

Chapter: 101

ADMINISTRATION

Introduction

The Corporate Examiner's Guide (Guide) is for use during the examination and supervision of Corporate Credit Unions (corporates) which are subject to regulation by the National Credit Union Administration (NCUA). It provides Office of Corporate Credit Union (OCCU) personnel with uniform standards for planning and conducting examinations and should be used as a reference tool, training aid, and a guide to NCUA policies and procedures.

Through the regulatory process, OCCU personnel assess the safety and soundness of each corporate. This process includes an:

1. Objective evaluation of a corporate's operational and financial soundness and its compliance with applicable laws and regulations;
2. Assessment of the quality of management and directors; and
3. Identification of areas where corrective action is required to strengthen operations, or improve the quality of performance, or enable compliance with applicable laws and regulations.

This Guide sets forth the framework for this process and is designed to encourage independent reasoning, objectivity, efficiency, and professionalism in the examination process. To promote consistent application among OCCU examination teams, the Guide sets forth minimum standards for examination objectives and procedures. While it promotes standardization of the examination process, field staff is encouraged to modify Guide programs to fit specific institution needs.

Examiners should supplement the Guide and its associated programs with education, experience, and sound judgment. Supplemental pages, updates, and revisions will periodically be published and distributed.

References within the text to specific regulations refer to regulations promulgated by NCUA, unless otherwise designated.

**Guide
Organization:
Chapters**

The Guide is divided into five major areas, with each area divided into chapters. Each area and chapter is designated by a divider tab.

Mission

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Each chapter is divided into the following Sections and into further subsections, as applicable.

1. Introduction (Overview)
2. Examination Objectives
3. Examination Procedures
4. Examination Questionnaires
5. References
6. Appendices

Not every Chapter will include each Section.

Introduction

The Introduction describes the subject and explains the activity or operation. Introductions serve as an overview of the respective topics and reinforce knowledge the examiner has gained through NCUA's education programs and experience on the job. Introductions are designed to provide comprehensive information and guidance to examiners. They provide the reader with basic information such as NCUA policies and pertinent accounting issues. Introductions also focus on risks, rewards, and controls.

Examination Objectives

Examination objectives describe the goals that should be of primary interest to the examiner. Listed objectives are general and designed to help examiners tailor the examination to the specific corporate. Some examination objectives, such as evaluation of the corporate's system of internal controls, policies, practices, procedures, and the scope and adequacy of the audit function, help examiners determine the examination scope. Other objectives, such as assessing the corporate's compliance with laws and regulations and evaluating the need for corrective action, provide a framework to help examiners identify areas of risk and develop and implement a strategy for supervising the corporate.

Certain objectives are germane to the overall examination process and to virtually every examination section. These common objectives are presented below. Staff may wish to review this list during the course of an examination, as these objectives might not be specifically included in other Guide Sections.

Common Objectives

1. Document the effectiveness of the corporate's operations;
2. Determine compliance with laws and regulations;
3. Determine the adequacy of and adherence to corporate policies and procedures;
4. Assess management's expertise and ability to manage the corporate's affairs;
5. Assess the board of director's oversight and ensure that management and the board are receiving complete and accurate reports;
6. Verify that an acceptable system of records and internal controls is in place;
7. Verify management has assessed the effect of anticipated internal and external changes on the corporate;
8. Assess the corporate's ability to meet its future needs (e.g., fund growth, provide capital, absorb losses);
9. Identify any actual or potential undue risk to the corporate, the corporate system, or the National Credit Union Share Insurance Fund (NCUSIF); and

10. Report examination findings:

- a) Present analysis and conclusions regarding the corporate's overall condition, trends, and prospects for future viability; and
- b) Identify material concerns (i.e., through development of DORs, etc.) and seek management's agreement for timely resolution of such concerns.

Corporate Examination Procedures

Corporate examination procedures are steps an examiner may follow to accomplish objectives for an area. Examination procedures are a comprehensive collection of approaches from which the examiner-in-charge (EIC) selects only those necessary to adequately assess the area in the corporate under examination.

