Supervisory Committee 
Duties and Responsibilities

Presented by: 
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What Will We Cover Today

- What sections of the Acts, Rules & Regulations, Bylaws apply to the Supervisory Committee. (Federal and State Chartered Credit Unions)
- What is a Supervisory Committee?
- What standards must we meet?
- What are our responsibilities?
- Who can do the Audits?
- Horror stories of ineffective Supervisory Committees.
- Sample monthly work plans.
What We Won’t Cover Today

- How do we audit cash?
- How do we audit investments?
- How do we audit Loans?
- How do we review the Allowance for Loan Losses?
- How do we audit fixed assets?
- How do we audit “Other Assets”
- How do we audit “Other Liabilities”?
What We Won’t Cover Today

• How do we audit “Borrowed Funds”?
• How do we audit Share Accounts?
• How do we audit Equity?
• How do we audit Income?
• How do we audit Expenses?
• How do we audit “Related Third Party Transactions”?
• How do we audit our Core Processor System?
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 – Non-Complex Structure
What is a Supervisory Committee? (State Chartered, Federally Insured)

FISCU

- NCUA Rules and Regulations – 741.202
- Illinois Credit Union Act – 205 ILCS 305/1, Sec. 34
- Illinois Administrative Code (Rules & Regulations) – Title 38, Chapter I, Part 190
- Illinois Standard Bylaws – Article VIII
- NCUA Supervisory Committee Guide – Non-Complex Credit Unions
WHAT IS A SUPERVISORY COMMITTEE?

We Must Ask Ourselves: DO I REALLY KNOW MY DUTIES AND RESPONSIBILITIES AS WELL AS I COULD - OR THE MEMBERS WOULD EXPECT OF ME?

YOU ARE THE EYES AND EARS OF YOUR “MEMBER/OWNERS”

YOU ARE THE GUARDIAN AND WATCHDOG FOR THE MEMBERS!
Examinations - vs - Audits

• **Examiners perform Examinations** – an exam focuses on safety and soundness concerns, as well as overall controls, regulation compliance and record keeping.

• **Supervisory Committee Audit** – an audit focuses on accuracy of accounting records, and the internal controls related to the accounting records
How is the Supervisory Committee Appointed?

- By the Board (Both Federal and State Chartered)
- Number of Committee Members – Federal CU = 3 to 5. State Chartered CU = Minimum 3
- Only 1 Board Member (Federal). All can be Board Members (State).
- Terms of Service – Federal CU, Board determines the terms. State Chartered CU’s = 1 year.
- Committee Leadership – Committee selects Chairperson and Secretary (May be held by the same person (Federal and State CU’s))
Qualifications Required

- Must be a Member of the Credit Union
- Must be bondable
- Employee’s and Credit Committee not eligible
- Experience in bookkeeping, accounting, auditing would be helpful – Not Required, YET?
- Prohibited Individuals – Loan Officer, Membership Officer, Treasurer, CU Management, etc.
Enforcement Actions

- You may suspend Board, Credit Committee Members and Management (Federal and State CU’s)
- Special Meeting of the Members – 7 to 14 Days (Federal). 7 to 21 Days (State)
- You may also call a special meeting of the members to consider violations of:
  - Federal or State CU Acts
  - Federal or State Rules & Regulations
  - Charter and Bylaws
  - ANY practice considered unsafe or unsound.
Attendance at Board Meetings

- Permitted only by the Board and highly encouraged.

- At least 1 Member should always attend

- The Board must publish minutes and the minutes MUST BE available to the Supervisory Committee or its designee.
CONFIDENTIALITY

• ALWAYS!!!!!!!
What Standards Must We Meet?

- NCUA Rules & Regulations (Federal) and Illinois CU Act, (State) set standards and requirements based on Asset Size.

