



NCUA
National Credit Union Administration

**Other Supervisory Committee
Audit**

Minimum Procedures Guide

§ 715.7

January 8, 2020



NCUA

National Credit Union Administration

[This page intentionally left blank]





Other Supervisory Committee Audit Guide Minimum Procedures

Table of Contents

Foreword.....	1
Key Terms and Definitions	3
Cash.....	6
Loans	8
Allowance for Loan and Lease Losses (ALLL).....	12
Controls over Accounts of Employees and Officials.....	13
Assets Acquired in Liquidation	14
Investments.....	15
Other Assets.....	16
Fixed Assets	16
Share Accounts.....	17
Other Liabilities	20
Regular Reserve, Undivided Earnings, and Other Reserves	21
Income & Expense	22
Board Minutes.....	23
Information Systems.....	23
Personnel.....	23
Verification of Accounts	24



Foreword

This guide provides the minimum procedures to perform when a supervisory committee¹ is permitted to choose the *Other Supervisory Committee Audit* option for completing its annual audit requirement under section 715.7 of the NCUA Rules and Regulations.² The procedures listed in this guide are designed to assist the supervisory committee, internal auditor, or other qualified person in completing the areas of review in the Appendix of Part 715.³

The sufficiency of the procedures, judgments about materiality⁴, and any need for additional or expanded procedures, remains the responsibility of the supervisory committee.⁵ The supervisory committee, internal auditor, or other qualified person may need to perform additional procedures to supplement these procedures, based upon the credit union's risk profile and products and services offered.

The supervisory committee must apply its judgment in determining the procedures necessary to meet the requirements in the Appendix of Part 715. All test procedures must be done using balances and samples for the applicable audit period under review. Any time the test or confirmation procedures include making a sample or selections, the

¹ For some federally insured, state-chartered credit unions (FISCUs), the “audit committee” designated by state statute or regulations is the equivalent of a supervisory committee. If state law or regulation does not require FISCUs chartered in the state to have a supervisory committee or an audit committee, then the credit union's board of directors is responsible for the requirements attributed to the supervision committee in Part 715.

² Federally insured credit unions with total assets of \$500 million or greater must obtain an annual audit of their financial statements performed in accordance with Generally Accepted Auditing Standards by an independent person who is licensed to do so by the State or jurisdiction in which the credit union is principally located. § 715.5 and 715.6.

³ Examples of qualified persons are certified public accountant, public accountant, league auditor, credit union auditor consultant, and retired financial institutions examiner. § 715.7.

⁴ Materiality refers to a statement, fact or item, which, giving full consideration to the surrounding circumstances as they exist at the time, it is of such a nature that its disclosure, or the method of treating it, would be likely to influence or to make a difference in the judgment and conduct of a reasonable person. Materiality should take into account ending balances as well as the volume of transactions in an account. Typically, balances or transaction volume greater than five percent of the credit union's net worth should be considered material.

⁵ The *Other Supervisory Committee Audit* option may not be adequate for all eligible credit unions. In such cases, the supervisory committee should consider an opinion audit of the financial statements performed by a licensed individual.



supervisory committee's report, its internal auditor's report, or other qualified person's report should describe the method of selection and the number of selected items.

Because an independent accountant licensed to perform audits by the State or jurisdiction in which the credit union is principally located takes no responsibility for the sufficiency of the procedures in an agreed upon procedures engagement, he or she may need to consult with the supervisory committee about the number of items selected for testing and the selection criteria.

The *Other Supervisory Committee Audit* report should disclose the testing dates and any exceptions to procedures noted.

Key Terms and Definitions

Accrued Interest—The amount of coupon or stated interest accumulated on a security or a loan between payment dates, or between issuance and first payment date.

ACH—Automated clearing house. An electronic funds-transfer system to process the exchange of electronic transactions between participating financial institutions.

Allowance for Loan and Lease Losses—A valuation account used to record management's estimate of potential loan losses that may occur in the collection of outstanding loans. The estimate includes a historical reserve amount based on the past history of experienced loan losses, as well as the individual classification of delinquent or other problem loans.

Assets Acquired in Liquidation—Assets which were collateral for a secured loan and are now in the possession of the credit union until sold.

