



KEY EXAMINATION ISSUES FOR 2008

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Board Member

National Credit Union Administration



2008 Examination Issues

- Evaluation of Third Party Relationships
 - Benefits
 - Risks
 - Requirements
- Strategic Planning
 - Benefits
 - Planning Model
 - Planning Process



Evaluating Third Party Relationships

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What Will Be Discussed Today?



- Elements of An Effective Program
 - Risk Assessment and Planning
 - Effective Due Diligence Reviews
 - Measuring, Monitoring, and Controlling Risk



Vendor Relationships

- CUs Use Vendors
 - Lending Services
 - Auditing and Management Consulting Services
 - Asset Liability Management
 - BSA and OFAC
 - Data Processing
 - Internet Banking Services

Benefits/Risks

- Benefits

- Expand Products and Services
- Expand Delivery Channels
- Cost Effective
- Leverages Skills and Expertise

- Risks

- Inadequately Managed and Controlled
 - Unanticipated Costs
 - Legal Disputes
 - Financial Loss
- Outsourcing Relationship

First Element of an Effective Program



- Risk Assessment and Planning
 - Expectations for Outsourced Functions
 - Criticality of Relationship
 - Staff Expertise
 - Cost-Benefit Relationship
 - Insurance Coverage
 - Impact on Membership
 - Exit Strategy

Second Element of an Effective Program



- o Due Diligence Consideration
 - Background Checks
 - Business Model
 - Cash Flows
 - Accounting
 - Financial Condition
 - Contract and Legal

Due Diligence – Background Checks



- Consider the Vendor's Past Experience
- Request References
- Review Past Legal Concerns, If Applicable
- Ensure Licenses and Certifications are In Place and Current
- Secure References From Other Sources

Due Diligence – Business Model



- Vendor's Business Plan
- CU and Vendor Responsibilities
- Conflicts of Interest Between Vendor and Credit Union
- Vendor Third Party Relationships

Due Diligence

Cash Flow/Accounting



- Cash Flow
 - Understand Cash Flow Process (Member to Vendor to Credit Union)
 - Reporting Mechanism
 - Annual Audit Tests
- Accounting
 - Adequate Accounting Infrastructure
 - Compliant with Generally Accepted Accounting Principles
 - CPA Guidance



Due Diligence - Financials

- o Ability to Fulfill Contract Commitment
- o Audited Financials, If Available
- o Information from Other Financial Sources
- o Requirements for Independent Audits, Other Reviews in Contract

Due Diligence – Contract/Legal



- Address all Required Areas
- Legal Opinion from Attorney with Appropriate Expertise and Independence
- Compliance with State and Federal laws



Third Element of an Effective Program

- Measuring, Monitoring, Controlling Risk
 - Policies and Procedures
 - ❖ Limit Vendor Activities and Risk
 - ❖ Establish Program Limits
 - ❖ Staff Responsibilities
 - ❖ Program Oversight
 - ❖ Reports/Reports to Management

Measuring, Monitoring, Controlling Risk



- Monitoring
 - Timely Reports
 - Contain Sufficient Information
 - Annual Audit Tests Report Accuracy
 - Infrastructure to Monitor Performance
 - Assign Oversight to Appropriate Staff

Measuring, Monitoring, Controlling Risk



- Controls
 - Internal Controls and Audit Function
 - Member Data Communicated and Stored in Secure Manner
 - Measure Compliance with Contract
 - Quality Control Procedures
 - Evaluation of program

Summary – 3rd Party Relationships



- Vendor Relationships Provides Benefits
- Outsourcing Increases Risk
- Officials Responsible for Sound Operations, Safeguard Assets and Member Information
- Sound Risk Management, Planning, Due Diligence, Measurement, Monitoring, and Control



