

the
AUDITREPORT
The Magazine of the Association of Credit Union Internal Auditors, Inc.

Special Issue!



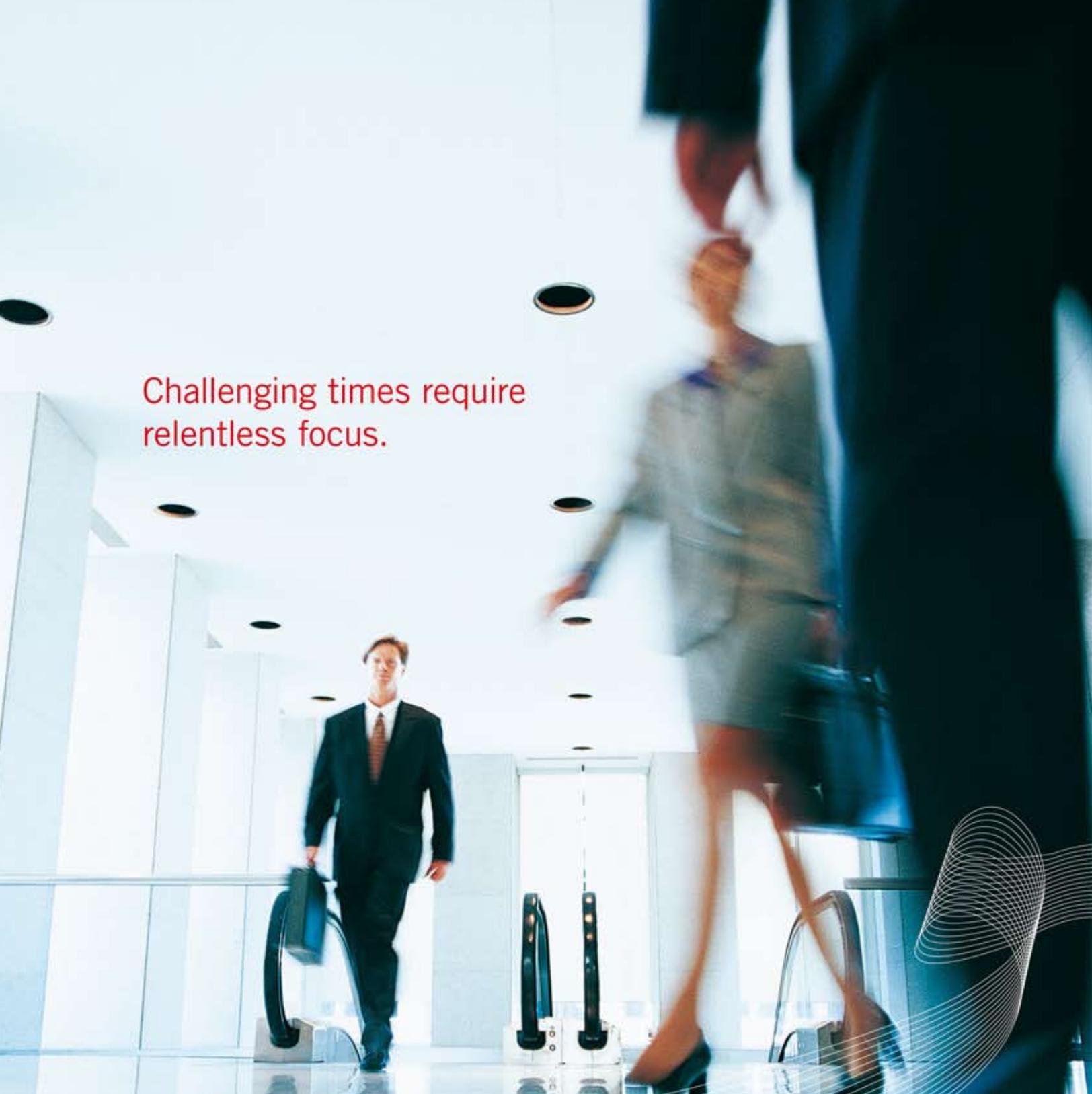
In This Issue:

Potential Audit Areas for Today's Environment

**Seven Best Practices for Using Mobile Devices
in Credit Unions**

Starting Up an Internal Audit Function

Compliance Management
Emerging Best Practices



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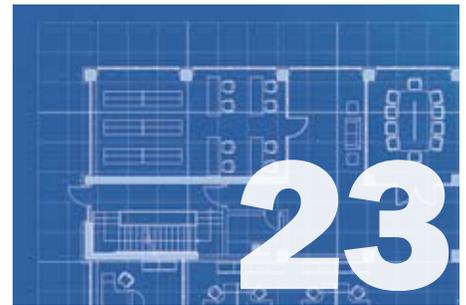
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IN THIS ISSUE

by *Tabitha Ernst-Chadwick, CIA, LRP, CTGA, CUCE*



As I write this, many of you are preparing for the annual conference. By the time you read this, the conference will be over, and I'm looking forward to hearing from all of you about all the conference had to offer.

We have another great line up of articles in this issue. Thanks to everyone who contributed: feature articles from Tom Schauer from TrustCC; Cecil D. Maynard from Nearman, Maynard, Vallez, CPAs; and David Smith from Accume Partners. Thanks also to all of our faithful regular contributors and to this Issue's Member Spotlight, Emilio Lopez.

I'm keeping the editorial short this time. Enjoy the rest of your summer, and keep the ideas and articles coming! ■



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mhardebeck@purdueefcu.com

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Golden 1 CU
(916) 817-6522
kgiano@golden1.com

Associate Director

Doug Wright
Baxter CU
(847) 522-8600
doug.wright@bcu.org



ACUIA EXECUTIVE OFFICE

ACUIA Executive Office
815 King Street
Suite 308
Alexandria, VA 22314
(703) 535-5757
acuia@acuia.org
www.acuia.org

"The Association of Credit Union Internal Auditors is committed to being the premier and quality provider of credit union internal audit resources."

STRIVING FOR EXCELLENCE *by Jill Chase*



ACUIA is always evolving...looking for ways to provide you with the tools you need to excel at your job. During the Annual Conference the ACUIA Board of Directors, along with the Associate Directors, will be meeting to plan our strategy for the future. By the time you read this article, that meeting will have happened. Our strategy will look much like the strategy you develop for your internal audit group. We will look at ways to maximize resources, identify and mitigate risks, and provide value to the organization. Topping the list will be increasing membership and working to enhance our communication tools, especially through social media.

ACUIA is in a membership mode. As you can imagine, our pool of potential members is somewhat limited to a very special interest group of credit union internal auditors, Supervisory/Audit Committee members, and risk and compliance folks. We are looking to you to help us recruit new members from your contacts at your credit union, as well as other credit unions, that may not be familiar with ACUIA. You are our best advocate as you can provide firsthand information on the benefits you have received as a member. Be watching for some added incentives for your recruiting efforts.

Communication is always a challenge and we have a very active Social Media Committee that is working hard to make sure all avenues are available, useful, and up-to-date. Be sure to join in on Twitter, Facebook, and LinkedIn. If you love being connected and can offer ideas and support, I know the committee is looking for some help. Check the Volunteers tab on the website.

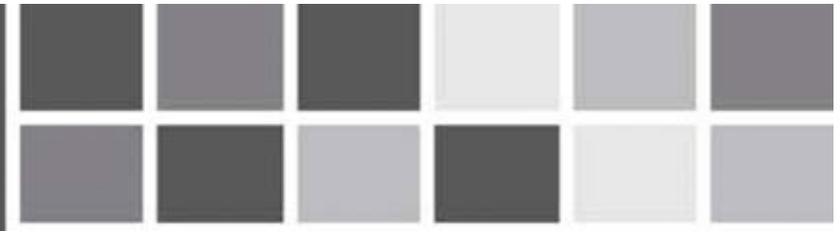
On another note, I want to thank the Conference Committee for their dedication in providing a stellar conference event in Denver. The amount of work to pull a

conference together is astronomical and they came through with flying colors; pinpointing timely, informative sessions, finding great speakers, and keeping things on track. Great job!

on upcoming webinars and regional meetings...more great learning and networking opportunities are in the works.

Have a terrific summer! ■

Next up, be looking for information



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POTENTIAL AUDIT AREAS FOR TODAY'S ENVIRONMENT

by Cecil D. Maynard III CPA, MPA, CFE, FCPA
Audit Partner, Nearman, Maynard, Vallez, CPAs

In today's constantly changing environment, frauds, embezzlements, and dishonesty have affected each and every credit union. The sophistication and ingenuity of frauds and embezzlements are on the rise. The 2012 Global Fraud Study released by the Association of Certified Fraud Examiners stated that:

“The industries most commonly victimized in their current study were the banking and financial services sectors.”

Based on the 2012 Global Fraud Study, anti-fraud controls contribute to a decrease in fraud schemes. This article will outline several areas of testing that an internal auditor may want to consider. The regular review of specialized reports is an important part of a credit union's internal control program. Reviewing specific reports and examining the highest risk areas can serve as a fraud prevention tool.

The following is a partial list of areas internal auditors may want to review as part of their overall annual audit plan.

File Maintenance Reports:

File Maintenance Reports are reports that detail changes to selected fields of a member's loan or other personal information, normally reflecting a "before" and "after" change of information. The types of information changes that would appear on a file maintenance report include but, are not limited to, changes in name, interest rates, address, phone number, frequency of loan payments, loan due date changes, additional individuals added to selected accounts, etc.

Testing of File Maintenance Reports should include the following:

- Check if changes in balances were authorized.
- Check if due date changes on loans were authorized.
- Check if address changes were authorized.
- Check if percentage changes were authorized.
- Check the frequency of changes to fields.

File Maintenance Reports should be independently reviewed by someone who does not have the ability to make these types of changes. Depending on the a credit union's resources, file maintenance reports should ideally be reviewed on a monthly basis.

Supervisory Override Reports:

Supervisory Override reports are reports that detail transactions that were permitted after obtaining a supervisory override. These types of transactions are usually "blocked" in the computer system; the system will not allow the transaction to occur until a Supervisor "keys" in a code or physically turns a key at a terminal. Supervisory override controls are established to limit sensitive transactions and to ensure credit union policies and procedures are followed. Some examples where supervisory



overrides may be required include any type of access to dormant accounts, employees' access to their own accounts, access to immediate family members' or another employee's accounts, placing no-mail codes on members' accounts, and certain file maintenance changes such as loan due dates or interest rate changes (depending on the data process system). Testing of Supervisory Override reports should include the following:

- Check if the Supervisory Override reports are being independently reviewed.
- Check if the computer system requires a manual input from a Supervisor, or if the requesting credit union employee can perform the override him/herself.
- Check if the individual requesting the override is different from the Supervisor.
- Check the frequency of the overrides to an account.
- Check the frequency of overrides by a Supervisor or for any unusual combinations between Supervisors and credit union personnel.

As you can see, if Management has taken the steps to establish a Supervisory Override, then by its nature, the area has been identified as a sensitive area and should be monitored. Therefore, a review of the Supervisory Override report should be part of any internal control program.

Dormant Accounts:

Dormant accounts are defined as share accounts in which there has been no member generated activity for a specified period of

time. Due to the nature of dormant accounts and the inactivity of these accounts, they are a prime target for fraudulent activity. Here are some helpful hints to auditing dormant account reports.

Dormant Account Report versus Activity Report:

A Dormant Account Report is a report of all dormant accounts. This listing could be three inches thick and contain thousands of accounts. Therefore, to audit this listing, it could take the reviewer a long period of time. Audit hint: One suggestion, which has reduced time for the reviewer, is to generate a report of only those dormant accounts that have had recent member-generated activity. Experience has demonstrated that this report is much smaller and will identify which accounts are no longer dormant or higher risk. The reviewer can now test these accounts to determine if the transactions were authorized.