Available-for-Sale Securities—Investments not classified as either trading securities or held-to-maturity securities. These investments are purchased with the possible intent of selling prior to maturity. See FASB ASC 320 and ASC 326.

Charge-off—A loan that has been deemed uncollectible and is charged-off against the allowance for loan and lease losses. Refer to letter to credit unions 03-CU-01 for loan charge-off guidance; including suggested policy guidance.

Confirm or Confirmation—A written verification with a person or organization pertaining to an account balance or condition. Examples of confirmation letters are



bank/corporate credit union account confirmation, investment account confirmation, borrowing or line of credit confirmation, attorney letter confirmation, and member share/loan account confirmation.

Control Environment—The overarching environment for a credit union’s internal control structure. Examples include management’s policies, organizational structure, involvement of the board of directors and supervisory committee, and assignment of authority and responsibility.

Control Procedures—Specific procedures incorporated into a credit union’s internal control structure. Examples include segregation of duties, appropriate authorization of transactions, security access level and controls over the data processing system.

Fair Market Value—The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

File Maintenance Reports—A system-generated report that identifies all changes made to the computer system affecting members’ accounts. Examples of changes include: address, name, payment amount, loan due dates, and interest rates.

General Ledger—The record of final entry on the credit union’s books. The general ledger contains summaries of all transactions which affect, assets, liabilities, retained earnings, income and expense. The general ledger is also the source of information for the monthly financial statements.

General Ledger Trial Balance—The listing of debit and credit balances for all credit union general ledger accounts. The sum of the debit and credit balances should be equal.

Held to Maturity—Investments not classified as either trading or available for sale. These investments have fixed payments and a fixed maturity that are purchased to be owned until maturity. See FASB ASC 320 and ASC 326.

Internal Controls—The process, established by the credit union’s board of directors, officers and employees, designed to provide reasonable assurance of reliable financial reporting and safeguarding of assets against unauthorized acquisition, use, or disposition. The prevention or timely detection of unauthorized use could result in a loss material to the financial statements. A credit union’s internal control structure consists of five components: control environment; risk assessment; control activities; information and communication; and monitoring.



Materiality—Refers to a statement, fact, or item, which, giving full consideration to the surrounding circumstances as they exist at the time, it is of such a nature that its disclosure, or the method of treating it, would be likely to influence or to make a difference in the judgment and conduct of a reasonable person. Materiality should take into account ending balances as well as the volume of transactions in an account. Typically, balances or transaction volume greater than five percent of the credit union's net worth should be considered material.

Par value—The face value of the investment security.

Reconcilement—The document or schedule prepared to bring into agreement two separate balances. The general ledger account balance is brought into agreement to supporting documentation or records. A bank account general ledger balance is brought into agreement with the bank statement.

Related Party Transactions—Transactions among or between parties where one party controls or can significantly influence the management or operating policies of the other so as to prevent the other party from pursuing exclusively its own interests. Examples of related parties include: executive management, board members, supervisory committee members, employees and family members of these groups.

Safekeeping—Investments held by a third-party custodian in order to keep them safe.

Subsidiary Ledger---Contains all of the detailed information to support a general ledger control account.

Trading—Investments not classified as either held to maturity or available for sale. These investments are purchased with the intent of holding for a shorter period of time. See FASB ASC 320.

Unrealized gains/losses—The fair-market value price changes on investments before actually selling the investment.

Verification of Member Accounts—Procedures employed by the supervisory committee to verify the accuracy of share and loan balances recorded on the credit union's records. A verification must be performed at least once every two years. § 715.8.



Working Papers—The principal record, in any form, of the work performed by the auditor and/or supervisory committee to support its findings and/or conclusions concerning significant matters.

Cash

Bank Reconciliations

Obtain a listing of correspondent financial institution accounts (including all corporate credit union and other cash related accounts). Select at least one month during the testing period and perform the following procedures:

- Obtain reconciliations of the accounts and compare the book balance per the reconciliation to the general ledger.
- Obtain a written confirmation from the correspondent financial institution for the accounts. Compare the confirmed amount from the financial institution to the amount on the reconciliation.
- Test the mathematical accuracy of the reconciliations.
- Reference each reconciling item by date on the reconciliation and determine whether any reconciling items originated in excess of 60 days prior to the reconciliation date. Include a summary of exceptions noted in the report.
- Select reconciling items and trace through to clearing in subsequent bank statements or trace to supporting documentation.
- Determine that adequate internal controls are in place by ensuring each reconciliation includes separate prepared by and reviewed by dates and the preparer and reviewer dates were within credit union policy.