Strategic Planning

Debra Tobin
Supervisory Examiner,
Economic Development Specialists



Strategic Risk

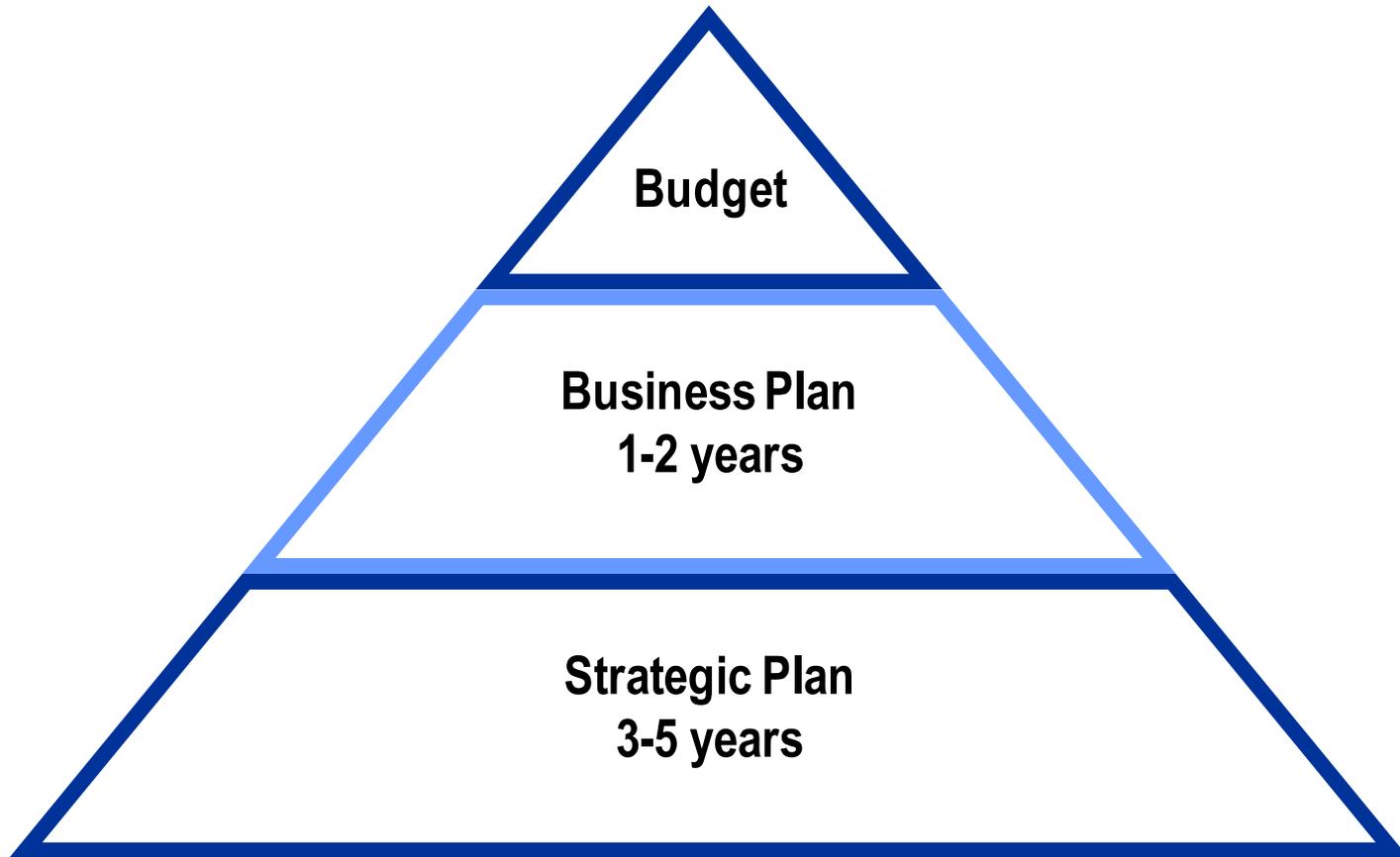
The current and prospective risk to earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