The materiality and significance of a given area of corporate operations are the EIC's primary considerations in deciding the scope of the examination and the procedures to be performed. Examiner flexibility results in examinations tailored to fit the operations of the corporate.

Examination procedures are divided into three groups: base, standard, and expanded. All examinations will be conducted under standard examination procedures (standard), unless otherwise justified by the examiner and approved by the EIC. However, even if the examiner chooses to divert from the standard procedures, at a minimum, base procedures will be performed for all examinations.

Base procedures are the minimum examination steps conducted when various factors do not warrant standard or expanded examination procedures. This determination may be made when developing a multi-year examination scope or as a result of events during an examination. For instance, the EIC and the Corporate Field Supervisor (CFS) may determine that the standard Automated Clearing House procedures should be conducted every other year to provide additional time to review the investment area. Likewise, the EIC may determine, after an examination has started, that a problem has arisen in an area that needs more attention, which requires less time in the Funds Transfer area. In each of these cases the standard

procedures may be reduced, but never below base examination procedures.

Standard procedures are employed by examiners under normal circumstances. Normally, examinations are staffed for standard procedures; however, OCCU management expects EICs to use their discretion in adjusting the review level to either base or expanded, as individual circumstances warrant. Standard procedures may be reduced to base or increased to expanded procedures. The EIC must explain the decision to alter standard procedures in the Confidential Section work paper.

Expanded procedures are more discretionary. Examiners should follow these procedures only when they identify significant problems and it is necessary and expeditious to perform audit-like verification procedures. Ideally, these procedures can be performed by the corporate's staff, directors, and internal and/or external auditors. If the corporate's internal controls or external audit program are not adequate, the examiner should:

1. Require the corporate to immediately address the areas of concern;
or
2. Broaden the examination scope to include expanded procedures.

Although examination subject areas differ greatly, certain procedures are applicable to any phase of an examination. A list of procedures that are common to the overall examination process and to virtually every examination section follows. The examiner may wish to review this list when completing an area of review, as the procedures might not be specifically incorporated in other Guide Sections.

General Procedures

Gather Data

1. Review previous Examination Report DORs and OEFs and work papers;
2. Review the current year's scope, supervisory correspondence, and interagency data;

3. Consider the regulatory policy associated with the areas of review; and
4. Obtain the corporate's risk management reports and written policies and procedures.

Set Scope

1. Establish a clear understanding of examination objectives;
2. Perform analytical review of financial data;
3. Identify new or unusual transactions requiring modified examination procedures;
4. Indicate areas of greatest concern;
5. Tailor the examination scope to meet the corporate's risk profile;
6. Consult with other examiners and take the nature of their initial findings into account in determining the examination scope and level of review;
7. Determine if expanded procedures are necessary;
8. Develop additional procedures not covered in the Guide, if necessary; and
9. Perform only those procedures necessary to achieve program objectives.

Evaluate Process

1. Interview corporate personnel;
2. Evaluate policies and procedures;
3. Spot check the reliability and accuracy of reports;
4. Test the corporate's procedures;
5. Identify material changes in operation or policy since the previous examination;
6. Evaluate trends;
7. Research significant variations from last year's examination to determine if there is cause for concern; and
8. Obtain explanations for any significant issues.

Assess Management

1. Review the adequacy of the risk management reports prepared for the board, ALCO, and operating management;
2. Determine the extent to which the directors are involved in monitoring performance and initiating corrective action;

3. Review the adequacy of management's strategic plans;
4. Interview management and staff to ascertain if personnel have adequate knowledge of policies and procedures;
5. Determine the sufficiency of the training and expertise of staff versus the scope and level or risk activities; and
6. Determine if policies and procedures are being communicated and regularly updated.

Formulate Conclusions

1. Keep the EIC informed of progress;
2. Discuss concerns with other examiners, if appropriate;
3. Identify, and determine significance of, regulatory violations and deficiencies;
4. Discuss findings with management;
5. Determine the adequacy of management's response to problem issues; and
6. Consider possible strategies for corrective action and develop a recommended course of action.