Teller Controls

- Observe the balancing and replenishment of an Automated Teller Machine (ATM), Cash Dispensing Machines (CDM), and Electronic Cash Recyclers (ECM) if applicable, and ensure it is performed by two individuals (on a surprise basis).
- Determine if surprise cash counts are performed at least monthly, or in accordance with credit union policy, by management and/or a supervisor on each teller drawer, vault, CDM, Integrated Teller Machine (ITM), ATM, and/or any other Cash



Receiving/Dispensing machine. Include in the report each teller drawer, vault, CDM, ITM, ATM, or other cash receiving/dispensing machines that did not have a monthly or defined period cash count.

- Select a sample of at least five random employees (or all employees if less than five) with teller transaction capabilities. Determine that those individuals do not have access to their own account(s).
- Select a sample of at least three random business days that the credit union performed teller transactions. Obtain the work of at least three individual tellers for those days and verify all checks and cash items for each day were deposited by the next day by tracing to supporting documentation.
- Select a sample of at least five random occurrences of member fees reversed to determine the reversal was for a supportable business purpose.

Teller Summary Sheets

Obtain a listing of teller, vault, and other cash dispensing/receiving machines (i.e. CDMs) summary sheets for each and perform the following procedures:

- If one branch, compare the totals of all summary sheets to the general ledger.
- If multiple branches,
 - Compare the totals of all summary sheets to the branch summary; and
 - Compare the total of branch summaries to the general ledger.
- Test the mathematical accuracy of the teller and vault summary sheets selected above.

ATM Balancing Sheets

Obtain a listing of ATM balancing sheets and perform the following procedures:

- If one ATM, compare the totals to the general ledger.
- If multiple ATM's, select the ATM's balancing sheets and compare the totals to the general ledger.
- Test the mathematical accuracy of the ATM balancing sheets selected above.
- Reference each reconciling item by date on the ATM balancing sheets and determine whether any reconciling items originated in excess of 60 days prior to the reconciliation date. Include a summary of exceptions noted in the report.



Electronic Payment Transfers (Automatic Clearing House (ACH)/Wires)

- Through discussion with management, determine that it requires at least two credit union employees to complete a wire transaction. Select a sample of at least five wire transfers to determine if two individuals completed the wire transfer. Include in the report instances where only one employee performed the complete wire transfer process.
- Obtain the wire transfer authorization record and determine if any of the individuals who perform wire transfers have correspondent account reconciliation responsibility. Include in the report each individual who has the authority to perform wire transfers and has correspondent account reconciliation responsibility.
- Determine if an ACH audit is being performed annually as required under NACHA guidelines. The ACH audit should be performed by someone not involved with wire transfers.

Loans

Reconciliation

Compare the balance of loans on the loan trial balance (loan subsidiary ledger) to the general ledger. If the amounts do not agree, obtain a credit union prepared reconciliation of the loan trial balance and perform the following:

- Test the mathematical accuracy of the reconciliation.
- Compare the amount reported as the general ledger balance per the reconciliation to the general ledger. Summarize any differences in the report.
- Compare the amount reported for both loan principal receivable and interest receivable from the loan trial balance (subsidiary ledger) to the general ledger. Summarize any differences in the report.
- Select reconciling items from the credit union prepared reconciliation and determine if adequate supporting documentation exists.

Note: The above procedures are to be performed as of the confirmation/ verification date, if applicable.



Approval and Processing

Obtain a listing of loans granted during the testing period and select a sample of at least 25 approved loans. Those selected should be in proportion to the types of loans granted during the period).