Benefits of Planning

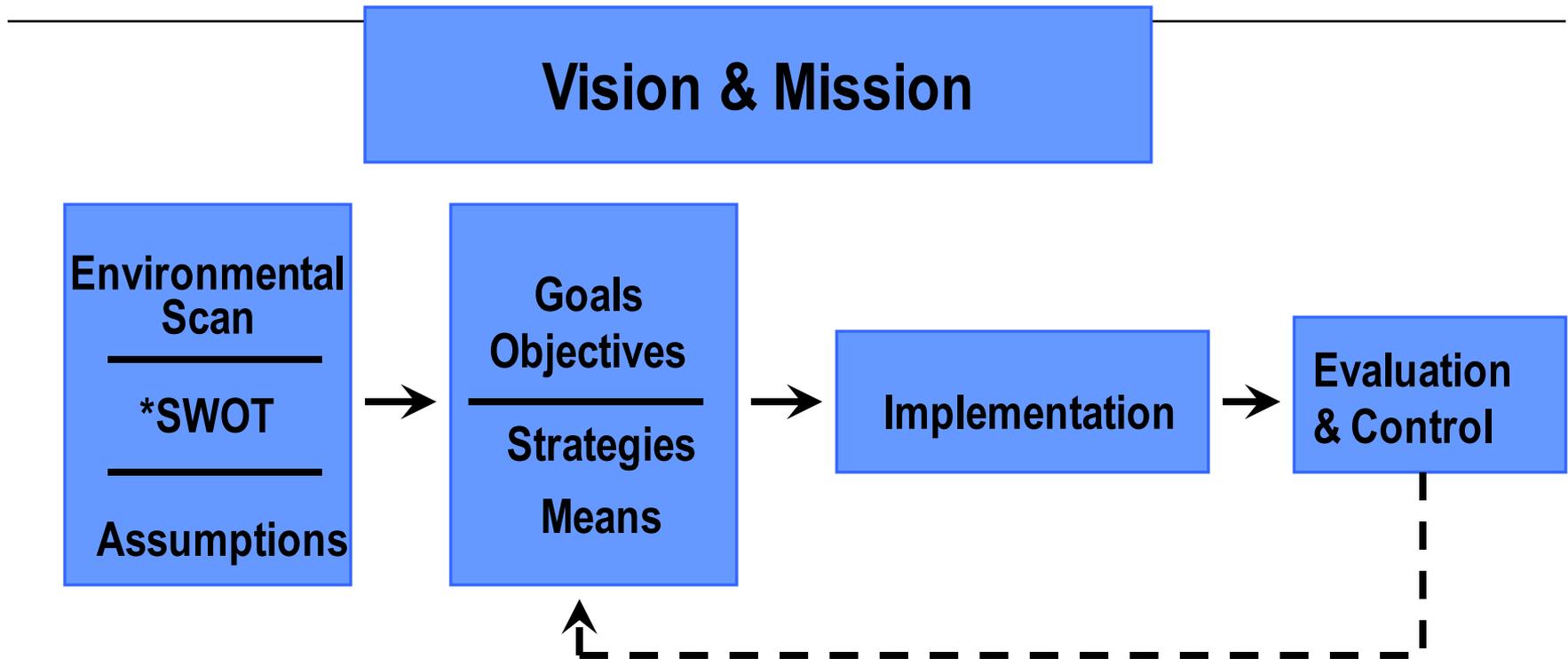


- Make more informed decisions;
- Allocate limited resources efficiently;
- Implement new products and services more soundly;
- Satisfy member needs;
- Prepare for future contingencies;
- Optimize performance; and
- Improve operations.