Power Surges and Computer Systems:

Credit unions should be aware that controls over dormant accounts should be periodically tested to assure that the controls are still in place. In our testing, we have noticed that a power surge or some other system change had removed the controls over dormant accounts. In addition, depending on who has access to the computer system, controls can change and therefore, testing of this area is recommended.

As you can see above, a constant review of the dormant account area is suggested as part of a review of internal controls.

Loans Paid Ahead 2-months and greater:

The objective of reviewing a “Loans Paid Ahead Report” is to ensure the next payment due date is correctly stated and in accordance with the loan terms. The report is usually generated so that it includes all loans with a next payment due date two months or more into the future. Testing of the loans paid ahead report should include the following:

- Payments made by the member, which are greater than the schedule payment;
- The member made extra payments;
- Deficiency balance not charged off;
- Erroneous loan pay-off (indication is small loan balance with no recent payment);
- Unauthorized loan due date advancing;
- Computer errors or input problems;
- Possible fraud;
- Advanced due dates with no recent payments.

It is suggested the “Loans Paid Ahead Report” be periodically reviewed to detect any unusual next payment due dates. Additionally, if it’s the Board of Directors’ intention to allow loans to be paid in advance, this should also be conveyed in the loan policy.

Review of Account Reconciliations:

A reconciliation of each general ledger account should be prepared to indicate the individual items that compose the general ledger account balance. When general ledger accounts are not reconciled, errors or frauds can go undetected for an unreasonable period of time, or not found at all. The following could be conducted in the review of completed account reconciliations:

- Ensure the reconciliation was completed timely and prior to the closing of the accounting records for that month.
- Ensure the account reconciliation was signed off by the preparer and the reviewer.
- Ensure the reconciliation preparer and reviewer is not the same person.
- Ensure all reconciling items are well described and dated to allow the tracking of how long items are outstanding.
- Ensure that there are no old items on the account reconciliation.

We recommend each balance sheet general ledger account be reconciled on a monthly basis. Any old items, which have been researched and determined to be uncorrectable, should be written off. Having

a process in place to ensure accounts are reconciled timely is important to the control environment. Account reconciliations should be well documented and a policy in place to address when accounts are to be reconciled and when old outstanding items are to be written-off.

Employee and Official Statements:

The review of employee and official accounts is considered a critical part of most credit unions’ internal audit plans. This review is important because it looks at the accounts of either those in a position of influence or those in control over credit union assets. The review should look at these individuals’ accounts for suspicious and/or unusual activity. In order to perform this review, you first need a report of all employees’ and officials’ accounts. This report should include loan, share and credit card accounts. Testing of credit union statements should include the following areas:

- Large deposits;
- Loan repayments without corresponding finance charges;
- Unusually high amounts of activity in dollars and number of transactions;
- Journal transactions;
- Changing interest/dividend rates;
- Reversal of fees;
- New loans;
- Check kiting;
- Transfers to other accounts;
- Large draws or purchases and subsequent repayments.

Most of the areas of concern above are self-explanatory; however, there are certain transactions that might seem unusual which may be perfectly normal. These could include large deposits which could consist of IRS refunds, a new loan taken out at other institutions, life insurance proceeds, or sale of property. Large deposits should be traced to the deposit slip and original check, if applicable. Journal transactions include transactions such as NSF fees, savings bond entries, credit card advances, etc. If the reviewer sees a new loan on the employee or official statement, the loan file should be checked for proper documentation and approval. Check kiting involves frequent corresponding deposits and withdrawals in similar amounts throughout the month.

Reconciling Board Approved Charge-offs to the General Ledger:

A review of loans approved for charge-off by the Board of Directors to loans charged-

off in the general ledger should be performed on a monthly basis. This review will help to ensure that only loans approved by the Board of Directors have been charged off. Differences between the board approved and actual charge-offs are normally due to loan servicing costs added to the loan balance or payments received after approval. While these differences are common other differences should be identified and supported.

Credit union employees owe a fiduciary duty to the credit union to act in good faith in the performance of their duties. Most employees take their fiduciary duty seriously and perform their duties in accordance with the policies and procedures of the credit union. However, not all employees share this loyalty to the credit union. While the above procedures cannot guarantee that there will not be problems in the future, the items above are **proactive measures** which could aid the credit union in their on-going operation of the credit union. The review of the above areas by the credit union must be documented with tangible information and retained for the subsequent review by the examiners and auditors in the future.

Testing the areas noted above may help in identifying a fraud, but knowing the operations at your credit union, its control environment, and the staff are critical to the success of an Internal Audit Department. Internal auditors should consider the items above, but never forget that the audit plan needs to continually react to the ever changing risk environment.



About The Author

Cecil D. Maynard received his Bachelor of Accounting from Florida International University and his MPA from Barry University. He successfully completed the requirements for the CPA (Certified Public Accountant) designation in the state of Florida, and has met the requirements of being a Certified Public Accountant in six other states. Cecil has earned the CFE (Certified Fraud Examiner) designation from the Association of Fraud Examiners. Cecil has also met the requirements for certification as a Forensic Certified Public Accountant (FCPA) and he has also been granted the designation of being Certified in Financial Forensics (CFF).



WELCOME TO THE **2012 ACUIA PREFERRED VENDORS** GUIDE! AS A MEMBER BENEFIT, THIS LIST PROVIDES THE NAMES OF “PREFERRED” VENDORS WHO SERVE THE MEMBERS OF THE ASSOCIATION. WHILE IT IS UNDERSTOOD THAT THERE IS NO ENDORSEMENT, THE VENDORS IN THIS GUIDE HAVE BEEN RECOMMENDED BY ACTIVE ACUIA MEMBERS. AS WITH ALL SERVICES, DUE DILIGENCE ON THE PART OF THE CREDIT UNION IS STILL NECESSARY.

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Accume Partners has proudly served and supported credit unions nationwide since 1994. Our professionals have a deep understanding of the credit union movement, its challenging and complex regulatory requirements, as well as its products and services. We help credit unions mitigate risks, enhance the overall control environment, achieve compliance with the latest rules, regulations and pronouncements, and improve overall operational efficiency. We have a strong working relationship with the regulatory agencies, including NCUA. Accume Partners firmly believes our role is to be proactive in educating credit union personnel on the implications of industry, accounting and regulatory changes.

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CONTACT: Daniel J. Mahalak, CPA,
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OTHER LOCATIONS: Grand Rapids, MI
PHONE: 586-296-1155/877-998-CMCO
EMAIL: dmahalak@cm-co.com
WEBSITE: www.cm-co.com

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CONTACT: Lowell Reed, VP Sales & Marketing
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 Minneapolis, MN 55402-1436
OTHER LOCATIONS: 90 offices throughout the U.S.
PHONE: 1-888-529-2648
EMAIL: dean.rohne@cliftonlarsonallen.com
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CONTACT: Allen P. DeLeon, CPA, Partner
ADDRESS: 100 Lakeforest Blvd, Suite 650
 Gaithersburg, MD 20877
PHONE: 301-948-9825
EMAIL: allen@deleonandstang.com
WEBSITE: www.deleonandstang.com

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ADDRESS: PMB 503, 1905 West 4700 South
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PHONE: 801-840-2220
EMAIL: ferrincpa@ferrincpa.com
WEBSITE: www.ferrincpa.com

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BART FERRIN, CPA



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CONTACT: Robin D. Hoag, CPA, CMC
ADDRESS: 755 W. Big Beaver Rd, Suite 2300
 Troy, MI 48084
OTHER LOCATIONS: Ft. Lauderdale
PHONE: 248-244-3000
EMAIL: financialinstitutions@doeren.com
WEBSITE: www.doeren.com

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Doeren Mayhew's Financial Institutions Group has serviced hundreds of credit unions for over 35 years from coast to coast. Composed of professionals with in-depth credit union knowledge, each of our team members has distinctive training and experience within one or more of our ten technical specialty areas encompassing over thirty-two services.

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ROBERT PARKS, CPA

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Firley, Moran, Freer & Eassa, CPA, P.C.

CONTACT: Mark Colombo, CPA, Principal
 Daniel Gilheney, CPA, Principal
ADDRESS: 5010 Campuswood Drive
 East Syracuse, NY 13057
PHONE: 315-472-7045
EMAIL: mcolombo@fmfecpa.com
 dgilheney@fmfecpa.com
WEBSITE: www.fmfecpa.com

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Firley, Moran, Freer & Eassa, P.C., a CPA and consulting firm with over 70 professionals located in Syracuse, NY, is an independently owned member of the McGladrey Alliance. Our experience is with credit unions ranging in size from \$40 million to over \$1 billion. We take pride in developing long-term relationships with clients where they seek our advice on compliance, accounting, operational and regulatory matters. Our goal is to become invaluable service providers to clients and each client is important to accomplishing this goal. Our service model allows our clients to control costs, while receiving high quality and timely service.

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- Credit Union Service Organizations Consulting
- Tax and General Business Consulting



MARK COLOMBO, CPA



DANIEL GILHENY, CPA



GLOBALVISION SYSTEMS



CONTACT: Andrew Ramage, Sr Account Exec
ADDRESS: 9401 Oakdale Avenue
 Chatsworth, CA 91311
PHONE: 818-998-7851
EMAIL: aramage@gv-systems.com
WEBSITE: www.gv-systems.com

SUMMARY

With a solid history and impeccable track record of over 15 years, GlobalVision has consistently helped customers pass regulatory examinations thousands of times with flying colors. GlobalVision's PATRIOT OFFICER is recommended by the National Association of Federal Credit Unions (NAFCU) as the #1 BSA/AML/ATF/FACTA/UIGEA/ANTI-FRAUD solution for credit unions. Credit unions using PATRIOT OFFICER automatically remain in compliance with the requirements in the BSA/AML Examination Manual published by The Federal Financial Institutions Examination Council (FFIEC). GlobalVision has over 1,000 financial institution clients worldwide including hundreds of credit unions across the nation.

SERVICES

- Anti-Money Laundering
- Fraud Prevention
- Bank Secrecy Act (BSA)
- Regulatory Compliance
- Identity Theft Red Flag (FACT Act)
- Unlawful Internet Gambling Enforcement Act (UIGEA)
- Anti-terrorist Financing (ATF)

“WITH PATRIOT OFFICER, I AM CONFIDENT THAT OUR BSA/AML PROGRAM IS MORE EFFICIENT AND RELIABLE. THE SUPPORT THAT WE HAVE RECEIVED FROM GLOBAL VISION'S STAFF, FROM THE SALE OF THE PRODUCT TO THE IMPLEMENTATION AND NOW TO THE USE OF THE PRODUCT, HAS BEEN VERY SATISFYING.”

- NANCY RICE, LOSS PREVENTION MANAGER,
 AMERICAS FIRST FCU, BIRMINGHAM, AL



IDEA/ AUDIMATION SERVICES, INC.



CONTACT: Denix Cox
ADDRESS: 1250 Wood Branch Park Drive
 Suite 480
 Houston, TX 77079
PHONE: 888-641-2800 Ext. 2009
EMAIL: info@audimation.com
WEBSITE: www.audimation.com

SUMMARY

As the U.S. distributor of IDEA® - Data Analysis Software and CaseWare™ Monitor, Audimation Services helps clients maximize their technology investments by providing support, consulting services, learning events and other valuable resources. IDEA is a powerful and user-friendly tool designed to help accounting and financial professionals extend their auditing capabilities, detect fraud and meet documentation standards. CaseWare™ Monitor is a sophisticated risk and controls monitoring solution that allows business, risk and control professionals, and auditors to quickly and confidently monitor any automated system. For a free demonstration CD of IDEA, contact sales@audimation.com.