For the loans selected above, obtain the loan application, note, appraisal, title and other supporting documents. Perform the following and summarize any exceptions in the report:

- Determine if a different individual, as evidenced by supporting documentation, is responsible for each of the following functions:
 - Loan approval
 - Loan disbursement
 - Loan processing (input or ‘set up the loan’ on the loan trial balance/subsidiary ledger)
- Compare the interest rate, term, note date, and collateral code included in the original loan documentation to the terms entered into the computer system. The terms should be the same. Note any exceptions in the report.
- Observe whether approvals are documented in accordance with the credit union’s loan policies.
- Determine a note is on file and signed by the member.
- Determine if the collateral for the loan has been recorded or otherwise perfected to indicate the credit union as lien holder. Types of liens include: mortgage, vehicle title, and UCC-1 for personal property (boats, trailers). Document the type of lien perfection and effective date of lien, if applicable.
- Compare the fair value of the collateral (obtained by the credit union) with the loan amount to determine whether the loan amount falls within the maximum loan to value requirements included in the credit union’s loan policy. Referring to the policy, indicate the source of the fair value for each loan.

Loan File Maintenance

- Obtain the authorization/privilege report and report which individuals have the authority for all three of the following:



- To approve loans
- To process loans
- For file maintenance
- Inquire if loan file maintenance transactions are reviewed/approved by a different individual than the individual initiating the transaction. Report any instances where individuals perform both the review / approval function.

Obtain at least fifteen days of file maintenance change reports, select a sample of at least five 'next due date' changes and/or address changes and perform the following:

- Verify that a modification, extension agreement, or change of address form exists and is signed by the member.
- Trace to proper authorization/review.
- Expand the sample size if the selection size cannot be obtained from the initial sample size (of at least 15 days), and request the information be obtained for you by a credit union employee who does not have file maintenance capabilities.
- Disclose in the report when file maintenance change reports (or a record of changes with appropriate authorization) are not available.

Delinquencies

Using at least two consecutive months of 60 days and over delinquency reports, identify a selected number of loans that appear on the earlier delinquency report but not on the later delinquency report. Document the reason for removal or disposition such as:

- Charged-off. Compare to listings of approved charge-offs.
- Refinanced. Observe new note and state whether or not the principal balance was reduced in the refinancing.
- Payments received. Compare payments received to the member account payment history.



Accrued Interest Receivable

Compare the balance of accrued interest receivable on the loan subsidiary ledger to the general ledger. If the amounts do not agree, obtain a credit union prepared reconciliation of the loan subsidiary ledger to the general ledger and perform the following:

- Test the mathematical accuracy of the reconciliation.
- Compare the amount reported as the subsidiary ledger balance for both loan principal and accrued loan interest receivable to the general ledger. Summarize any differences in the report.
- Compare the amount reported as the general ledger balance per the reconciliation to the general ledger. Summarize any differences in the report.
- Select reconciling items from the credit union prepared reconciliation and determine if adequate supporting documentation exists.
- Select a sample of at least five random loans from the loan subsidiary ledger and compare the amount of accrued interest receivable with the terms of the loan note. Recalculate the amount of accrued interest in accordance with the terms of the note. For a recent payment, compare the amounts of principal and interest paid to the terms of the note. Summarize any differences in the report.
- Determine the credit union is reducing the accrued interest receivable general ledger balance by the amount of the accrued interest on loans greater than 90 days delinquent. Summarize in the report instances where this did not occur.

Charged-Off Loans

Obtain a listing of charged-off loans charged-off during the testing period. Select a sample of at least five loans (all if the credit union has less than five charged-off loans during the testing period) and perform the following procedures:

- Trace the sample to the listing of approved charge-offs from the board of directors meeting minutes. Report any instances where a charged-off loan was not approved.

Obtain the Board approved written charge-off policy. Identify criteria in the policy which deems a loan uncollectible requiring charge-off (e.g. deficiency balance of a repossessed auto loan, a non-performing loan more than six months past due with no payment, and a “skip” where the credit union has had no contact from the member in 90



days). Compare the charge-off criteria to a sample of delinquent loans and auto loans which were repossessed during the testing period and summarize in the report those loans that were not charged off according to policy.

Allowance for Loan and Lease Losses (ALLL)

Obtain the following documents from the credit union:

- Schedule of the ALLL for the testing period which includes beginning balance, provision for loan losses expense, charge-offs, recoveries and ending balance.
- Detail listings of charge-offs and recoveries by month.
- Management's support of the ALLL calculation, which typically includes a listing of impaired and classified loan reserves.
- Board of Directors' approved ALLL Policy.