Planning Model

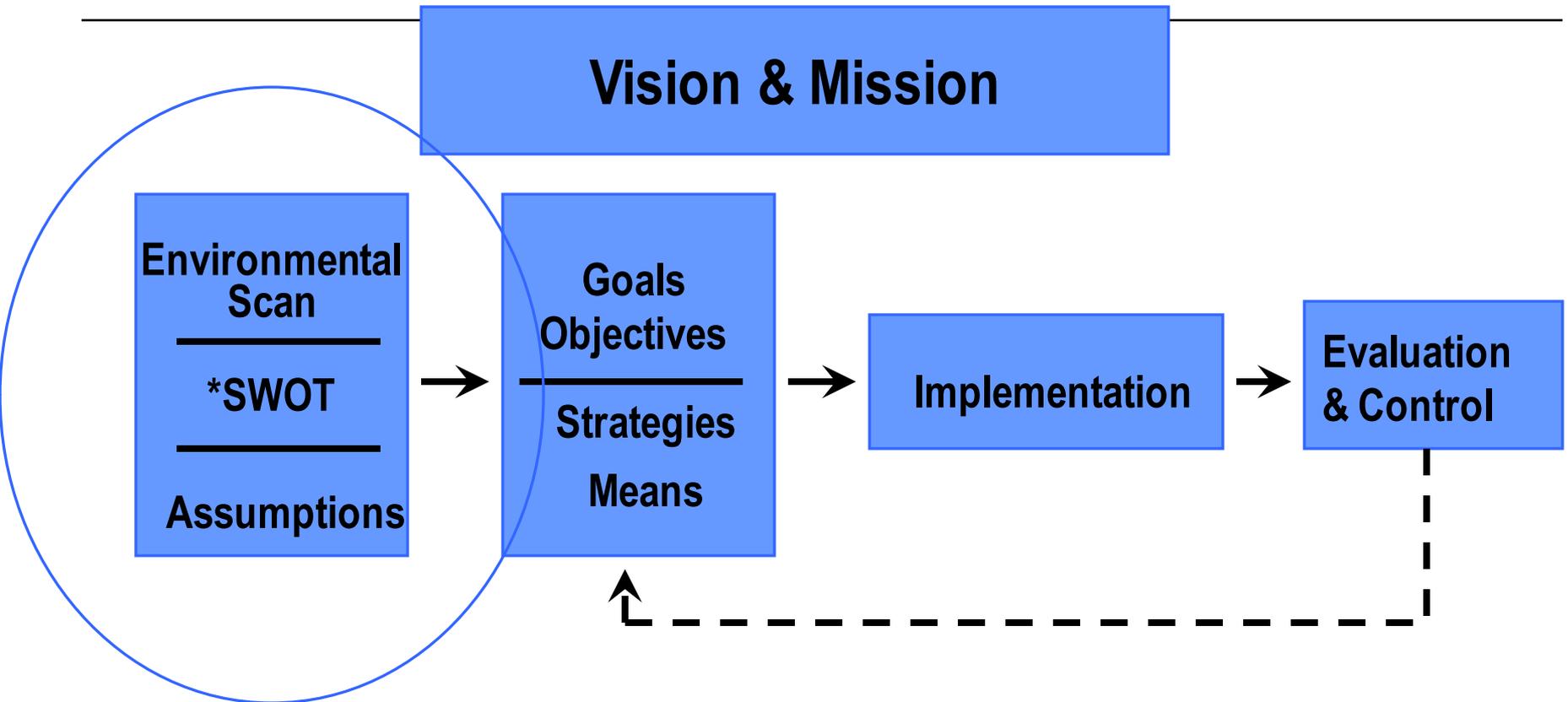


Planning Process



*SWOT = Strengths, weaknesses, opportunities & threats

Planning Process



*SWOT = Strengths, weaknesses, opportunities & threats



Strengths and Weaknesses (Internal)

- o Financial health and expense structure
- o Qualifications of board, management, and staff
- o Management information and financial systems
- o Office facilities, equipment, and delivery channels
- o Quality and type of products and services
- o Membership and service usage and growth
- o Reputation
- o Field of Membership