- BE AWARE – The Asset Size standards are different between Federal and State Chartered Credit Unions.
What Standards Must We Meet? (continued)

- Board should select members who have the best knowledge and backgrounds.
- You can acquire the required skills if you have a genuine interest in acquiring them.
- Almost always requires some accounting or auditing skills.
- Non-Complex Credit Union offering core services.
- Educate or Delegate no matter what Asset Size you are!!!!
What Standards Must We Meet? (continued)

- Undertake Audit duties with good faith and integrity.

- Have an audit strategy and scope.

- Properly supervise those who assist you. (WARNING, there may be a landmine)

- Use Audit guides and schedules that are available to you by both by the League, NCUA, IDFPR/DFI
What Standards Must We Meet? (continued)

• Internal control structure, asset size, complexity, and financial stability will influence how much detail is needed.

• Keep all underlying account data and corroborating evidence.

• Committee must make available to Examiners a complete set of original audit working papers.
What Standards Must We Meet? (continued)

- Independence – the Supervisory Committee MUST remain free from influences that may impair objectivity.

- Avoid Independent – If individuals act independent of the Committee, your opinions have less value.

- Remove Rogue Committee Members.
What Are Our Goals and Responsibilities?

Two General Goals:

1. Confirm and report, Management’s financial reporting objectives have been met.

2. Management practices and procedures safeguard members’ assets.

Question: What does the “M” in C.A.M.E.L. stand for?
What Are Our Goals and Responsibilities? (Continued)

• Verify Internal Controls

• Promptly prepared accounting records and financial reports

• Relevant Plans, Policies, Controls established by the Board

• Safeguards – errors, carelessness, conflict of interest, self-dealing, and fraud.
What Are Our Goals and Responsibilities? (Continued)

- At least annually complete or have completed the supervisory committee audit.
- Verification of Share and Loan accounts – timing and requirements differ between Federal and State Chartered Credit Unions
- Must ensure the Board is safeguarding assets
- Report to the Members/Owners at the Annual Meeting. (Bylaw requirement)
What Are Our Goals and Responsibilities? (Continued)

- Recommend, hire and work with external auditor(s) or audit firms.
- Work with and oversee internal auditors.
- Meet with Federal and State Examiners
- Research and ensure responses to member complaints
- In smaller non-complex credit unions, the Supervisory Committee functions help to compensate for limited internal controls.
- It is not the responsibility of the Committee to make operating decisions.
Supervisory Committee review of the Board of Directors

- Attend monthly board meetings
- Review board minutes
- Review business plans for continuity, completeness and reasonableness
- Review of Board, Committee and Management Succession Plans.
- Review Board Policies. Ensure management is implementing the policies.
- Use Federal/State examination reports to identify and improve weaknesses. - Keep the Board informed!
Internal Auditors

- May be an employee, department, or outside consultant
- If used, must be qualified
- Could fulfill any of your audit responsibilities
- Highly recommended when feasible and affordable
- Caution – if an internal auditor has other credit union duties, they can not oversee or audit their own function or job responsibility
- Committee must exercise control and oversight at all times.
External Auditors

- Managed much the same as Internal Auditors

- Credit Union Experience highly recommended

- How much is delegated, how often, and can the credit union afford it?

- Talk with peer credit unions / You are still ultimately responsible
Federal or State Examiners

- Should meet with the Committee during annual examinations
- Discuss supervisory committee audit process with you
- Exam material findings discussed along with committee audit deficiencies
- Verification of Accounts
- Opportunity to ask questions
Real Life Horror Stories

• No Bank Reconcilements for months. No Supervisory or Board Action. Credit Union lost bond and forced to Merge.

• President arbitrarily increased her personal credit card limits and the limits of her D/B/A credit card limits – President resigned.

• Treasurer/Manager advancing her and her relatives loan due dates to hide delinquency – resigned and credit union merged.
Real Life Horror Stories

• December 2015 – Credit Union CEO admits to embezzling $1 Million. Credit Union forced to merge

• January 2016 – CEO embezzles $20 Million over 12 years from $68 Million asset CU.