SERVICES

- IDEA® - Data Analysis Software and Supporting Technologies
- CaseWare™ Monitor - Risk and Controls Monitoring Solution
- Professional Services - IDEAScript Development, Importing and Data Analysis
- Learning Events - Public and On-Site Training, Seminars and IDEA User Groups

“WE ARE PLEASED WITH IDEA. I FIRMLY BELIEVE THAT OUR WORK PRODUCT HAS IMPROVED BY US BEING ABLE TO PERFORM EXCEPTION AUDITING ON ENTIRE POPULATIONS OF DATA US. OUR PREVIOUS SAMPLING TECHNIQUES.”

- JERRY A. HEDRICK, JR., CFE, DIRECTOR,
 CORPORATE AUDIT, VECTREN CORPORATION



HUTCHINSON & BLOODGOOD LLP



CONTACT: Joe Muriello, Partner
ADDRESS: 101 N. Brand Blvd., Suite 1600
 Glendale, CA 91203
OTHER LOCATIONS: El Centro, San Diego,
 Watsonville, CA
PHONE: 818-637-5000
EMAIL: jmuriello@hblp.com
WEBSITE: www.hblp.com

SUMMARY

Hutchinson and Bloodgood LLP delivers accounting and consulting services that maximize your wealth and position your business for growth. Serving you since 1922 with a wide range of services, including assurance, tax compliance and planning, technology consulting, and business advisory services, we are committed to your success. To understand and meet your unique needs, we have assembled an extraordinary team of over 30 partners and 100 team members with diverse backgrounds and experiences in public accounting and private industry. Our goal is to exceed your expectations.

SERVICES

- Financial Statement Audits
- Supervisory Committee Audits
- Network Security Reviews
- Strategic Technology Planning
- Information Systems Reviews
- Information Technology Risk Assessment
- Disaster Recovery Design/Planning
- IT Compliance Issues
- External Penetration Test (White Hat)
- Service Organization Controls (SOC) 1, 2 & 3 (formerly SAS 70)



MCGLADREY



CONTACT: Mike Mossel, Principal,
 Risk Advisory Services
ADDRESS: 515 S. Flower Street, 41st Floor
 Los Angeles, CA 90071
OTHER LOCATIONS: Nationwide
PHONE: 661-286-2119
EMAIL: mike.mossel@mcgladrey.com
WEBSITE: www.mcgladrey.com/Banking

SUMMARY

McGladrey provides a comprehensive range of consulting services including enterprise risk assessments, information security, strategic technology planning, regulatory compliance, internal audit, business process improvement, tax services, merger consulting, Supervisory Committee guide audits, attest services and other advisory services to the credit union industry. McGladrey serves nearly 600 credit unions nationwide through nearly 90 offices. We are committed to the credit union industry and understand your goals and challenges. Let us show you the power that comes from being understoodSM.

SERVICES

- Audit Solutions Internal Audit
- Enterprise Risk
- Information Security
- Information Systems Planning and Selection
- Regulatory Compliance Assessment
- Regulatory Compliance Program
- Web Site Compliance Assessment
- Business Continuity Planning
- Business Process Improvement
- Merger and Acquisition
- Delivery Channel Optimization

“GREAT KNOWLEDGE OF REGULATORY AND COMPLIANCE ENVIRONMENT, REGARDLESS OF AUDIT AREA, INCLUDING EFFECTIVE KNOWLEDGE TRANSFER TO OUR STAFF. EXTREMELY KNOWLEDGEABLE ABOUT OUR INDUSTRY AND ENVIRONMENT.”

- CREDIT UNION CEO



MOSS ADAMS LLP

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTACT: Carrie Kennedy, Partner
ADDRESS: 601 W. Riverside Ave., Suite 1800
Spokane, WA 99201

OTHER LOCATIONS: New Mexico, Arizona, Kansas
PHONE: 800-888-4065
EMAIL: creditunions@mossadams.com
WEBSITE: www.mossadams.com/cu

SUMMARY

Moss Adams LLP provides accounting, tax, and consulting services to credit unions and other middle-market public, private and not-for-profit enterprises in a wide array of industries. Founded in 1913, Moss Adams is one of the 15 largest accounting and consulting firms in the nation, and the largest headquartered in the West. We are currently ranked in the top four for audit firms in terms of total credit union assets audited, and top eight in terms of the number of credit unions audited. Serving our clients from 21 locations with more than 1,700 professionals, including over 230 partners, we recognize that when it comes to service, one size doesn't fit all.

SERVICES

- Opinion and Supervisory Committee Audits
- Internet Security Assessments/ Penetration and Vulnerability Testing
- BSA/AML Compliance Examinations
- Internal Audit Outsourcing
- Merger Implementation and Due Diligence Consulting
- Member Business Lending Implementation, Training, and Loan Review
- Regulatory Compliance Examinations
- Profitability Enhancement Consulting
- UBIT Tax Planning
- EDP Audits



NEARMAN, MAYNARD, VALLEZ, CPAs, P.A.



CONTACT: Chris Vallez, Partner
ADDRESS: 10621 N. Kendall Drive, Suite 219
Miami, FL 33176

OTHER LOCATIONS: Atlanta, GA
PHONE: 800-288-0293
EMAIL: info@nearman.com
WEBSITE: www.nearman.com

SUMMARY

Established in 1979, Nearman, Maynard, Vallez, CPAs P.A. provides auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to the credit union industry has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals using our experience, service and commitment. Also, we have aligned our firm with other top professionals in the fields of information technology and taxation to offer a full array of services.

SERVICES

- Certified Audits
- Supervisory Committee Audits
- Pension Plan Audits
- Internal Auditing and Co-Sourcing
- Compliance Reviews
- Bank Secrecy Act Audits (BSA)
- ACH Audits

“NEARMAN, MAYNARD, VALLEZ, CPAS, PA HAS CONTINUALLY DELIVERED US QUALITY SERVICES. THEIR 30 YEARS OF EXPERIENCE SPECIFICALLY IN THE CREDIT UNION INDUSTRY ATTESTS TO THEIR PROFESSIONALISM AND INTEGRITY.”

- SUPERVISORY COMMITTEE, 1ST ADVANTAGE FCU



NAWROCKI SMITH LLP



CONTACT: Lauren Agunzo, Partner
ADDRESS: 290 Broad Hollow Road
Melville, NY 11747

PHONE: 631-756-9500
EMAIL: lagunzo@nslppcpa.com
WEBSITE: www.nslppcpa.com

SUMMARY

Nawrocki Smith LLP is a regional public accounting firm with offices in Melville, New York. It is comprised of six partners and approximately forty-five associates and support staff, and services a diverse clientele throughout the Eastern United States. Nawrocki Smith has extensive experience in providing internal audit services to credit unions. We have highly trained internal audit professionals to meet the demand of this very important and time-sensitive function. We work with various institutions on either a co-source or an outsource basis.

SERVICES

- Risk Assessments and Internal Audit Plan Development
- Regulatory Compliance Audits
- Financial and Operational Audits
- Branch Audits
- Fraud and Forensic Audits
- Informational Technology Audits
- Consulting and Advisory Services
- Training Services

“IN WORKING WITH NAWROCKI SMITH WE GET A PARTNERSHIP AND RELATIONSHIP WITH PROFESSIONALS WHO ARE VERY KNOWLEDGEABLE ABOUT THE CREDIT UNION INDUSTRY. WE HAVE TREMENDOUS ACCESSIBILITY TO EVERY MEMBER OF THE ENGAGEMENT TEAM AND THEY HAVE HELPED MAKE OUR BUSINESS BETTER.”

- WILLIAM OBRIEN, SUFFOLK FCU



ORTH, CHALKER, MURNAME & COMPANY CPAs



CONTACT: Douglas Orth, Managing Partner
ADDRESS: 12060 SW 129th Court, Suite 201
Miami, FL 33186-4582

OTHER LOCATIONS: Charlotte, NC; Dallas, TX
PHONE: 305-232-8272/888-676-3447
EMAIL: dorth@ocmcpa.com
WEBSITE: www.ocmcpa.com

SUMMARY

OCM is a public accounting firm that specializes in providing auditing and consulting services for the credit union industry. We currently serve over 200 credit unions and CUSOs in approximately 30 states. Each of the firm's partners has relevant auditing and consulting experience in the credit union industry ranging from 20 to over 30 years. Every audit and consulting engagement is given priority treatment by our partners. Your staff will not have to train our auditors. We understand the professional needs of our clients and have tailored our audit process to provide superior personal service that is objective, comprehensive and helpful.

SERVICES

- Financial Statement Opinion Audits
- Pension Plan Audits
- Internal Audit Services
- Quality Assurance Reviews (QARs)
- BSA Compliance Audits
- ACH Compliance Audits
- Business Loan Reviews
- Information Technology Reviews
- Allowance for Loan Losses Methodology Reviews
- Preparation of 990/990T and CUSO Tax Returns
- Merger Due Diligence
- Educational Conferences and Training



P & G ASSOCIATES

P&G Associates



CONTACT: Amit Govil, Partner
ADDRESS: 646 Highway 18
East Brunswick, NJ 08816

OTHER LOCATIONS: Chicago, IL; Miami, FL

PHONE: 877-651-1700

EMAIL: whatsyourrisk@pgcpa.com

WEBSITE: www.pandgassociates.com

SUMMARY

P&G Associates is a leading service provider of risk management and outsourced internal audit solutions for credit unions and community financial institutions since 1991. P&G operates in New York, New Jersey, Florida and Illinois, and is dedicated exclusively to the financial services industry. P&G utilizes a proprietary risk-based assessment audit model and customized, turnkey audit approach to design an effective risk management program to suit the needs of your institution. P&G's Outsourced Internal Audit services cover the full range of activities, including: Lending Operations and Compliance, Deposit Operations, Regulatory Compliance, Information Technology, Financial Reporting, Branch Operations and Trust Activities.

SERVICES

- Outsourced Internal Audit
- Regulatory Compliance
 - Risk Assessment
 - Bank Secrecy Act/AML Review
- Information Technology
 - Risk Assessment
 - Security Testing
 - Policy and Procedures Review
- Credit Risk Management:
 - Loan Review
 - Quality Control Program: Residential Mortgages
- Enterprise Risk Management



SCA SECURITY COMPLIANCE ASSOC.



CONTACT: Rick Woods, Business Development
ADDRESS: 2727 Ulmerton Road
Clearwater, FL 33762

PHONE: 727-571-1141

EMAIL: rwoods@scasecurity.com

WEBSITE: www.scasecurity.com

SUMMARY

Because cybercrime is prevalent and network security is ever evolving, Security Compliance Associates offers a business solution that makes sense from both an economical and practical standpoint. SCA has developed an all-encompassing program that allows for credit unions to comply with NCUA Regulations pertaining to "safeguarding member information." SCA guarantees compliance as well as client satisfaction. Although credit unions may elect a la carte services, which satisfy compliance on individual levels, the SCA full program is intended to alleviate all information security concerns. Hundreds of credit union clients have benefited from what some examiners call the finest information security program that they have seen.

SERVICES

- Policy and Procedures Review, Development and Maintenance
- External Assessment
- Internal Assessment
- Online Banking Assessment
- PCI Compliance Services
- Social Engineering
- Physical Security
- Computer Forensics
- Third-Party Due Diligence Review
- Website Compliance Review
- Information Security Training
- CISSP Mentoring



QUANTIVATE

QUANTIVATE
Continuity, Risk, and Compliance Solutions

CONTACT: Jo Ann Tolentino, Director of Sales
ADDRESS: 18915 142nd Ave. NE, Suite 140
Woodinville, WA 98072

PHONE: 800-969-4107

EMAIL: sales@quantivate.com

WEBSITE: www.quantivate.com

SUMMARY

Quantivate is a leading provider of web-based continuity, risk and compliance software solutions. Quantivate's product portfolio comprises a comprehensive and integrated suite of applications used by credit unions across the nation to manage their business continuity, enterprise risk management, information security, vendor management and compliance needs. With Quantivate's suite of solutions you can seamlessly leverage critical data from across your institution for greater time savings, security and decision making.

