

# Examiner Expectations for the Supervisory Committee

Presented by  
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## Outline

1. Goals and Objectives
2. Fraud and Embezzlement
3. Basic Rights and Responsibilities of Supervisory Committee
  - Organization
  - Bylaws
  - Committee Charter



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## Outline

4. Supervisory Committee Minutes and Meetings
5. NCUA Examination Basics
6. Work Plan
7. Member Verification
8. Monitor Annual Audit
9. NCUA Exam Priorities
10. Member Complaints



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## Goals and Objectives



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## Fraud and Embezzlement\*

- At Least 5 Credit Unions Hit by \$30 Million Mortgage Fraud Scheme
- Two Former Credit Union Employees Charged or Sentenced for Stealing from Dormant Accounts, Stale Dated Cashier's Checks, False Debit Cards, Gift Cards, and "Bad Address Accounts"
- CU Manager Sentenced in Fraud Case Spanning 17 Years
- Bank Fraud Sentence Handed Down to Former Credit Union CEO
- Minnesota Couple Who Managed Credit Union Sentenced for \$2 Million

Embezzlement



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## Fraud and Embezzlement\*

- Credit Union Employee Indicted for Stealing from Member Accounts Through Fake Fees and Wire Transfers
- Lending Director Fired for Alleged \$825,000 Embezzlement
- Former Credit Union CEO Admits to \$5 Million Embezzlement
- Guilty Plea for Former Credit Union Employee for Embezzling \$82,000 from a West Virginia Credit Union
- Embezzlement Charges for Credit Union Manager & Head Teller



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## Basic Rights and Responsibilities

### What is a Supervisory Committee? (Federally Chartered Credit Unions)

- Federal Credit Union Act – §1761
- NCUA Rules and Regulations – Part 715 (715.1 to 715.12)
- NCUA Rules and Regulations – Part 701, Appendix A (**Bylaws**), Article IX
- Supervisory Committee Guide



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## Basic Rights and Responsibilities

### FISCU

- NCUA Rules and Regulations – 741.202
- NCUA Supervisory Committee Guide



## Basic Rights and Responsibilities

### **Federal Credit Union Bylaws Article IX. Supervisory Committee**

- Section 1. Appointment and membership
- Section 2. Officers of supervisory committee
- Section 3. Duties of supervisory committee
- Section 5. Powers of supervisory committee—removal of directors and credit committee members
- Section 6. Powers of supervisory committee—special meetings



## Basic Rights and Responsibilities

- Review internal controls
- Hire and work with an internal auditor
- Hire and work with the external auditor
- Review examination and audit findings and follow-up to ensure that management takes the necessary corrective action
- Meet with the federal examiner
- Research member complaints
- Complete other recommended procedures
- Fraud prevention/whistleblowing



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## Examinations – vs – Audits

- **Examiners perform Examinations** – an exam focuses on safety and soundness concerns, as well as overall controls, regulations compliance and recordkeeping
- **Supervisory Committee Audit** – an audit focuses on accuracy of accounting records, and the internal controls related to the accounting records



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## Audits

- NCUA Supervisory Committee Guide – Minimum Procedures
- Complete the audit at least annually
- Review the structure of the Credit Union’s internal controls
  - Verify the accuracy of the Credit Union’s records
  - Prepare findings
  - Present the final audit report to the Board of Directors



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## Minutes and Meetings

- Access
- Documentation



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## NCUA Examination Basics

- Overview/Notice
- Preparation
- Participation
- Exit & Follow-up



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## Work Plan

- Schedule the scope and complexity based on Credit Union asset size
- Monthly, Quarterly, Annual Audits
- Committee education sessions throughout the year
- Periodic review of the State/Federal Credit Union Acts, Rules & Regulations, CU Bylaws as it applies to their jobs and the credit union in general
- Trends/Tricks/Traps



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## Member Verification

- Must complete verification of all member accounts once every 2 years
- “Verifying member accounts” members to address if the activity or balances on their statements is accurate
- Purpose of verification is to detect errors. Sometimes verification is called confirmation
- Closed Accounts. Purpose of verifying is to detect errors and guard against fraud. Typically verify closed accounts at least every 2 years. Recommend more often, even quarterly