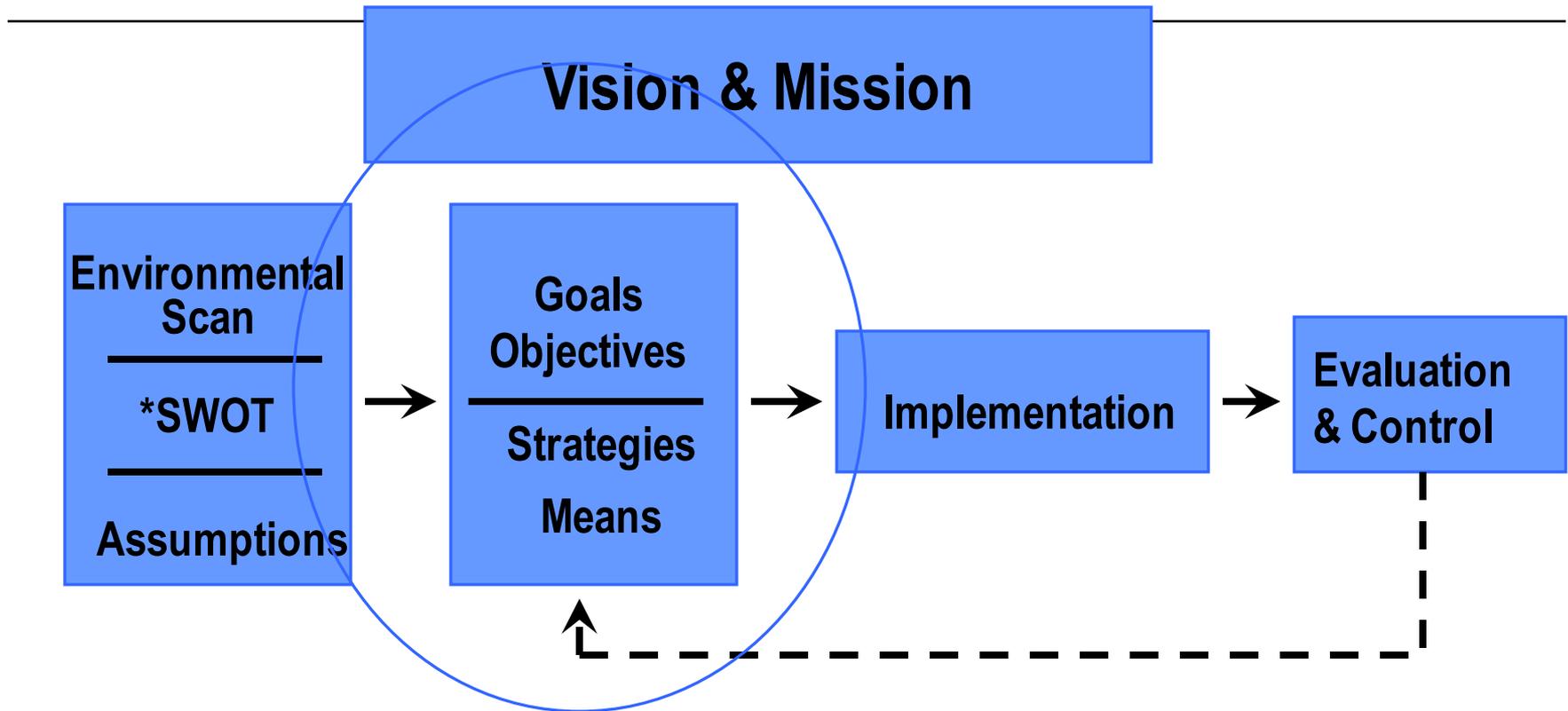
Opportunities and Threats (External)



- Regulatory Changes
- Demographics and Consumer Behavior
- Technological Advancements
- Economic Trends