SERVICES

- Business Continuity Software and Services
- Vendor Management Software and Services
- Enterprise Risk Management Software and Services
- Information Security Software and Services



SCHNEIDER DOWNS & CO., INC.



CONTACT: Donald R. Owens, Shareholder, Internal Audit and Risk Advisory Services

ADDRESS: 1133 Penn Avenue
Pittsburgh, PA 15222

OTHER LOCATIONS: Columbus, OH

PHONE: 614-621-4060

EMAIL: dowens@schneiderdowns.com

WEBSITE: www.schneiderdowns.com

SUMMARY

Schneider Downs offers risk-based internal audit and risk advisory service options to ensure compliance, mitigate uncertainties and keep inefficiencies from eroding your bottom line. We work hand-in-hand with your audit committee and primary auditor on risk and control strategies to fully leverage internal audit and minimize compliance/audit costs. Our firm has offices in Pittsburgh, Pennsylvania and Columbus, Ohio. Visit us online at www.schneiderdowns.com

SERVICES

- Internal Audit Outsourcing
- Internal Audit Co-Sourcing
- Quality Assurance Review
- Data Mining and Analysis
- Fraud Risk Assessment
- Information Technology Audit
- Information Security Assessment
- SSAE 16 and SOC 2
- Sec. 704.15 Compliance

“SCHNEIDER DOWNS HAS BEEN A VERY IMPORTANT PARTNER IN THE DEVELOPMENT AND MATURITY OF OUR ENTERPRISE WIDE RISK MANAGEMENT PROGRAM. THE STAFF IS PROFESSIONAL, KNOWLEDGEABLE AND A PLEASURE TO WORK WITH.”

- JOE GHAMMASHI, CRP, CRISC CHIEF RISK OFFICER, CORPORATE ONE FCU



SCIARABBA WALKER & CO., LLP



CONTACT: Jeff Gorsky
ADDRESS: 200 E Buffalo St Suite 402
Ithaca, NY 14850
OTHER LOCATIONS: Cortland, NY
PHONE: 607-272-5550
EMAIL: jjg@sciarabbawalker.com
WEBSITE: www.sciarabbawalker.com

SUMMARY

Sciarabba Walker & Co., LLP is an independent, regional, accounting and business-consulting firm based in Ithaca, New York. Our firm has a core group of professionals dedicated to serving the specific needs of credit unions. We are members of the AICPA and Association of Credit Union Internal Auditors and regularly attend national conferences to stay abreast of best practices and changes in the industry. Sciarabba Walker offers a wide range of management, accounting, and financial reporting services for credit unions. We strive to deliver practical, workable solutions that help you achieve your management objectives.

SERVICES

- Financial Statement Audits
- Supervisory Committee Procedure Audits
- Fraud Procedures
- ACH and BSA/OFAC Audits
- Internal Controls Procedures
- Customized Agreed-Upon Procedures



SHESHUNOFF INFORMATION SERVICES



CONTACT: Nicole Jordan, Marketing Manager
ADDRESS: 4120 Friedrich Lane, Suite 100
Austin, TX 78744
PHONE: 800-456-2340
EMAIL: customer.service@sheshunoff.com
WEBSITE: www.sheshunoff.com

SUMMARY

Sheshunoff Information Services has been serving the information needs of financial institution professionals for more than 30 years, leading the market with its step-by-step, plain-English guidance for regulatory compliance and financial institution operations and management publications. Sheshunoff publishes books, newsletters, training courses, online libraries, audio conferences, webinars and work solutions by the country's leading financial institution experts. Our product line covers leading titles on financial topics from regulatory compliance to information security, including Pratt's Letter, Risk Assessments for Financial Institutions, and A Practical Guide to the Wall Street Reform and Consumer Protection Act, just to name a few.

PRODUCTS

Print and Online Materials for Legal and Regulatory Compliance:

- Compliance Expert
- Online Credit Union Training
- First Line of Defense
- Credit Union Compliance Calendar

“ I HAD THE REGULATORS IN MY CREDIT UNION (IN MY OFFICE) AND A REVIEW COPY OF THE WALL STREET BOOK ON MY DESK. ONE OF THE EXAMINERS PICKED IT UP, LOOKED THROUGH IT, AND SAID, IM GLAD YOU ARE STAYING ON TOP OF ALL THIS. SIGN ME UP! ”

- MICHELLE J., COMPLIANCE OFFICER, CREDIT UNION



SHERPY JONES PA



CONTACT: Todd Sherpy, Partner
ADDRESS: P.O. Box 2599
Lexington, SC 29071
OTHER LOCATIONS: Atlanta, GA
PHONE: 803-356-3327
EMAIL: rts@sherpy-jones-law.com
WEBSITE: www.sherpy-jones-law.com

SUMMARY

Legal and regulatory compliance, due diligence, on-site staff and volunteer training, and audits: Sherpy & Jones works with a pool of nearly 600 credit unions to provide day-to-day compliance assistance, vendor due diligence resources, forms, training and operations resources via our online resources, and constant guidance on ever-changing laws and regulations. We take pride in the practical perspective our lawyers bring to credit unions. We spend a substantial amount of time on-site at credit unions, with volunteers and credit union staff, which reflects on our straightforward approach to the services we offer.

SERVICES

- Legal and Regulatory Compliance
- Due Diligence
- Compliance Auditing
- Compliance Training
- Collections



TODD SHERPY, PARTNER



SMITH DEBNAM ATTORNEYS AT LAW



CONTACT: Frank Drake
ADDRESS: The Landmark Center
4601 Six Forks Road, Suite 400
Raleigh, NC 27609
PHONE: 919-250-2109
EMAIL: fdrake@smithdebnamlaw.com
WEBSITE: www.smithdebnamlaw.com

SUMMARY

Smith Debnam was established in 1972 with a simple, straightforward goal: to solve the legal problems of our clients. Featuring one of the largest and most effective Creditors' Rights practices in the Southeast, our firm represents everyone from national businesses and leading financial institutions to local firms and individuals. Our team members have extensive experience with credit unions and always look for innovative ways to resolve to legal issues. We believe that effectively solving our clients' problems begins with a true understanding of our clients themselves. This means being available, easy to talk to and responsive to their needs.

SERVICES

- Creditors' Rights and Collections
- Secured and Unsecured Lending
- Bankruptcy (creditor side)
- Regulatory Compliance
- Transactional Law
- Creditors' Defense
- Replevin
- Training and Speaking

“ FRANK DRAKE HAS BEEN AN EXCELLENT RESOURCE FOR OUR CREDIT UNION FOR OVER A DECADE, ASSISTING US NOT ONLY WITH ADVICE ON COMPLICATED MEMBER ISSUES, BUT ALSO WITH PERIODIC POLICY REVIEW, CONTRACT NEGOTIATION AND TRAINING. HIS INSIGHT IS INVALUABLE, HIS RESPONSES ARE TIMELY, AND HE IS VERY VERSATILE. ”

- TABITHA ERNST, MARINE FCU



CONTACT: Tom Schauer
ADDRESS: 3800A Bridgeport Way #542
 University Place, WA 98466
PHONE: 866-290-6774
EMAIL: tschauer@trustcc.com
WEBSITE: www.trustcc.com

SUMMARY

TrustCC has performed 1300 IT Audits and Security Assessments for over 300 financial institutions over the last 11 years. Our methodologies are scalable and flexible to meet the needs of credit union of every size. TrustCC's team consists of former examiners, systems administrators and information security officers. And new for 2012, TrustCC now provides a fully compliant GLBA risk assessment with our audit and security services. Please visit our website for all the details. It has been our pleasure serving the ACUIA and its members and we look forward to continuing to bring value, expertise and service to all our clients!

SERVICES

- IT Security Assessments/Vulnerability and Penetration Testing
- Social Engineering
- IT Compliance Review
- Premium IT Audit
- IT Audit Co-Sourcing
- GLBA Risk Assessment
- FFIEC Guidance Audits

“OUR PREVIOUS PROVIDER SIMPLY DIDN'T BRING THE SAME LEVEL OF SKILLS. TRUSTCC IS A WELCOME IMPROVEMENT.”
 - NETWORK SECURITY ADMINISTRATOR AT ONE OF THE NATION'S LARGEST CUS



CONTACT: Kian Moshirzadeh, Partner
ADDRESS: 100 N. First Street, Suite 202
 Burbank, CA 91502
OTHER LOCATIONS: San Francisco, CA
PHONE: 818-954-9700
EMAIL: cpa@twhc.com
WEBSITE: www.twhc.com

SUMMARY

Established in 1987, TWHC is a full-service accounting firm providing top-notch professional services to over 100 credit unions. Due to our reputation for superb technical expertise, unmatched value and excellent responsiveness, TWHC is often retained to conduct audits and provide consulting services for larger credit unions, whose needs are particularly complex. In 2010, Callahan & Associates ranked TWHC #1 in growth. Today, TWHC is ranked as the fifth largest provider of credit union audit services in the United States in terms of client asset size.

SERVICES

- Opinion Audits
- Internal Audits
- ACH Audits
- BSA Audits
- PIN Encryption and Key Management Audits
- Information System Audits
- Pre-Merger Due Diligence Audits
- Tax Planning and Tax Preparation
- Management Transition Assistance
- Forensic Audits
- Supervisory Committee Seminars
- CUSO Development
- NACHA Audits



CONTACT: Jamie Rowsell
ADDRESS: 570 Newfoundland Drive
 St. John's, NL, Canada, A1A 5B1
OTHER LOCATIONS: Birmingham, AL
PHONE: 709-752-3050
EMAIL: FRAML@verafin.com
WEBSITE: www.verafin.com

SUMMARY

Verafin provides a consolidated fraud detection and anti-money laundering (FRAMLTM) software solution to over 860 financial institutions across North America. We are the exclusive provider of fraud detection and BSA/AML software for CUNA Strategic Services, the California Bankers Association, Massachusetts Bankers Association, and 40 credit union leagues and associations in the United States.

OUR SOFTWARE INCLUDES

- Behavior-Based Transaction Monitoring
- Risk-Rated Suspicious Activity Alerts
- Fraud Detection (online banking, debit card, account, check, and more)
- Money Laundering Detection
- Centralized Case Management
- Automated CTR and SAR Creation and e-Filing
- Watch List Scanning (OFAC, 314(a), and more)
- Risk Management Analysis and Scoring
- Vendor Management
- FACTA Red Flag Functionality



CONTACT: Tom Scanland, SVP Operations
ADDRESS: 8127 Mesa Drive
 Austin, TX 78759
PHONE: 512-547-5035
EMAIL: tscanland@vitalinsight.com
WEBSITE: www.vitalinsight.com

SUMMARY

Vital Insight is dedicated to providing best-of-breed ERM software and services to the credit union movement. Whether providing enterprise-wide, top-down risk assessments, detailed process-level deep dives or a comprehensive and powerful software solution, Vital Insight is the credit union's choice for ERM.

