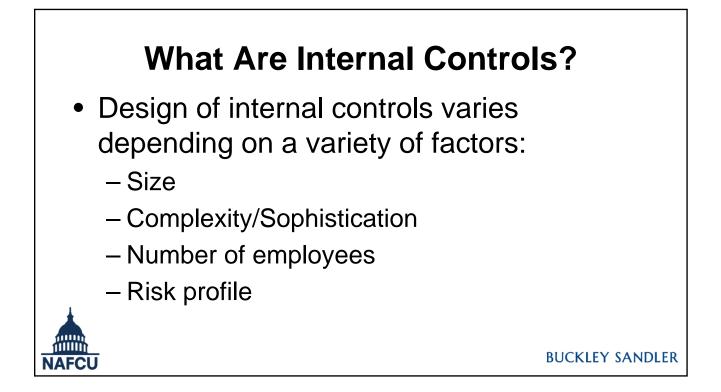
Enforcement Actions

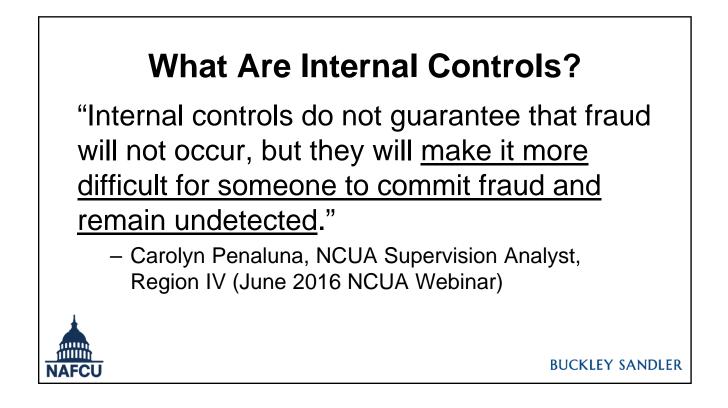
 Credit unions in the past have been cited for failing to establish internal controls "commensurate with the credit union's complexity and size"

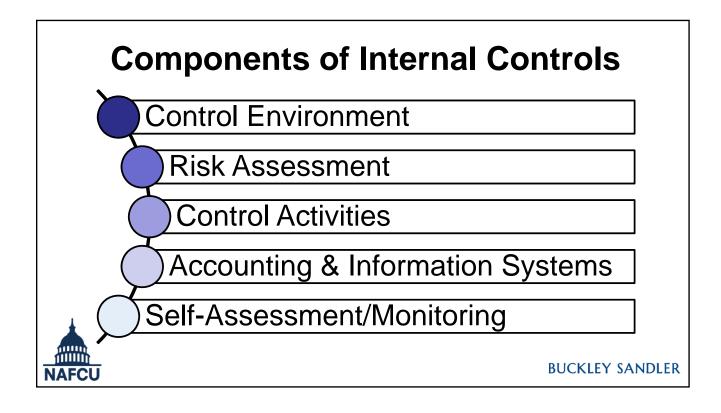














Control Environment

- Board/Board committee involvement and direction
- Management philosophy/operating style
- Emphasis on integrity, ethics, and competence, at hiring and going forward
- Board-approved policies/procedures

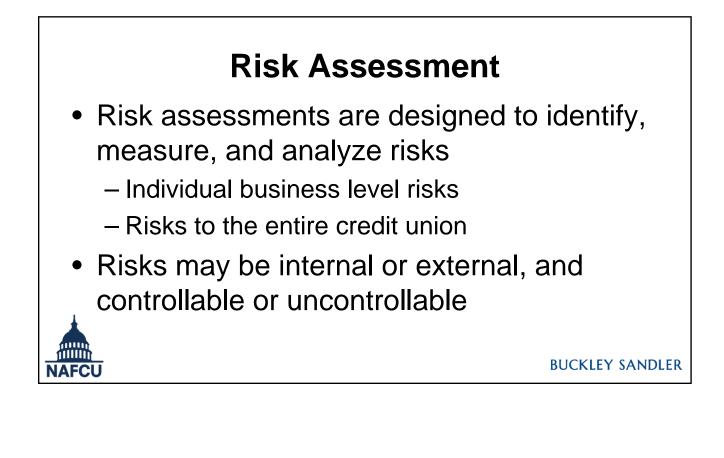
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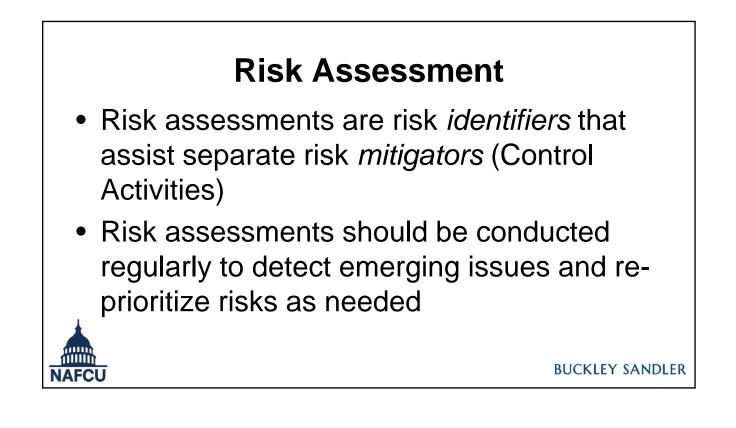
Control Environment