Social (demographics)
Technological
Ecological
Economic
Political

Planning Process

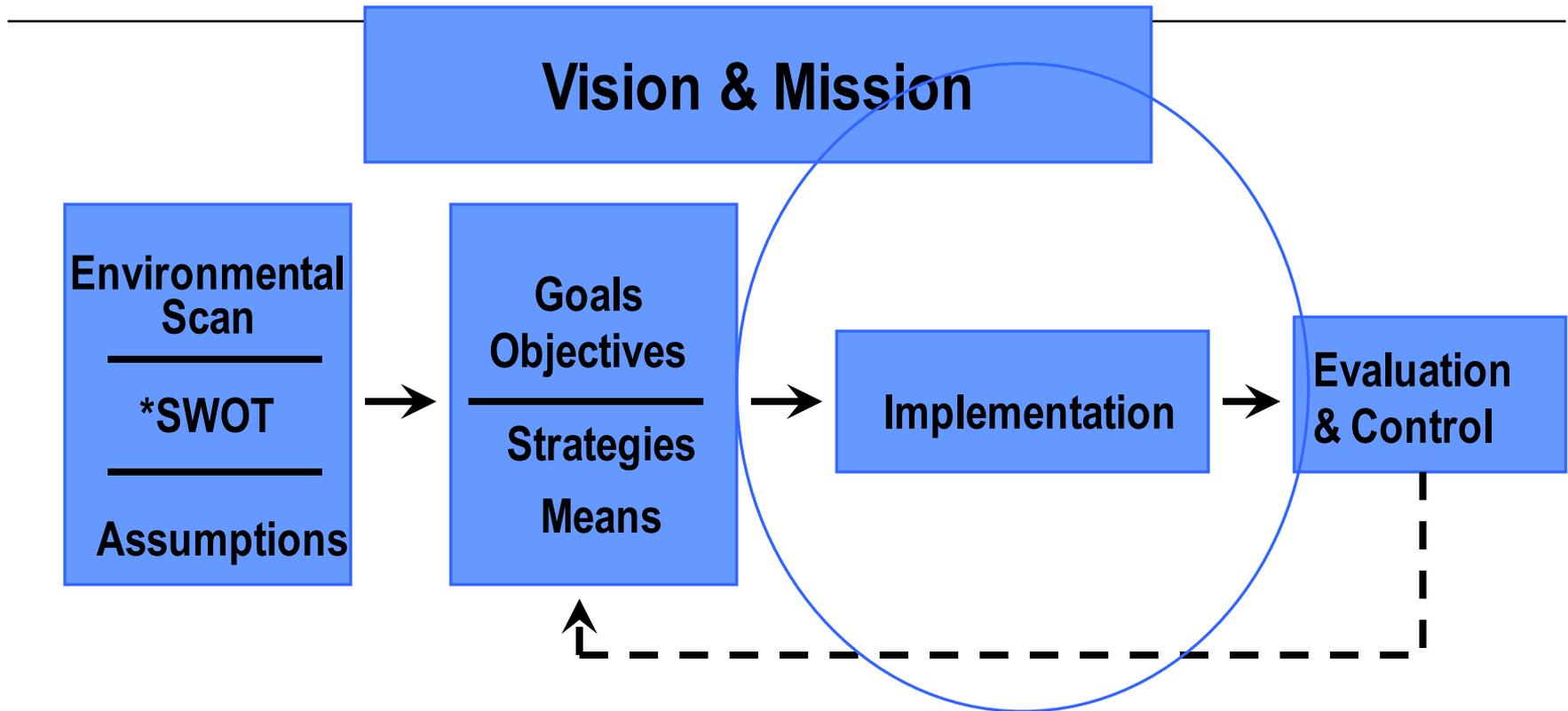


*SWOT = Strengths, weaknesses, opportunities & threats

Goals and Objectives

- Consistent with mission and vision
- Short- and long-term
- Actionable and measurable
- Responsibility, authority, and accountability
- Timeline and mechanism to measure progress

Planning Process



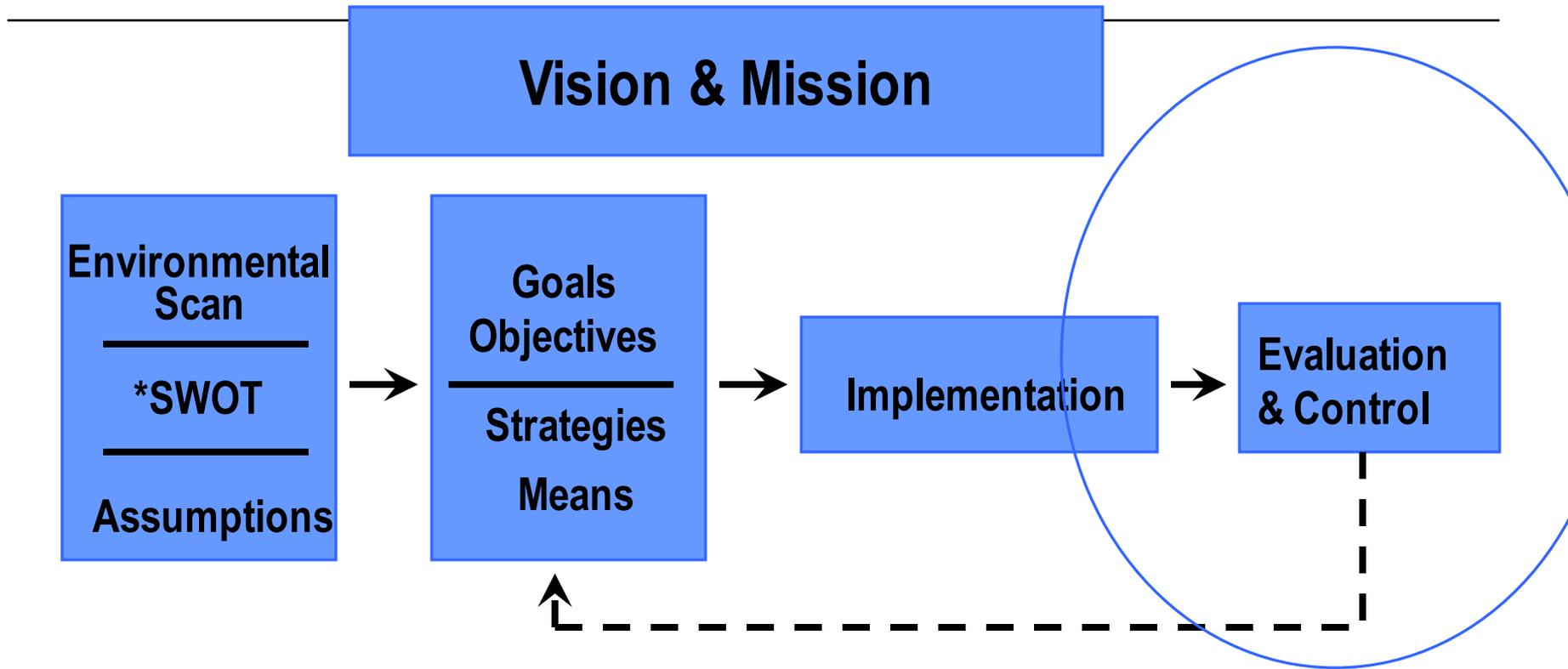
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Implementation