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## Monitor Annual Audit

- If federally insured assets of \$500 Million or more, an opinion audit must be performed by an independent licensed accountant
- If federally chartered with assets of more than \$10 Million but less than \$500 Million, you have four options:
  - As noted above
  - Opinion audit of the Credit Union’s balance sheet performed by an independent accountant
  - Examination of internal controls and call reports by a licensed independent accountant
  - Supervisory Committee audit which meets the minimum requirements of the Supervisory Committee Guide



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## NCUA Exam Priorities

### Supervisory Priorities for 2018

- Cybersecurity Assessments
- Bank Secrecy Compliance
- Internal Controls and Fraud Prevention
- Interest Rate and Liquidity Risk
- Automobile Lending
- Commercial Lending
- Consumer Compliance



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## NCUA Exam Priorities

### Supervisory Priorities for 2018

- Risk-focused Examinations
- Frequency of Exams and Extended Exam Cycles
- Appeals/Process
- NAFCU Exam Fairness Guide Published August 2017



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## Member Complaints

- NCUA Letter 15-CU-04, June 2015/Improving the Process for Consumer Complaints
- 60 Days
- Consumer Assistance Center complaint handling process
- Consumer Assistance Center recommendations for steps to attempt to resolve complaint
- List of Recommended Practices
- Caution!
- Trends
- Tips/Traps



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## Takeaways

- Bylaws
- Supervisory Committee Charter
- Priorities
- Resources
- Audit Plan



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## Resources

- [Federal Credit Union Bylaws](#)
- [Supervisory Committee Guide](#)
- [Supervisory Committee Guide, Minimum Procedures, Appendix A](#)
- [NCUA Supervisory Priorities for 2018](#)
- [Improving the Process for Consumer Complaints](#)
- [Federal Credit Union Handbook](#)



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## Resources

- [NAFCU February 2018 Compliance Monitor](#)
- [NAFCU Compliance Blog, February 9, 2017: Audits and Examinations](#)
- [NAFCU Exam Fairness Guide, Published August 2017](#)
- Demangone, A. W., and B. D. Berger (2014). *Managing and Leading Well, It Ain't Rocket Science, But It's Still Hard Work!* Arlington: NAFCU
- Demangone, A. W. (2015). *The Credit Union Director Handbook*. Arlington: NAFCU



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## Supervisory Committee Workplace Planned Audits

- S.A.F.E. Act
- IT - Monitoring of audit logs
- Shared branch compliance
- Indirect Lending
- Maintenance Service Fees
- Mobile banking
- Wire transfers
- IT - Firewall audit management



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## Supervisory Committee Workplace Planned Audits

- IT - Access controls
- IT - Malware defenses
- Identity Theft Red Flags
- IT - Remote VPN
- Consumer loans
- Quick Cash loans
- ALM
- HELOCs
- IT - Patch management



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## Supervisory Committee Workplace Planned Audits

- Investments
- NCUA Call report
- Participation Loans
- Employee/volunteer expenses
- Allowance for Loan Losses
- Human Resources/payroll/voluntary deductions
- ACH compliance
- IT - Incident Response Program to data breaches
- Bank Secrecy Act compliance



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## Supervisory Committee Workplace Planned Audits

- Vendor management
- IT - Disaster recovery / business continuity plan
- Branch operations audits
- TDRs
- Charged-off loans
- Social Media Monitoring/Social Engineering Training
- Financial Privacy & Consumer Information (NPPI) - GLBA
- Ethics compliance



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## Supervisory Committee Workplace Planned Audits

- Nonfinancial Account Maintenance
- Dormant Accounts Review
- New Account Review
- Returned mail (verification of accounts); look for physical address and PO boxes
- Website Review
- MBL Loans to One Borrower
- Journal Entries Review



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## Supervisory Committee Workplace Planned Audits

- Employee Loan Documentation Review - 6/quarter to reach 25% of population
- Employees - Review of Account Histories - 12/quarter to reach 50% of population
- Volunteers - Loan Documentation Review - review each new loan
- Volunteers - Review of Account Histories - spread through year to reach 100%
- Branch Audit Checklists
- Closed Account Review
- Interest Rates



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