SERVICES

- Enterprise Risk Management (ERM) education and training for
 - Senior Management
 - Board of Directors
 - Supervisory Committee
- Enterprise Wide Risk Assessments
- Detailed Process Risk Assessments
- IT General Controls Review
- ERM Program Review
- Comprehensive ERM Software Solution
- Ongoing ERM Program Mentoring/Quality Assurance

“VITAL INSIGHT'S APPROACH TO EDUCATING SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS ON WHY ERM IS NEEDED AND THE BENEFITS IT BRINGS OUR CREDIT UNION IS SOMETHING UNIQUE IN THE CREDIT UNION WORLD. COUPLING THAT WITH THEIR ONSITE ENTERPRISE-WIDE RISK ASSESSMENT SERVICES IS A GREAT COMBINATION FOR ANY CREDIT UNION LOOKING TO GET THEIR ERM PROGRAM MOVING FORWARD.”
 - ROBERTA RODGERS, VP RISK MANAGEMENT, REDSTONE FCU



WHITTLESLEY & HADLEY, P.C.



WHITTLESLEY & HADLEY, P.C.

CONTACT: Robert Schreitmueller,
Chief Operating Officer
ADDRESS: 147 Charter Oak Avenue
Hartford, CT 06106-5100
PHONE: 860-522-3111
EMAIL: rschreitmueller@whcpa.com
WEBSITE: www.whcpa.com

SUMMARY

Whittlesley & Hadley, P.C. is an accounting and consulting firm that offers a broad range of services to credit unions. The partners and staff of our dedicated credit union team are experienced and well versed in the challenges facing credit unions today. Our risk-based audits minimize time spent on non-value-added work and maximize cost effectiveness. With over 50 years of experience, our services to credit unions are distinguished by our high level of partner involvement, our experience working with advisory committees, our extensive knowledge base, and our responsive, proactive approach.

SERVICES

- Financial Statement Opinion Audits
- Agreed-Upon Procedures
- Supervisory Committee Training
- Implementation of New Accounting Pronouncements and NCUA Regulations
- Verification of Accounts
- Information Technology Reviews
- Internal Control Design and Review
- Outsourced Internal Audits
- Loan Reviews
- Fraud Investigation



WITT MARES, PLC



CONTACT: Harvey L. Johnson, CPA, Sr. Manager
ADDRESS: 701 Town Center Drive, Suite 900
Newport News, VA 23606
OTHER LOCATIONS: Norfolk, Williamsburg,
Richmond and Fairfax, VA
PHONE: 757-627-4644
EMAIL: hjohnson@wittmares.com
WEBSITE: www.wittmares.com

SUMMARY

For more than 30 years, Witt Mares has provided accounting, tax and advisory services for financial institutions. As one of our core industry specialties, financial institutions have been a foundation of our business. Our Financial Institutions Team consists of highly experienced professionals with deep industry knowledge and a commitment to providing exceptional client service. From start up de novo institutions looking to grow, to more complex multi-billion dollar institutions looking for a higher level of expertise, we provide a full range of services.

SERVICES

- Financial Statement Audits
- Supervisory Committee Audits
- Employee Benefit Plan Audits
- Internal Audit Services: Co-Sourcing and Out-Sourcing
- External Loan Reviews
- Risk Management Services to include:
 - Risk Assessments
 - Assistance with Regulatory Compliance
 - Information Technology Audits
 - Enterprise Risk Management – WolfPAC Integrated Risk Management®



WIPFLI



CONTACT: Maureen Fassbinder, JoAnn Cotter
ADDRESS: 8665 Hudson Blvd North, Suite 200
St. Paul, MN 55042
OTHER LOCATIONS: Minnesota, Wisconsin, Illinois
(multiple cities in each state)
PHONE: 651-766-2853 (Maureen)
920-662-2804 (JoAnn)
EMAIL: mfassbinder@wipfli.com
jcotter@wipfli.com
WEBSITE: www.wipfli.com

SUMMARY

Wipfli LLP's Financial Institutions practice provides accounting and consulting services to clients across the upper Midwest and beyond. Our practitioners include certified internal auditors, certified compliance specialists, former financial institution personnel, former regulators, certified trust auditors, loan review specialists, operations specialists, certified information technology specialists and licensed certified public accountants regionally recognized for their knowledge and expertise. We offer a full range of audit and consulting services, including attestation and risk management services.

SERVICES

- Internal Audit
- Regulatory Compliance
- Risk Assessment
- Information Technology
- Loan Review
- Strategic Advisory Services
- Secondary Market Quality Control
- Financial Statement Audits
- Accounting Assistance
- Tax Services



WOJESKI & COMPANY CPAs, P.C.



CONTACT: Thomas J. O'Donnell, Partner
ADDRESS: 75 Troy Road
East Greenbush, NY 12061
PHONE: 518-477-1102
EMAIL: todonnell@wojeskico.com
WEBSITE: www.wojeskico.com

SUMMARY

Wojeski & Company CPAs, P.C. is an accounting, tax and consulting firm that provides a wide range of financial, accounting and technology services. As trusted advisors with a reputation built on technical excellence, we provide extraordinary, personal and timely client service. Our team of knowledgeable and experienced professionals provides fresh thinking, new perspectives and solid solutions to yield value and results. With expertise in many financial and business specialties, we are able to service a diverse group of businesses, institutions and individuals. While our firm enjoys a broad client base, credit unions represent a central focus of our practice.

SERVICES

- Financial Statement Audits
- Supervisory Committee Audits
- ACH Compliance Audits
- BSA/OFAC Compliance Audits
- Website Compliance Audits
- Internal Auditing Services
- Consulting/Accounting Assistance
- Mergers
- Due Diligence
- Forensic Accounting
- Supervisory Committee, Board of Dir. Training
- Membership Confirmation/Verification
- Mail Ballot Elections



WOLF & COMPANY, P.C.

WOLF
& COMPANY, P.C.

CONTACT: John J. Leonard, CPA, Principal

ADDRESS: 99 High Street, 21st Floor
Boston, MA 02110

OTHER LOCATIONS: Springfield, MA; Albany, NY

PHONE: 617-261-8126

EMAIL: jleonard@wolfandco.com

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SEVEN BEST PRACTICES FOR USING MOBILE DEVICES IN CREDIT UNIONS

by Tom Schauer, CEO, TrustCC

In years past, credit unions never thought twice about keeping all data securely in-house. There was no need for outside access. Now, employees are not tethered to a desktop computer within the business. Instead, they also use laptops, tablets and smartphones for remote access. Credit unions often use laptops and mobile devices for testing mobile banking technology, creating new accounts for customers at partner businesses and accessing important account information for support after business hours.

The use of mobile devices provides an overall better member experience. It also allows employees to work from anywhere. Since credit unions are usually created for local, state, or specific business employees, it is vital for employees to have remote access to the latest financial data when they are promoting the benefits of an account off-site. Touchscreen tablets and smartphones work perfectly for signing digital account documents for instant account creation without the account holder

waiting days for paperwork to be processed.

One common use of mobile devices in laptops in credit unions is the creation and maintenance of mobile banking technology. Many credit unions hire dedicated employees to handle their digital presence. This requires the employee to have remote access to fully test websites and mobile apps. Should any glitches occur after business hours, this employee needs a remote way to access the network and fix

the problem. With more members expecting mobile banking as part of their account, it is vital for the systems to work properly.

Not Without Risk

Any time mobile devices are introduced to a network there is an increased risk of the network being compromised. In most cases, laptops and mobile devices are used not only within the corporate network, but outside it as well. This introduces an entirely new set of

risks to credit union networks. While inside the organization, laptops and mobile devices can be monitored and controlled. Once they leave the building, they may be used to connect to untrusted networks. This opens the internal network to the risk of an external attack.

These risks alone are enough to prevent some credit unions from allowing their employees to leave with mobile devices in hand. However with the proper precautions, risks are vastly minimized while the business still benefits from the use of mobile technology. The important thing is to carefully consider how to implement laptops and mobile devices securely. IT should always have the most control, while the employees are severely limited in what they can and cannot do with their new mobile device.

Few Government Regulations

Even though the use of mobile devices in business continues to grow, government regulations are still very vague. This leaves the credit union to create its own best practices

the device. As such, all mobile devices are compatible and easily supported. It is also far easier to restrict access to the network.

Best Practice 2

Inventory all mobile devices and their users quarterly. While some businesses do this annually, TrustCC recommends inventorying devices more often to always ensure devices are with the correct users.

Best Practice 3

Before allowing any employees access to mobile data or devices, require them to sign an acceptable use policy and a privacy policy. The acceptable use policy dictates the scenarios in which the device should be used and who is able to use it. The privacy policy should clearly disclose any monitoring or control the organization has for the device.

Best Practice 4

Only allow user level privileges for mobile devices and laptops. IT should be the only ones with administrative privileges. Users

data loss. IT should manage encryption keys for mobile devices should a user forget his/her password. This ensures no data is lost due to simple human error.

Best Practice 7

TrustCC recommends installing recovery software, such as LoJack, on mobile devices. This is an extra precaution against stolen data by allowing IT to remotely format the mobile device. It may also help in recovering lost or stolen devices. The moment a device is reported as lost or stolen, a remote wipe should be performed immediately.

Are Mobile Devices Safe

With the proper precautions, mobile devices and laptops are safe to use within credit unions. Better member service, improved communications among employees, and access to data remotely create a more efficient work environment. By using TrustCC's recommended seven best practices, credit unions benefit while remaining secure. ■

The use of mobile devices provides an overall better member experience. It also allows employees to work from anywhere.

regarding deployment and use. In most cases, best practices for mobile devices are similar to the use of any technology within a business. The object is to provide the necessary access without compromising the internal network.

Best Practices for Mobile Technology

Credit unions shouldn't wait for the government to create a list of best practices. Instead, TrustCC recommends several ways IT can keep networks secure no matter where employees use their laptops or mobile devices. By using these practices, IT's workload is minimized by greatly reducing potential security risks.

Best Practice 1

Always provide laptops and mobile devices. This allows the credit union more control over

should not have control over the mobile device's settings, administration or application installation. If users are allowed to install applications, restrict them to certain work related or known safe applications to prevent users from accidentally installing malicious applications.

Best Practice 5

Set up laptops and mobile devices to automatically lock after a period of inactivity, usually 15 minutes or less. Require users to use a PIN or password to unlock the device. Never use the same password or PIN for all devices.

Best Practice 6

Whenever possible, mobile devices should be full-disk encrypted. Should a device be lost or stolen, the credit union is protected from



About The Author

Tom Schauer is the CEO and consultant at TrustCC. He has been practicing in IT security, audit, and compliance for 25 years. He is a frequent speaker at numerous national and international conferences, including those hosted by the IIA, AICPA, ISSA, NASCUS, CMA, ACUIA, ISACA, and NCUA. TrustCC maintains a blog that is a constant source of information regarding trends in information security, hacking techniques, and tips for regulatory compliance. Check it out regularly by navigating through their website at www.trustcc.com.