- Choosing independent review or audit sets the stage for a strong control environment
- Management style that makes it clear misconduct is not acceptable from Day 1
 - Remember the credit union is run by people who respond to *leadership*





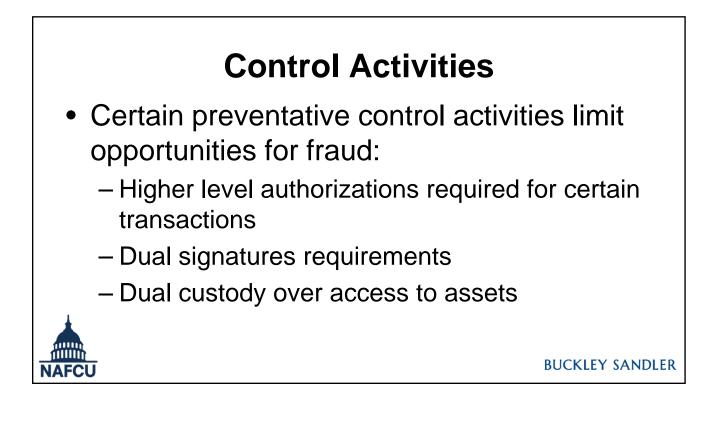






Control Activities

- Policies, procedures, and practices to control risk at every business level
- Intended to *prevent* and *detect* fraud
- Having procedures is not enough must conduct regular training and ensure implementation



Control Activities

- Additional control activities to limit opportunities for fraud:
 - Assign parts of a transaction to different people
 - Limit authorities
 - Safeguard records and assets
 - Evaluate system(s) security
 - Separate and rotate duties

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Control Activities

- Other control activities detect and deter fraud:
 - Surprise reviews (*e.g.* cash counts)
 - Reports of 0 balance or 0 transaction accounts
 - Perform both regular and unscheduled reviews of key operations



Control Activities

- Additional control activities to detect and deter fraud:
 - Reports showing fee waivers and low rates

- Review samples of consumer-facing communications, including phone calls
- Track and analyze member complaints

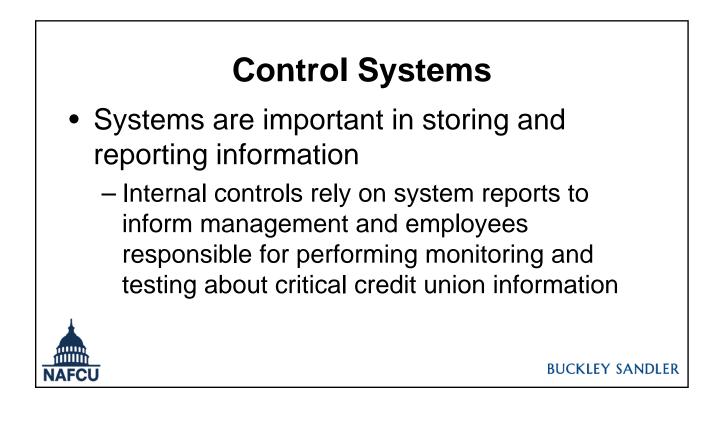


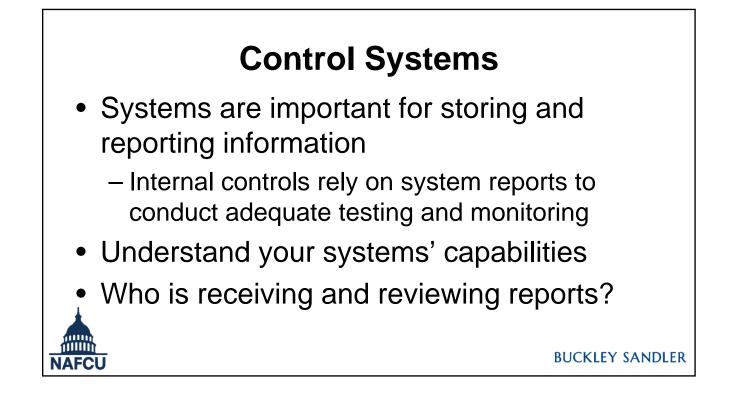


Control Systems

- Common control systems include:
 - Accounting systems
 - Information management systems
 - Communications systems









Self-Assessment and Monitoring

- Internal audit, external audit, and supervisory committees are designed to serve the function of "checking the checker"
 - A comprehensive regular self-assessment can give your credit union a picture of what examiners will find during the examination

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Self-Assessment and Monitoring
 Board-appointed Supervisory Committee is responsible for monitoring internal controls
 Assessments should consider:

 Internal control objectives and top-down communication of these objectives
 Sufficiency of policies, procedures, and documentation of internal controls

Self-Assessment and Monitoring

- Consider evaluating:
 - Personnel understanding of internal controls, through conversations and/or surveys
 - The effectiveness of transaction testing through separate, second-review testing
 - Whether previous findings were promptly corrected



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Hot Topics in Internal Controls

- Third party oversight
- ACH transactions
- Internal controls in small institutions
- Gap analysis



Questions?



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