• January 2016 – Vice President admits to $1.2 million embezzlement from $603 million asset CU.
Real Life Horror Stories

- Vault Controls violated, missing $1,000. Employee lost her job.

- Employee cashing a family member check when not on the account. Allowed by the Manager.

- Raising member ATM limits with no Board Policy authority.
Monthly Work Plans

- Included as reference only. Schedule the scope and schedule to your credit unions asset size and complexity.

- Suggest scheduling committee education sessions throughout the year.

- The committee should also schedule time to read the State/Federal CU Acts, Rules & Regulations, CU Bylaws as it applies to their jobs and the credit union in general.
Monthly Work Plan – January

- Complete verification of members’ accounts, including closed and dormant accounts
- Review personnel records to ensure that all employees took at least one week of continuous vacation the previous year.
- If you do not plan to complete the audit, contact outside accountants to request bids for the annual audit.
- Attend the monthly board meeting (applies January through December)
- Handle and respond to member complaints (applies January through December)
- Follow-up on prior audits and examination findings if necessary. (applies January through December)
- Review Facility Entry/Exit Logs every month.
Monthly Work Plan – February

• Review the bank reconcilement. Ensure that adjusting entries are valid and not carried forward.
• Review employee, official, and related family member accounts and any accounts related to those persons.
• If applicable, review bids from outside accountants, and select accountant for recommendation to the Board for approval.
• Review sample of paid invoices to determine each invoice is documented and filed for future reference.
Monthly Work Plan – March

- Conduct a surprise cash count, traveler’s check, and money order count (schedule for different days during the month). If you have multiple branches you should schedule surprise cash counts different days also.
Monthly Work Plan – April

- Maintain contact with the outside accountant, if one is used.
- Verify closed accounts.
- Verify Credit Union Vendors and that there are no “Conflicts of Interest” present.
Monthly Work Plan – May

- Review Internal Controls and Security in the cash area.

- Call a sample of members with new loans to ensure that loans are legitimate.
Monthly Work Plan – June

- Request a response from Management on any audit findings

- Conduct a surprise cash count, travelers check, and money order count.

- Verify bank reconciliations are completed and accurate.

- Verify Staff and Board have received or scheduled to receive annual BSA training.
Monthly Work Plan – July

- Verify Closed Accounts
- Review and follow-up on managements audit response.
- Review lending internal controls.
- Review official, employee, and family accounts and any accounts related to those persons.
Monthly Work Plan – August

- Review Bank Reconciliation. Ensure that adjusting entries are valid and not carried forward.

- Call a sample of new members to ensure that they are eligible for membership.

- Review Credit Union Corporate Credit Card
Monthly Work Plan – September

• Conduct a surprise cash count, travelers check, and money order count.

• Complete Bank Secrecy Act Independent Testing to ensure compliance with BSA, OFAC, Patriot Act to include compliance with Member Information program
Monthly Work Plan – October

- Review internal controls in the investments area.
- Review official, employee, and related family accounts and any accounts related to those persons.
- Ensure the credit unions operating budget for next year includes funding for external auditing, if applicable.
Monthly Work Plan – November

- Review the Strategic Plan (3-5 years) (if applicable)
- Review the Operational Business Plan (18-24 months)
- Verify Board, Committee Succession Plans
- Conduct Annual Audit
Monthly Work Plan – December

- Conduct a surprise cash count, travelers check, and money order count.

- Resolve annual audit deficiencies and complete Annual Audit report which will be due to Regulators by March of the following year.
Resources

- Illinois Credit Union System – www.iculeague.org and www.accomplus.net. This includes reaching out to your assigned Regional Director.
- National Credit Union Administration (NCUA) – www.ncua.gov and your assigned Federal Examiner
- Illinois Department of Financial and Professional Regulation, Department of Financial Institutions – www.idfpr.com and your assigned State Examiner
- Credit Union National Association – www.cuna.org
ANY QUESTIONS?

THANK YOU FOR ATTENDING TODAY’S SESSION.