Conduct Post Review Activities

1. Review work to ensure objectives have been satisfied;
2. Summarize results and conclusions;
3. Draft comments, including scope, findings, and recommendations;
4. Assign ratings if applicable;
5. Ensure that there are properly cross-referenced work papers to document and support substantive findings and conclusions; and
6. Update the Field File.

Corporate Examination Questionnaires

Corporate Examination Questionnaires (Questionnaires) are checklists an examiner may utilize to gather and summarize information relative to an area. Questionnaires for each area of review are provided on a chapter-by-chapter basis under the guide tab entitled Work papers.

Questionnaires help to assess a corporate's control systems and improve the examiner's understanding of the corporate's internal controls, policies, practices, and procedures. Questionnaires ask about

controls that ideally are in effect to provide the corporate with proper day-to-day protection. The examiner is primarily interested in controls that relate to compliance with managerial policies and procedures. The EIC decides when to complete or update the questionnaires related to a particular area of review as part of an examination. **IT IS NOT NECESSARY TO COMPLETE ALL QUESTIONNAIRES DURING EACH EXAMINATION.** The examiner should include only those questionnaires pertinent to the examination scope and objectives. In the event that the EIC determines completion of a questionnaire is unnecessary, the rationale for this decision should be supported and documented in the Confidential Section of the work papers.

Questionnaires reflect standards for safe and sound operating procedures and may be useful for evaluating a corporate's operations. They also assist in organization, act as memory joggers, and facilitate the review process.

References

Pertinent citations of law and regulation appear in the reference section. References to other relevant NCUA publications are identified where appropriate, including: various bulletins, agency instructions, industry sources, and accounting pronouncements.

An attempt has been made to ensure that the reference list is comprehensive, providing resources beyond those needed on a day-to-day basis. Therefore, the examiner should not be concerned if access to these references is not routinely available. If the corporate under examination is state chartered, the examiner should also refer to state regulations in accordance with OCCU policy.

Appendices

Following the main sections are appendices that might include various forms, checklists, statements, and guidelines. These provide the examiner with additional information regarding certain topics.

**Corporate
Examiner
Conduct**

Office of Corporate Credit Union Culture

OCCU has recruited and trained the highest caliber staff from within and outside NCUA. As such the expectations for performance and conduct are exceptionally high. OCCU staff are expected to be hard working, dedicated, efficient, effective, honest, independent, and professional.

OCCU staff expect to be treated in a professional and respectful manner by corporate officials, management, and employees. Likewise, those in the corporate expect the same treatment from OCCU staff. Discourteous treatment is not anticipated, nor will it be accepted, from either OCCU or corporate staffs.

Corporates are engaged in a dynamic industry where change is the “norm rather than the exception.” Examiners must expect that corporate staff will go through the same learning curve which they have. Just as examiners learn through their experiences with other examiners and corporate staff, examiners should accept that corporate staff may look to them for their experience. Willingly sharing experiences builds mutual respect and understanding.

Examiners are expected to maintain open lines of communications with corporate staff. Those communication lines should enable corporate staff to discuss openly and frankly pertinent issues involving the corporate. Corporate staff should be encouraged to look to the district examiner (in most cases the EIC) to discuss examination and supervision related issues. Likewise, examiners should discuss issues first with appropriate corporate staff or the chief executive officers (CEO). If discussions are not fruitful, EICs are free to move up the chain of command in addressing those issues.

Corporate examiners should understand that while open communications with corporate officials are encouraged, they must maintain clear independence from the corporate and its staff. Thus, examiners are encouraged not to socialize with corporate employees. Any interaction which would give the perception to the reasonable person that the examiner may lose this independence is not appropriate.

Examples of questionable activities include, but are not limited to: corporates paying for meals, other than working meals, attending or participating in sporting events or other forms of entertainment, and other personal interactions.

Ethical Conduct

All OCCU employees are subject to the Principles of Ethical Conduct for Government Officers and Employees set forth in Executive Order 12674 of April 12, 1989, as modified by Executive Order 12731. All OCCU employees should have available to them a manual containing the Standards of Ethical Conduct for Employees of the Executive Branch issued by the United States Office of Government Ethics (OGE). The manual contains the principles and the regulations, 5 CFR Part 2635, issued by OGE. The Standards are available on OGE's website – usoge.gov/ in either TXT or PDF format.