Perform the following:

- Compare the required ALLL according to the schedule to the amount reported on the general ledger.
- Compare the beginning balance, ending balance and provision expense from the schedules provided to the general ledger.
- Compare the totals on the detailed listings of charge-offs and recoveries to the schedule of the allowance activity.
- Test the schedules for mathematical accuracy.
- Determine that the credit union's Board of Director's approved Allowance for Loan and Lease Losses Policy complies with Interpretive Ruling Policy Statement 02-3. Items that the ALLL policy should address include, but are not limited to the following:
 - The calculation will be in compliance with Generally Accepted Accounting Principles (GAAP).
 - The roles and responsibilities of the credit union's departments and personnel (including the lending function, credit review, financial reporting, internal audit, senior management, audit committee, board of directors, and others, as applicable) who calculate and review the ALLL calculation.



- The credit union's accounting policies for loans and loan losses, including the policies for charge-offs and recoveries and for estimating the fair value of collateral, where applicable.
- The internal control system for the estimation process for the ALLL.
- The primary elements of the ALLL methodology.
- Determining and measuring impairment under GAAP as codified at ASC 310-10-35.
- How loans with similar characteristics are grouped and evaluated for impairment (in other words, homogeneous pools).
- Qualitative Factors that may affect loss rates or other loss measurements.

Controls over Employee and Official Accounts

Obtain a listing of employees and officials and their respective account numbers for shares and loans in the credit union.

Loans

Select a sample of at least five of employee and official (related party) loans originated during the testing period and list in the report any instances of the following:

- Delinquent loans.
- Reversal of late loan fees.
- Loans with an interest rate not provided to members.
- Loans with a term not in accordance with board approved policy.
- Payments made on the loan directly from the general ledger.
- Loans to officials in excess of \$20,000 in aggregate; not approved by the board as evidenced by the board meeting minutes. (See NCUA regulation Part 702.21(8.iii)(d)(4))
- Loans with collateral not in accordance with board approved policy. For example, if the credit union doesn't have a policy for boat loans but an official has a boat loan, this would be a reportable condition.



Shares

Select a sample of at least five employee and official (related party) share accounts and list in the report any instances of the following:

- Negative balance in share account or share draft account at any time during the testing period.
- Share or share certificates with a dividend rate not provided to members.
- Failure to impose a fee in accordance with credit union policy. (Examples include Non-sufficient funds fees and ATM fees.)

Assets Acquired in Liquidation

Foreclosed and Repossessed Collateral (REPOs)

- Obtain a detailed listing of REPOs and determine that the related accounts have been reclassified to other assets on the general ledger.
- Test the listing of REPOs for mathematical accuracy.
- Determine the items were transferred from loans to other assets and are at the lower of cost or estimated fair value (less cost to sell) by reading internal documentation and agreeing any losses to the detailed listing of charge-offs.
- Select a sample of at least ten repossessed automobiles sold (all repossessed automobiles if the credit union had less than ten) during the testing period and compare the cash proceeds to the book value of the collateral in process of liquidation. Compare the difference between the book value and the cash proceeds to the recording in the general ledger gain or loss account.

Other Real Estate Owned (OREOs)

- Obtain a detailed listing of OREOs and determine that the related accounts have been reclassified to other assets on the general ledger.
- Test the listing of OREOs for mathematical accuracy.
- Determine the items were transferred from loans to other assets at the lower of cost or estimated fair value (less cost to sell) by reading internal documentation and agreeing any losses to the detailed listing of charge-offs.



- Select a sample of at least five foreclosures sold during the testing period (all foreclosures sold if the credit union had less than five) and compare the cash proceeds to the book value of the collateral in process of liquidation. Compare the difference between the book value and the cash proceeds to the recording in the general ledger gain or loss account.

Investments

Investments can be classified as Held to Maturity (HTM), Available for Sale (AFS), or Trading.