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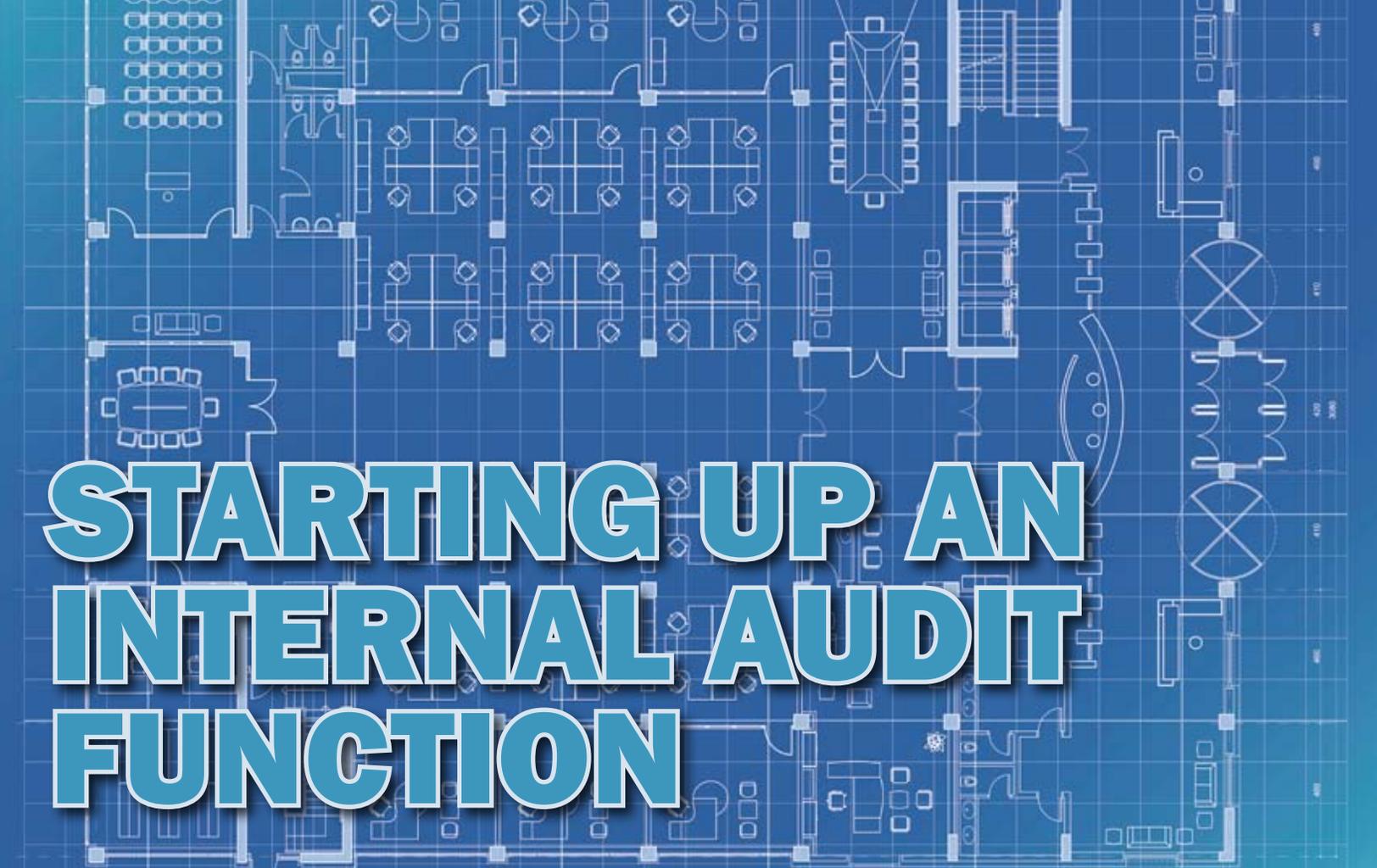
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STARTING UP AN INTERNAL AUDIT FUNCTION

by: Sam Capuano, CBA, CRP

As credit unions have grown over the past decade, many have reached a point in size at which they must add an Internal Audit Department. This creates equal challenges for the Supervisory/Audit Committee, management and the auditor(s.) As one who has been there, I thought it would be a good time to look at the best way to go about doing so.

While this article will deal with how to start up an Internal Audit (IA) department, a question which must first be answered is, does the credit union need such a department? According to the NCUA's *Supervisory Committee Guide for Federal Credit Unions*:

6.01 All large credit unions with complex operations should give serious consideration to having an internal audit department. Other credit unions are urged to have internal

audit functions. The benefits gained from the recommendations stemming from internal audits can be invaluable to the credit union's operations.

Although the Guide has not been revised in over a decade, this would still seem to be a pretty good rule of thumb. I would (and have) argued with many over the years about the benefits of having an IA department. Mine is not exactly an unbiased opinion, but still...

OK, now to those of you who are on the Supervisory Committee, once the decision has been made to hire an internal auditor or two, the next decision, perhaps the most important decision, is who to hire. Again, from the *Supervisory Committee Guide*:

6.05 There are several methods of employing an internal auditor. There are national, regional, and local organizations of internal auditors which may serve as resources for finding appropriate internal audit employees.

There are far too many documented instances of credit unions hiring an unqualified Chief Audit Executive (CAE). And, since this could very well mean the CAE will not do a good job, management could then decide perhaps an IA function is not needed.

Smaller credit unions with limited resources may want to consider sharing an internal auditor with other small credit unions on a consulting basis. Under these arrangements, you generally contract for a quantity of hours of the internal auditor's time. It is important that you hire a qualified individual to carry out this critical responsibility.

To these eyes, the last sentence is the most important. There are far too many documented instances of credit unions hiring an unqualified Chief Audit Executive (CAE). Often times management will grab someone from within with zero audit experience. It might be someone from Accounting, or maybe a loan officer. It doesn't matter, because not only do they not have experience, chances are there is no one else in the credit union who does either, so who is going to train the new CAE? And, since this could very well mean the CAE will not do a good job, management could then decide perhaps an IA function is not needed.

So then, how to find a qualified candidate? The best case obviously would be to hire another credit union auditor, either a CAE who's looking to make a move, or perhaps a staffer who is looking for a career advancement. A bank auditor would work just fine as well. This is the route my credit union took when I was hired to start up the IA function, and the transition time wasn't too bad.

At the time I took my new role, I had been on the job for 15 years. I would

recommend the new CAE have at least five years' experience as an auditor, with at least two of those at a financial institution. Regulatory examiners and external auditors, again with banks/credit unions as clients, can fit the bill nicely, too.

To reiterate, there will very often be no one at the CU with IA experience, and this includes HR and executive management, so they should be looking to the SC for guidance. I would show them the job descriptions which are included in ACUIA's Internal Audit Shop Tools, as they are a great start, and then can be tailored to fit the CU's own standards.

Once the CAE has been hired, there is then the matter of where he/she will reside on the Organization Chart. For the IA function to be worth anything, the CAE needs to have independence. Our NCUA Examiners certainly want to see this. Question 1 from the "Internal Audit Review" AIRE questionnaire asks, "Does the internal auditor report to and take direction from the supervisory committee, free from undue influence by management and/or the board?"

For this independence to be achieved, the CAE has to have a direct report to the SC, at least functionally. Then maybe a dotted line report to someone in executive management as well. Any such reporting to anyone in management should be for administrative purposes only.

Herein lies the biggest quandary for those

starting up a new IA function. I have seen far too many credit unions that are unwilling to give the new CAE the authority he/she needs to do the job right. To be blunt, several of them want the CAE to be under their thumb. This is especially prevalent in those instances of hiring from within to fill the position (perhaps this is the reason many do so).

I have counseled several of my audit brethren and Supervisory Committee members over the years as to how to best go about getting the proper infrastructure in place to achieve the needed independence.

First and foremost, a strong Internal Audit Charter is needed. Work on this should begin Day 1 on the job. This should be done in conjunction with the CAE and the SC Chair. Some of the issues noted above, such as independence and reporting structure, need to be included.

So does IA access and confidentiality. A statement authorizing full, free and unrestricted access to all credit union records and personnel is another critical part of an effective charter. It will also be the one most likely challenged by management. This is understandable, especially since prior to the IA function, perhaps only human resources and the CEO would be allowed to see sensitive documents such as payroll records and board minutes. But, for IA to do the job properly, we need to have access to everything.

However, as Peter Parker learned from

Uncle Ben, with great power, comes great responsibility. Any such knowledge gained by IA reviewing such items must be kept confidential. If not, our credibility is forever marred.

For additional help in your charter, again take a look at ACUIA's Internal Audit Shop Tools, as there is a nice exhibit of one there. Once the charter is completed, it's probably a good idea to let the CEO know about it, without giving him/her editorial authority. It should then be put on the agenda of the next SC meeting, so its approval is in the corresponding minutes. The Committee Chair should then discuss it at the next Board of Directors meeting. Both the Supervisory Committee and Board Chairs should sign the charter.

Next up is an audit plan. Take a look at the organizational chart, then set up meetings with each department head, and take notes as to what they do, and what products they have to offer. From there, based on your experience, and relative materiality of the area within the credit union, set up your plan. Yes, your plan needs to be risk-based. No, it doesn't need to be a fancy schmancy matrix. While such matrices have their place in larger, more complex credit unions, chances are you are small enough (for now) to not need one. My experience has shown many at this level spend too much time on the format of the matrix, while forgetting its purpose. Just make sure you can explain to the examiners and external auditors what is included (and excluded) in your plan, and why.

As for your audit programs, there are multiple sources from which you could choose. The ACUIA Interactive Guide is a good place to grab a bunch of them, and is free to members. Another free source is the NCUA AIREs Checklists. There also several subscription services out there. If you have audit experience prior to coming to the credit union, you probably brought some of yours with you. Any of these will need to be

tweaked to fit to your credit union, but will get you going.

The new CAE should also make it a point to visit all the branches, to include a chat with the manager and staff. It's always good to have such introductions in a non-combative setting. In other words, it avoids the ol' "Hi, I'm the auditor. Nice to meet you. Now open your cash drawer so I can count it."

Which brings us to employee relations. While we auditors surely know how important our jobs are, management may not feel the same way, especially at start up. My credit union had somehow functioned without an internal auditor for 65 years prior to my arrival. So, the natural feeling for many is, why do we need IA?

We of course will say, "we're here to help," right? They may not agree. They may not also understand all the risks and exposures we talk about. As such, it is a good idea not to come riding in on a high horse when we start things up (or at any other time for that matter). I am here to tell you several of your new co-workers who have worked at a credit union without an audit function will take a long time to warm up to IA. Some never will.

These non-believers can include those in executive management. This is where those of you on the Supervisory Committee can be vital. A chat between the Chairs of the Committee and the Board, and maybe even the CEO can do wonders to help in this regard.

That said, there will also be some growing pains for the Committee. These fine folks have, prior to our arrival, been performing many of the tasks we are now doing. This may even include loan file review, or branch audits. Now, I am not saying they can't continue doing so (especially because they are my bosses), but I slowly talked mine out of this duplication of efforts. Then there is the matter of the CAE perhaps having to provide guidance and training to the Committee

members. This of course means we are providing instruction to those to whom we report. It can be a delicate situation, but if done properly, be a worthwhile exercise.

Because, as noted above, nothing will be more important in the early stages of a new IA department than the support, and (hopefully) clout of the Supervisory Committee. They will be the ones who will be (again, hopefully) going to bat for us, and providing interference as we establish things.

Once all of this is in place, it is finally time to conduct some audits. Again, keep in mind this will be a new experience to many at the credit union. This is not to say one should go easy, but to expect perhaps a different reaction than you may have had in the past, especially if, say you were at a bank at which there had been an IA function for years.

Prior to presenting findings the first time, the CAE should communicate to all managers what the process will be like. This can include the exit discussion, the audit report/response format, and the audit grading system.

As a final note, feel free to use all the ACUIA resources available to you as a member. There are several noted above, but perhaps the greatest resource is the network of those who have been there before. Some of us have even lived to tell about it.