OCCU employees should be familiar with the information contained in the manual since they are expected to comply with its requirements. NCUA's Ethics Officer offers some simple advice: "abide by the spirit as well as the letter of the standards." Should examiners have an ethical question which causes concern, they should contact the agency's Ethics Officer.

Administrative Issues in Corporate Credit Unions

The following policies governing professional conduct do not constitute an exhaustive or all-inclusive list; rather they are general guidelines addressing important issues that corporate examiners face in their day-to-day work environment.

Duration of On-site Examinations and Supervision Contacts

The scope of each examination and supervisory contact is determined by the EIC and the CFS, targeting problems and high-risk areas. These contacts should be conducted in the most efficient and least disruptive manner possible. Factors to consider in making these decisions are the number and availability of staff, travel costs, effect on the routine operations of the corporate, and the condition of the

corporate. Appendix 102F, Reduced On-Site Examination procedures provide further details in this regard.

Working Hours

Examiners should manage their time in a responsible and professional manner. Due to the substantial travel involved with a national examination program, OCCU staff strives to be productive when traveling on airplanes, etc. OCCU staff work eight hour workdays, with travel authorized on Mondays and Fridays. On occasion in order to complete an examination in an effective manner, the EIC may request Sunday travel. Additionally, the distance and time to travel home on weekends may dictate that an over the weekend stay is necessary. Refer to the NCUA Personnel and Travel Manuals for more specific guidance on work hours and travel policy requirements.

EICs will provide each examiner with a work schedule. Examiners should obtain prior approval from the EIC for any deviation from the pre-determined work schedule. The EIC will ensure communication with the appropriate CFS regarding any deviations from the standard work day. Plans for each examination should be provided to the corporate being examined. As a courtesy, EICs should also inform corporate management of any material variances from the schedule if such situations arise.

Working Space

Normally corporates provide adequate working space for examiners. If space is inadequate, additional space may be requested, as long as it does not unnecessarily disrupt the corporate's operations.

Smoking

If a corporate has rules regarding smoking, they should be followed. Agency personnel who smoke should always be courteous and considerate of others. If a corporate allows smoking throughout the facility and it is perceived that it endangers the health of the examination participants, the EIC should work with the corporate to obtain smoke free space. If that is impossible, the EIC should work with the CFS on any other reasonable solution.

Access to Information

Examiners should carefully protect all information entrusted to them by the institution, securing it from unauthorized access. Confidential documents should not be left unattended.

Examiners should never divulge confidential information in any form to unauthorized persons. On the other hand, if the corporate refuses to provide information needed to complete the examination, the EIC should notify the CFS. If the CFS is not successful in obtaining the release of the information, the Director of OCCU should be notified to determine if appropriate administrative or other legal action is necessary.

Dress Code

Prior to conducting examinations and other contacts at corporates, the EIC is to determine the dress code that is acceptable at the corporate and inform all participants. In general, if less than business attire is acceptable in the corporate, business casual is acceptable for OCCU staff, even during staff and exit briefing meetings with officials. Traditional Business attire still is required for all joint conferences.

Examiners should use common sense in determining what business casual is. If, when corporate examiners look into the mirror, they have any questions as to the appropriateness of their dress, they should change into something they know is acceptable. Regardless of what examiners wear, it should be in good shape, fit properly, be clean, and appropriately pressed or ironed.

Acceptable business casual clothing includes: dress slacks, dress docker type pants, button down shirts, polo type shirts (such as high quality cotton shirts), loafer type leather shoes, dress shoes, socks, skirts (with hose), blouses, heeled shoes, and sweaters (with collared shirt).

Unacceptable casual dress includes: jeans or denim pants, sports type Khakis, un-collared shirts (men's), shirts with team or country club logos and characters (except agency issued shirts), deck shoes, tennis shoes, no socks, shorts or skorts, sleeveless shirts, open toed shoes including sandals, flannel shirts, and ski sweaters.

References

1. Standards of Ethical Conduct for Employees of the Executive Branch, 5 CFR Part 2635.