Obtain a schedule or subsidiary ledger from the credit union to include: type and classification (HTM, AFS or trading) par value, cost basis, fair market value, unrealized gains (losses), purchase date, maturity date and interest rate and perform the following:

- Test the schedule for mathematical accuracy.
- Compare the total balance of investments and accrued interest receivable on the schedule or subsidiary ledger to the general ledger. If the amounts do not agree, obtain a credit union prepared reconciliation of the schedule or subsidiary ledger to the general ledger; test its mathematical accuracy and compare the amount reported as the subsidiary ledger balance for both investments and accrued interest receivable to the subsidiary ledger and compare the amount reported as the general ledger balance to the general ledger.
- Select reconciling items and compare to supporting documentation (describe, in the report, specific supporting documentation used to compare, such as investment company, broker statements).
- Compare the total balance of unrealized gains and losses on securities designated as AFS to the related equity account.
- Select a sample of at least ten investments and compare the market value per the listing or subsidiary ledger to an outside market value provided by the credit union (sources may include broker advices, the Wall Street Journal, or corporate credit union quotes).
- Select a sample of at least ten securities (not to exceed 10) and compare the accrued interest receivable balance to the terms of the security. Recalculate the amount of interest receivable in accordance with the terms of the security. Also, recalculate the



most recent interest coupon received and compare it to the credit entry on the general ledger account for accrued interest receivable.

- Inquire and note in the report any instances if the same individual performs the following functions:
 - Authorization of the purchase or sale.
 - Accounting for investments (including general ledger and subsidiary ledger record-keeping).
- Observe that negotiable securities on hand are kept under dual control.

For all investments held in safekeeping, as of the testing period, obtain written confirmation directly from the safe-keeper or custodian of the par value, interest rate, and maturity date of investments owned by the credit union. Retain a copy of the confirmation as part of the testing work papers.

For all investments not held in safekeeping, obtain a listing of these investments. Select a sample of at least fifteen individual investments not held in safekeeping to obtain written confirmation from the institution or custodian of the par value, interest rate, and maturity date of the investment owned by the credit union. Retain a copy of the confirmation as part of the testing work papers.

Obtain a listing of investment purchases during the testing period, select a sample of at least ten investments purchased (all if the credit union purchased less than ten) and perform the following:

- Compare the terms of the investment with credit union investment policy, and note terms that deviate from credit union policy.
- Compare investment information to documentation of approval (when approval is required by policy).
- Obtain the related broker advice and compare credit union's name, the par value, purchase price, interest rate and maturity date to the schedule or subsidiary ledger described in the preceding procedure.
- Trace purchases and sales to the minutes (of the appropriate committee).

If the HTM portfolio exceeds ten percent of total assets at the testing date, obtain a schedule of HTM securities from both the previous and current testing dates. Using the schedule from the previous testing date as a source, select those securities maturing



beyond the current testing date. For those items selected, compare those securities to the schedule as of the current testing date (in other words, have not been sold or transferred).

Other Assets

Obtain a listing of all other asset accounts, make a selection of a sample of those accounts and perform the following procedures:

- Obtain reconciliations of selected accounts and compare the balance per the reconciliation to the general ledger.
- Test the mathematical accuracy of the reconciliation.
- Reference each reconciling item by date on the credit union prepared reconciliation and determine whether any reconciling items originated in excess of 60 days prior to the reconciliation date. Include a summary of exceptions noted in the report.
- For a selection of items, compare the reconciling items to supporting evidence.
- Determine each reconciliation includes separate prepared by and reviewed by dates and that the preparer and reviewer dates were within credit union policy.

Fixed Assets

Obtain a listing of all fixed asset accounts and perform the following procedures:

- Obtain subsidiary ledger(s) for fixed asset accounts.
- Obtain reconciliations for the accounts and compare the balance per the reconciliation to the general ledger.
- Test the mathematical accuracy of the reconciliation.
- Reference each reconciling item by date on the credit union prepared reconciliation and determine whether any reconciling items originated in excess of 60 days prior to the reconciliation date. Include a summary of exceptions noted in the report.
- Select a sample of at least five fixed asset items sold (all if the credit union sold less than five) during the testing period and compare the cash proceeds to the book value of the fixed asset at time of disposition. Compare the difference between the book value and the cash proceeds to the recording in the general ledger gain or loss account.