Good luck! ■

About the Author

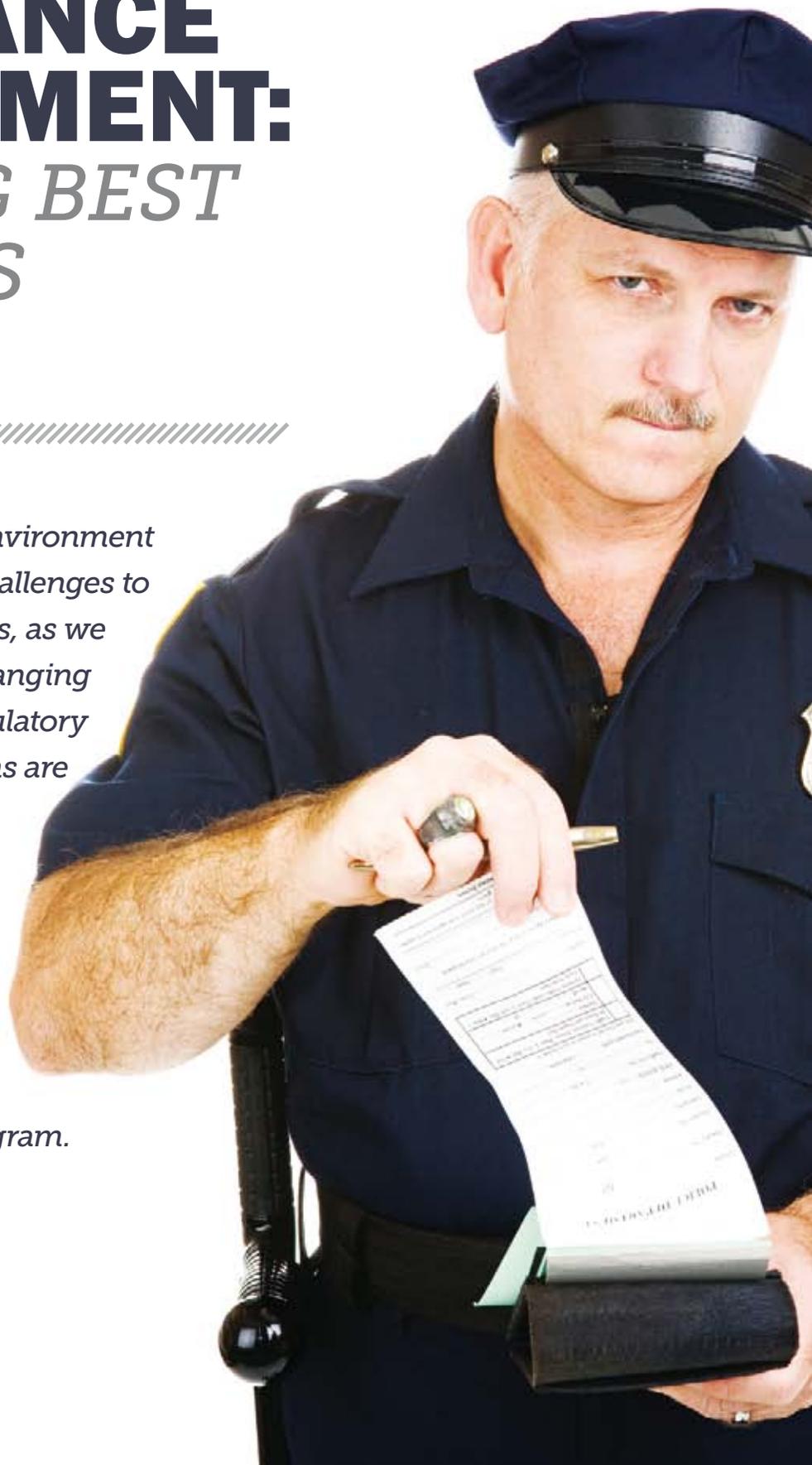


Sam Capuano, CBA, CRP, has been a financial institution internal auditor since 1985. He has been the Manager of Internal Audit at Sunmark FCU in Albany, NY since starting its internal audit function in 2002. Capuano is a frequent contributor to *The Audit Report*, and is Immediate Past Chair of ACUIA.

COMPLIANCE MANAGEMENT: EMERGING BEST PRACTICES

by David Smith, CAMS, CRCM
Senior Manager, Accume Partners

Today's complex regulatory environment is presenting many difficult challenges to financial institutions of all sizes, as we face a more stringent, ever-changing and increasingly complex regulatory environment. Many institutions are re-evaluating their regulatory management practices, and in most cases have discovered that they now require further enhancements. Compliance with regulations begins and ends with a comprehensive compliance management program.



The basis of any successful compliance management program is effective Board and management oversight, internal controls (policies, procedures, processes and training) and self-testing/audit reviews. The components required for a successful compliance program are described below.

Board Oversight

Effective Board and management oversight is a critical facet of a compliance management program. The Board of Directors must demonstrate clear expectations about compliance within the institution and to third-party providers. They need to appoint a Compliance Officer with authority (cross department lines, access to all operations areas and effects corrective action) and accountability, ensure the duties and responsibilities of the Compliance Officer have been formalized and clearly communicated, and ensure the Compliance Officer is independent and reports directly to the Board of Directors. Other responsibilities of the Board include approving (and making sure it is effective) the compliance management program on an annual basis and allocating sufficient resources to the compliance function commensurate with the level and complexity of the institution's operations. The Board of Directors should review reports relating to compliance deficiencies to verify the reports, identify compliance issues, and show when corrective action is needed and taken for the issues identified.

Senior Management Supervision

Senior management supervision is critical as well. Management must track, monitor and implement regulatory changes. The first step, which is often overlooked, is to assess the risks associated with the institution's compliance activities, typically through a Board-approved risk assessment. Those risks should then be managed through policies, procedures and processes. The Compliance Officer is responsible for periodically monitoring compliance with each regulation covered in the program to verify the program is effective, and the risks are being appropriately mitigated. Appropriate reporting should follow the completion of monitoring activities. Any deficiencies identified in regulatory compliance examinations, audit findings and internal monitoring reviews must be tracked and corrected by senior management. Consumer protection laws must be taken into account for changes to products, services, policies and procedures. The Compliance Officer must review compliance documentation before

usage and periodically to ensure that forms comply with applicable regulations and reflect the institution's actual practices. There have been too many instances where the Compliance Officer has not been included in discussions for new products or services, and are brought into discussions at the last minute, or they are informed of new products/services/advertising after they have already been introduced.

Internal Controls

A sound compliance program includes internal controls (policies, procedures, processes and training) and a consumer complaint response process. The institution should have a comprehensive set of policies and procedures for each regulation impacting them. Compliance policies, procedures and processes should:

- Provide personnel with information needed to perform a business transaction, such as regulation cites, sample forms, checklists, worksheets and instructions
- Include institution-specific policy
- Specify record retention
- Ensure procedures are in place to obtain approval on all advertising before use
- Address segregation of duties

A consumer complaint review process should:

- Establish procedures for addressing complaints, identify individuals or departments responsible for handling complaints, and make sure they are designated and known to all institution personnel in order to expedite responses
- Take notice of the cause of the complaints and take action to improve the institution's practices as a result
- Monitor complaints about third-party providers

Training

Employees must receive sufficient training based on their job functions to ensure compliance with laws and regulations. Sufficient training should be periodically provided to the Board of Directors. Line management and staff must receive specific, comprehensive training in laws, regulations and internal policies and procedures that directly affect their jobs. Training materials must be updated regularly to reflect regulatory changes and changes in institution products or services.

Self-Testing

Management should perform sufficient self-testing to verify policies, procedures and policies are carried out appropriately. Internal self-testing (transaction testing) should be conducted for areas of high compliance risk. The institution's self-testing serves as the first barrier of defense against mistakes and violations of law. Audit serves as the secondary level of defense and complements the institution's internal monitoring system. Audit should review the institution's self-testing to ensure it is appropriate and conduct its own transactional testing (with an appropriate scope and sample size) as well. Having these two layers of defense affords the institution an opportunity to correct any weaknesses in the compliance management program prior to regulators finding them through their own testing and reviews.

Conclusion

It is imperative for an institution's compliance management program to have effective Board and management oversight, internal controls (policies, procedures, processes and training), and self-testing/audit reviews. It will be significantly easier and more efficient for an institution to monitor and implement regulatory changes with the appropriate structure in place. A program based upon a risk assessment will receive more praise from regulators as well. Although the current regulatory environment is burdensome, those institutions with an effective compliance program are at least staying current by proactively managing compliance risk. ■

About The Author

David is a Senior Manager and has over seven years of regulatory compliance experience in the financial institutions industry. He provides regulatory compliance services to the firm's financial institutions clients. David administers client compliance programs, assesses compliance risk, performs compliance monitoring and testing, provides compliance training, drafts policies and procedures, interprets compliance laws and regulations, provides guidance for efficient implementation of law and regulation changes to business processes, and performs compliance audits. David is a Certified Anti-Money Laundering Specialist and is a Certified Regulatory Compliance Manager. He is a member of the Institute of Certified Bankers, Institute of Internal Auditors and the Association of Certified Anti-Money Laundering Specialists. He is a graduate of the Stonier Graduate School of Banking and King's College (B.S., Accounting).



THE STANDARDS

EVALUATING RISK MANAGEMENT

by Pat Richey, Director of Internal Audit, CFE, NCCO
Finance Center Federal Credit Union

The International Standards for the Professional Practice of Internal Auditing (Standards) states in Standard 2100 that internal audit must evaluate and contribute to the improvement of governance, risk management, and control. Last quarter we looked at governance, so now we'll tackle risk management. In the last issue I said that risk management was easy to get our arms around, but I must have meant easier than governance, because I don't know what is easy about risk management.

Standard 2120 states that internal audit must evaluate the effectiveness of the risk management process and contribute to the credit union's improvement of that process.

Risk Management Defined

I didn't Google "risk management," because I'm sure I would find so many definitions it would make my head whirl. However, the Standards define risk management as "A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives."

It used to be that risk management was intuitive, informal, undocumented and rather taken for granted. Now it is just the opposite. Things have changed considerably at my credit

union, which now has a VP Risk Management and risk assessment software that documents the risk assessment process. Most significantly (at least to me), Internal Audit is completely changing the way it audits in order to dovetail with management's risk assessment.

There isn't a day that goes by that our VP Risk Management isn't advising other credit unions about our risk management process. His office is next to mine and he is very loud (even with his door closed!), and each time he speaks with another credit union I hear him invoking Internal Audit's name and discussing how Internal Audit is changing audit methods.

Evaluating Effectiveness

To evaluate risk management effectiveness, Standard 2120 states that internal audit assesses whether

1. Credit union objectives support and align with the credit union's mission
2. Significant risks are identified and assessed
3. Appropriate risk responses align risks with the credit union's risk appetite and
4. Relevant risk information is captured and communicated timely across the credit union

Assessing risk management doesn't have to be a specific, focused risk management audit. You can gather information while performing the audits on your audit plan. However, when you put all audit results together, you should be able to assess the effectiveness of the credit union's risk management process.

Responsibility

Who is responsible for risk management? On the one hand, Practice Advisory 2120-1 (PA) says it is the responsibility of senior management and the board of directors to manage, oversee and monitor risks, and internal audit's role is to audit the process as part of the internal audit plan. Internal audit can aid the board in discharging its oversight responsibility by providing assurance services - examining, evaluating, reporting and recommending improvements. Also, internal

audit can have a consulting role by helping the credit union in identifying, evaluating and implementing procedures and controls to address risks. I wholeheartedly agree with those roles.

However, the PA also states that internal audit's role may include involvement in the process such as participating on oversight committees and monitoring activities, or even managing and coordinating the risk management process. I disagree that this is internal audit's role. However, we know how things like this land in internal audit's lap - the credit union wants to implement Enterprise Risk Management (ERM), doesn't have anyone qualified, interested, or with time on her hands, and a light bulb goes on and the credit union says "Ah-ha - Internal Audit!" Where is the Supervisory/Audit Committee when this happens?

The PA says that when internal audit takes on management's responsibility for the risk management process and the potential threat to internal audit independence, it first requires serious discussion and Board approval.

Internal Audit Charter

Whatever Internal Audit's role and responsibilities in the risk management process, it should be addressed in the Internal Audit Charter. My audit charter borrows liberally from the Standards. Here are some excerpts.