- o Resources
- o Policies
- o Processes
- o Personnel
- o Control Systems
- o Communications

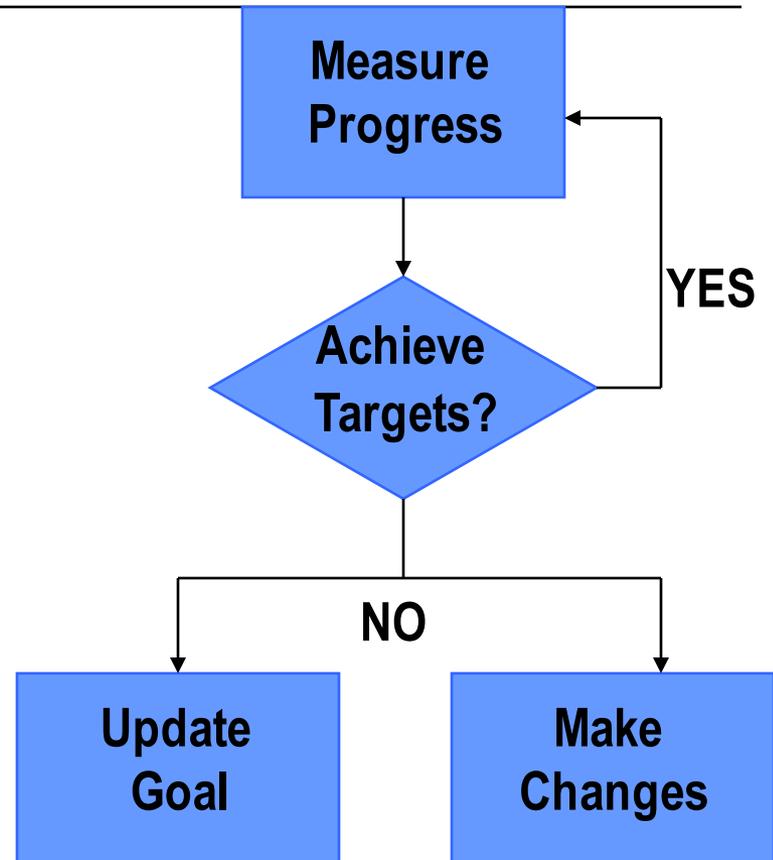
Planning Process



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Performance Measurement

- Define the parameters to be measured
- Establish target values for those parameters
- Perform measurements
- Compare measured results to the predefined standard
- Make changes as necessary





Summary – Strategic Planning

- An inadequate planning process could result in material losses to the credit union's earnings and/or net worth.
- The planning documents include a strategic plan, business plan and budget, which vary in complexity with the size and complexity of the credit union.
- The planning process is as important as the planning documents.
- It is best if the process is conducted by a planning team.

Summary – Strategic Planning

- A clear mission and vision set the foundation.
- The SWOT analysis provides valuable information about existing and emerging risks.
- When developing goals and objectives, define the acceptable level of risk that management will assume to attain them.
- Due diligence must be used in implementing plans.
- Performance measurement should include a method to measure, monitor, and report results as well as make changes as necessary.

Conclusion

- Third Party Relationships
 - Benefits
 - Risks
 - Risk Mitigation Strategies
- Strategic Planning
 - Benefits
 - Planning Process and Model



2008 Examination Issues

Questions????????