- Select a sample of at least five fixed asset items purchased (all if the credit union purchased less than five) during the testing period and obtain the invoice/receipt for each. Compare the cash outlay to the book value recorded in the general ledger at time of purchase.
- Select a sample of at least five fixed assets and test the associated accumulated depreciation accounts; ensuring amount is mathematically correct by the depreciable period.
- Determine each reconciliation includes separate prepared by and reviewed by dates and that the preparer and reviewer dates were within credit union policy.

Share Accounts

Reconciliation

Compare the balance of share accounts and accrued dividends or interest payable on the share accounts trial balance (subsidiary ledger) to the general ledger. If the amounts do not agree, obtain a credit union prepared reconciliation of the share accounts subsidiary ledger and perform the following:

- Test the mathematical accuracy of the reconciliation,
- Compare the amount reported for both share accounts and accrued interest/dividends payable from the share trial balance (subsidiary ledger) to the general ledger.
- Compare the amount reported as the general ledger balance per the reconciliation to the general ledger. Summarize any differences in the report.
- Select reconciling items from the credit union prepared reconciliation and determine adequate supporting documentation exists.

Note: The above procedures are to be performed as of the confirmation / verification date, if applicable.

Overdrafts

As of the testing date, obtain a system generated listing of negative share and share draft accounts. Include in the report the total number and amount of negative balances that have been outstanding in excess of ten days or in an amount in excess of the credit union



share draft policy. *Include in the report any large or unique negative balances that are identified during the procedure.*

Accrued Interest Payable

Select a sample of at least five share accounts from the current subsidiary ledger and compare the amount of accrued interest payable or interest paid on the most recent payment date with the terms of the share account (recalculate the interest amount in accordance with the terms of the share account).

Closed Accounts

Obtain a report of accounts closed during the testing period. Select a sample of at least five accounts (all if the credit union had less than five accounts close during the testing period) and determine there is either written documentation from the member or a supportable business purpose (such as escheatment).

Dormant Accounts (for shares and share drafts)

- Obtain an authorization/privilege report and disclose all non-supervisory personnel who have override authority for dormant accounts.
- Determine that access is restricted and describe the control if returned member statements are retained.
- Select a sample of at least five random accounts with non-delivery status (returned mail, electronic statements, and “do not mail” accounts) and verify that a member authorization has been received.
- Determine whether the dormant account activity report is reviewed on a monthly basis to determine accounts were removed from dormancy because of member-generated activity.
- Inquire if an individual different than the individual initiating the transaction reviews the dormant account activity reports. Report which individual(s) performs both functions.



Share File Maintenance

- Inquire if share file maintenance transactions are reviewed/approved by a different individual than the individual initiating the transaction. Report which individual(s) performs both functions.
- Through discussions with management, determine file maintenance reports include all transactions that do not show up on the members' statements (including, but not limited to, error corrections and transaction reversals).
- Select a sample of at least five random change of address file maintenance transactions from the credit union's file maintenance change report(s) and perform the following:
 - Trace to the member's written authorization.
 - Trace to proper approval/review.

Other Liabilities

Obtain a listing of all liability accounts, make a selection of those accounts and perform the following procedures:

- Obtain reconciliations of selected accounts and compare the balance per the reconciliation to the general ledger.
- Test the mathematical accuracy of the reconciliation.
- Reference each reconciling item by date on the credit union prepared reconciliation and determine whether any reconciling items originated in excess of 60 days prior to the reconciliation date. Include a summary of exceptions noted in the report.
- Compare the reconciling items to supporting evidence for a selection of items.
- Confirm the preparer and reviewer dates are within credit union policy.
- Inquire as to the existence of 457b, 457f, or other deferred compensation plans and determine whether a liability has been established for the accrued/incurred liability as of the review date.
- Select and review a sample of at least ten expense checks disbursed during the month and trace to the proper accrual from the prior month or determine the credit union recorded the expense in the month disbursed.



Borrowings/Lines of Credit (if applicable)

Obtain a listing of borrowed funds or lines of credit and perform the following:

- Review supporting documentation for any outstanding lines of credit or borrowings (notes and borrowing agreements).
- Determine if the board approved the borrowings.
- Confirm the borrowed funds with the issuing institution.

Regular Reserve, Undivided Earnings, and Other Reserves (Equity)

Obtain a listing of all equity accounts and account transactions for the testing period and perform the following:

Verify the beginning balances to each equity account and agree to the closing balances from the prior year's audit work papers.

- Reconcile the ending balances to the appropriate general ledger accounts.
- Reconcile the general ledger balances to the financial statements.
- Determine if there is a necessary transfer required to the regular reserve account and if the credit union's computation is in compliance with the applicable regulation.

Income & Expense

- For interest income on loans; compare the weighted average yield on loans as reported on the subsidiary ledger to the effective yield reflected in the general ledger **OR** compare interest paid per the loan trial balance subsidiary system(s) to the general ledger for the testing period. Report any differences greater than ten percent (other than accrual postings). Describe the testing method used in the report.
- For interest income on investments, compare the weighted average yield on investments as reported on the subsidiary ledger to the effective yield reflected in the general ledger **OR** compare interest earned per statements or other third-party documentation to the general ledger for the testing period. Report any differences greater than ten percent (other than accrual postings). Describe the testing method used in the report.



- Select at least one random quarterly employer tax report (Form 941) filed during the testing period and compare the total compensation reported to the total compensation expense per the general ledger for the corresponding quarter. Report any differences greater than ten percent (other than accrual postings).
- Select a sample of at least twelve operating expenses from the general ledger for detail testing. Test that expenses are:
 - Properly authorized,
 - Paid/posted by a different credit union individual,
 - Paid invoices are mathematically accurate, and
 - Expenses are properly classified in the general ledger.
- For dividend expense on shares; compare the weighted average yield on shares as reported on the subsidiary ledger to the effective yield reflected in the general ledger **OR** compare dividends paid per the share trial balance subsidiary system(s) to the general ledger for the testing period. Report any differences greater than ten percent (other than accrual postings). Describe the testing method used in the report.
- If the credit union has interest on borrowed money; compare the weighted average yield on borrowings as reported on the subsidiary ledger to the effective yield reflected in the general ledger **OR** compare interest paid per statements or other third-party documentation to the general ledger for the testing period. Report any differences greater than ten percent (other than accrual postings). Describe the testing method used in the report.

Board Minutes

Review the Board of Directors board minutes for the testing period and determine the board approved or reviewed (as applicable) the following:

- Interest rate changes for loans. (Unless delegated to management).
- Dividend rates for share accounts. (Unless delegated to management).
- Investment, Asset/Liability Management, Bank Secrecy Act (BSA) and Loan policies (annually).
- Allowance for Loan and Lease Loss Policy (annually).
- Delinquent loan reports.
- Loan charge-offs.



Information Systems

- Obtain a system-generated report of active users on the credit union's core operating system and compare that report to a list of current credit union employees. Document any individual on the core operating system listing who is not a current credit union employee in the minimum procedures report.
- Determine whether the credit union has, in accordance with NCUA Rules and Regulations Part 748, a written information security program.

Personnel

Obtain a listing of all individuals who were credit union employees during the testing period and perform the following:

- Select a sample of at least 10 percent (rounded up) of employees and determine whether the credit union has retained hiring documentation (application, resume, etc.), annual performance reviews, and salary authorization in selected personnel files.
- Obtain the last payroll journal prior to the testing date and trace selected employees approved pay rate from their personnel file to the payroll journal.
- Select a sample of at least three random payroll journals from throughout the testing period and determine if there are any individuals listed on the journal who were not an employee of the credit union.

Verification of Accounts

(Regulatory requirement for performance is every two years and may be done separately from these procedures)

Loans

- Compare the balance of loan accounts on the loan subsidiary ledger to the general ledger. Report any differences greater than 10 percent.



- Select loans for positive and/or negative confirmation/verification. Describe parameters/scope/date and confirm directly with the member the following:
 - Current loan balance
 - Interest rate

Note: Perform reconciliation procedures as of the confirmation/ verification date.

Shares

- Compare the balance of share accounts on the share subsidiary ledger to the general ledger. Report any differences greater than 10 percent.
- Select share accounts for positive and/or negative confirmation/verification. Describe parameters/scope/date and confirm the following directly with the member:
 - Current account balance
 - Dividend rate (if applicable)
 - Maturity date (if applicable)

Note: Perform reconciliation procedures as of the confirmation/verification date.