"Mission: Internal Audit helps the Credit Union accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Scope of Work: The scope of work of Internal Audit is to determine whether the Credit Union network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning

Accountability: The Director of Internal

Audit, in the discharge of her duties, shall be accountable to the Supervisory Committee to provide an assessment of the adequacy and effectiveness of the Credit Union's processes for controlling its activities and managing its risks

Not "One-Size-Fits-All"

The risk management process is not a one-size-fits-all process; like most things it depends on the credit union's size, complexity, and culture. Not everyone has to jump on the ERM bandwagon. However, when internal audit evaluates the process it should determine whether the credit union's risk management process is appropriate for the credit union's size and complexity.

Audit Practices

The PA gives several helpful hints on how to evaluate risk management effectiveness. Here are the two that I think are the most important.

Keep Up-To-Date: Internal Audit needs to keep up-to-date on credit union industry developments, trends, risks, exposures and controls. In our 2-person department, to get good coverage of issues I read the industry and professional journals, and my Staff Auditor, Jennifer Rue, keeps up-to-date with online sources such as blogs. And of course, the ACUIA conference, regional and chapter meetings, and Forum postings are invaluable.

Also, keep up-to-date with your Credit Union's strategies, plans, risk management issues and changes. Again, in our department we divvy up the responsibility - I read the Board meeting reports and minutes, strategic plans, and examination reports and Jennifer attends the lending and operations meetings.

Ask: Ask senior and middle managers about their areas' objectives and risks and how they manage those risks. This is generally part of every audit. However, in my credit union's new ERM endeavor, we are discussing how to use an internal audit facilitated Control Self-Assessment in the process. Also, in

cont'd on page 35



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SETTING THE STANDARD IN CREDIT UNION PROFESSIONAL SERVICES

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- Website Compliance Reviews

MEMBER SPOTLIGHT *by Tabitha Ernst-Chadwick*

Emilio Lopez



In this issue I'm excited to introduce Emilio Lopez, audit manager at PSFCU.

Tell us about yourself.

I was born in Spain and came to the United States at a young age. I am married and have three children—two boys and a baby girl. I have been working in the financial industry for 14 years, the last 10 years in Audit. I am currently the Audit Manager at PSFCU.

What do you do in your spare time - hobbies, social interests, volunteer opportunities, etc.?

For the last 4 years I have coached youth soccer. I have also participated in the past in foreign language translation and volunteered to teach English.

Tell us about your professional background and your auditing career.

I attended Seton Hall University and graduated with a degree in Accounting. After working as an accountant for 4 years, I applied for a position with an international bank that was seeking an individual who was fluent in Spanish as the bank had offices in Argentina and Uruguay. That opened the door for me, and I was given the position and started my Auditing career. This involved travelling to Uruguay and Argentina and working with the bank's Audit Department based in Uruguay, primarily in issues related to BSA. I am currently pursuing a CIA certification.

Over the years you've been involved in auditing, how has the industry changed?

The landscape is ever changing as one has to be in tune with the constant changes in regulations. Also, one has to be open to changes, as what should be done one year may not be applicable the next time around.

What advice would you give to a new auditor just entering the field?

I would tell them that they should be open to change in that there are always new ideas out there that can improve the audit process. Don't look at the audit function as a position that needs to follow a rigid work manual.

What ACUIA membership benefits do you find most rewarding?

I have been an ACUIA member for 3 years. I enjoy the annual conferences in that they offer valuable insight on relevant topics currently affecting the audit world, and allow interactions with other colleagues facing similar challenges. The ACUIA message boards or email lists also allow members to share valuable information or ask for guidance in certain cases.

Thanks Emilio! I know our ACUIA friends will enjoy getting to know you as much as I did!

FUN FACTS ABOUT EMILIO

FAVORITE SPORTS TEAMS:
FC Barcelona, New York Red Bulls, Brooklyn Nets, NY Giants, NY Mets

FAVORITE FOOD:
Cuisine from Spain

FAVORITE SONG:
Viva la Vida

FAVORITE POLITICIAN:
Ronald Reagan

PSYCHOLOGICAL DISORDER:
Soccer junky

DO YOU KNOW A MEMBER WHO SHOULD BE FEATURED IN OUR MEMBER SPOTLIGHT?

Please email Tabitha Ernst-Chadwick at acuaia@acuaia.org with your nominations.

WHAT'S HAPPENING ON THE FORUM

by Warren Whiteoak, CUCE, BSACS

Summary of Recent Discussions on the ACUIA Forum



The purpose of the column is to summarize the discussions on ACUIA's Forum. The Forum is being used more and more every day. So go to www.acuia.org and see what your peers are discussing and join in.

Just a reminder, if you are requesting a copy of a policy or procedure on your post to the Forum remember to include your e-mail address so people can respond directly to you since there is no way to attach documents to Forum responses. ■

Question:

What do you have in your Supervisory Committee package?

Answer:

One respondent includes all audit reports, and the package is over 100 Pages. Most respondents used a list or matrix of audit findings and management's responses. One also included points to be discussed, while one respondent included the audit area's overall rating of well-controlled, adequate, or needs improvement. Another included a review of the audit plan.

Question:

What regulation governs the ATM Fee notice?

Answer:

Regulation E is the governing regulation. One respondent recommend taking photographs of the fee notice posted on the ATM and having branch managers periodically ensure the notice is still posted on the ATM. Another reported that CUNA has asked the Consumer Financial Protection Bureau to suspend this duplicate notice since it is also required to be displayed on the ATM screen.

Question:

How often do you rotate external auditors or at least rotate partners on the audit engagement?

Answer:

Responses ranged from once every three years to "we have had the same firm for 20 years." One respondent referenced an IIA statement that declared firm rotation was costly with minimal benefits. One Supervisory Committee stated "why change if you are happy with the firm?"

Get involved in the conversation at www.acuia.org

Question:

If you have an in-house counsel, at what asset size did you hire them?

Answer:

Those with in-house counsels hired them anywhere from 500 million to over 1 billion in assets. One respondent had no in-house counsel and was over 1 billion. At the CUNA Attorney conference only 20% of the attendees had an in-house counsel. Of the credit unions with in-house counsel at the conference, 87% were over 1 billion.

Question:

Is your physical location secure so that you may discuss confidential items?

Answer:

All respondents stated the CAE usually has a secured private office or conference room for the discussion of confidential matters. Most staff occupy cubicles in an open area adjacent to other departments. Only one CAE had a large secured area for him/herself and the staff.

Question:

Should the auditor be present at the exit meeting between the NCUA examiners and the Board of Directors?

Answer:

80% of the respondents stated yes, they were present.

Question:

Do you allow employees to have ODP on all their accounts, and are there any special restrictions for them?

Answer:

All respondents stated employees with ODP are treated the same as all other members.

The Standards, *cont'd from page 29*

my annual audit planning process, I ask all senior managers where they see the most risk, and generally learn a lot about upcoming developments for the new audit year. I incorporate their responses into my audit risk assessment.

Information Systems

Standard 2120.A1 states that internal audit must evaluate risks relating to governance,

operations and information systems as they relate to reliability/integrity of information, effectiveness/efficiency, safeguarding assets, and compliance. I discussed governance last quarter, and evaluating operations risk is the easiest part.

However, general auditors may not feel qualified to evaluate information systems risk management. Under the Proficiency Standard, Standard 1210.A3 states internal audit must have sufficient knowledge of key

information technology risks and controls. However, if internal audit is not qualified, then information system assessments must be outsourced to a 3rd party.

We outsource internal/external vulnerability assessments, penetration testing, and social engineering. However, I try to do as much information systems auditing as possible. Of course, there is always a learning curve – you have to ask a million questions.

cont'd on page 35

REGIONAL NEWS

REGION 1

Director Julie Wilson
Internal Auditor, iQ CU
juliew@iqcu.com

No news for Region 1. Please contact Julie for any information.

REGION 2

Director Margaret Chamberlain
AVP Internal Audit, Arizona State CU
margaret.chamberlain@azstcu.org

No news for Region 2. Please contact Margaret for any information.

REGION 3

Director Dean Swenson
General Auditor, Wings Financial FCU
dswenson2@wingsfinancial.com

Minnesota Chapter

On April 27th the Minnesota Chapter held its annual meeting at Topline Credit Union. Twelve ACUIA members were present along with thirteen non-members and two individuals from the NCUA. Nine participants were Supervisory Committee members from five different credit unions.

Randy Romes and Angie Harty from CliftonLarsonAllen discussed E-Commerce Security and Concentration Risk. Justin Bursleson, NCUA's new District Supervisory Examiner, was present to introduce himself and to provide the participants with what he expects from the credit unions. He brought along one of his examiners, Joel Tauscher, to go over what examiners are focused on this year. They also provided valuable comments during the other presentations. The Supervisory Committee members in attendance had their own breakout session during lunch.

Thank You to Van Sprenger, the Minnesota Chapter Coordinator, for organizing this meeting; to the presenters; and to McGladrey & Pullen for providing breakfast.

Region Meeting

The agenda for the Region 3 meeting is being finalized and information was provided at the National Conference in Denver. The meeting is being held on September 19-21st at Baxter Credit Union located in the Chicago suburb of Vernon Hills, IL. This year's meeting is setting up to be another great collection of speakers and topics. Sponsors for the meeting include CliftonLarsonAllen, Doeren Mayhew, McGladrey, and MossAdams, LLP.



REGION 4

Director Claudia Rodriguez, CFE
Internal Auditor III, GECU of El Paso
claudia.rodriguez@gecu-ep.org

The 2012 Region 4 Meeting will be held August 30-31 at First Community Credit Union in St. Louis, MO. Please check the ACUIA website for more details.



REGION 5

Director Lorraine Heneka MBA, NCCO
Director of Internal Audit, Hudson Valley Federal Credit Union
henel@hvfcu.org

No news for Region 5. Please contact Lorraine for any information.

GOT QUESTIONS?

Contact your regional director to find out the latest on region news and events.

REGION 6



Director Bobby Nichols
 SVP – Audit Services, NCSECU
 bobby.nichols@ncsecu.org

This year's Region 6 Meeting will be held September 26-28 at State Employees' Credit Union in Raleigh, NC. Cost is \$199.00 for early registration.

The Tennessee Chapter meeting was hosted by Y12 Federal Credit Union in Oak Ridge, Tennessee. A roundtable discussion of various topics including vendor management, risk based pricing, and NCUA hot items was held, followed by a presentation by Craig Peters from Peters and Associates CPA.

The Carolinas Chapter held two meetings: one in Irmo, SC and the second in Raleigh. The South Carolina meeting was held at the SC Credit Union League on February 23rd while the North Carolina group gathered at State Employees Credit Union on April 13th. Paul Straubel, partner with Bacino & Associates, the firm who manages the ACUIA administration, joined the NC meeting to update the group on upcoming events. Hot topic discussions were held at both the SC and NC venues.

The Standards, cont'd from page 33

When I became a credit union internal auditor I had to learn branch and lending operations, ACH, wire transfer, etc. So why not information systems? I hate paying someone to do something I can do myself. We do data room environmental risk, security and business continuity planning audits (IS testing, backups etc.); and audits of logical access to network applications and core processing, and remote access.

Fraud

Standard 2120.A2 states internal audit must evaluate the potential for fraud and how the credit union manages fraud risk. Under the Proficiency Standard, Standard 1210.A2 states that internal auditors must have sufficient knowledge to evaluate fraud risk and how it is managed. The Institute of Internal Auditors (IIA) used to have a Practice Advisory about internal audit's responsibilities relating to fraud risk assessments, but that advisory was eliminated in the 2009 Standards revision.

Enterprise Risk Management

To learn about Enterprise Risk Management, I suggest COSO's "Enterprise Risk Management – Integrated Framework." The 2-volume report states "internal auditors play a key role in evaluating the effectiveness of – and recommending improvements to – enterprise risk management." ■



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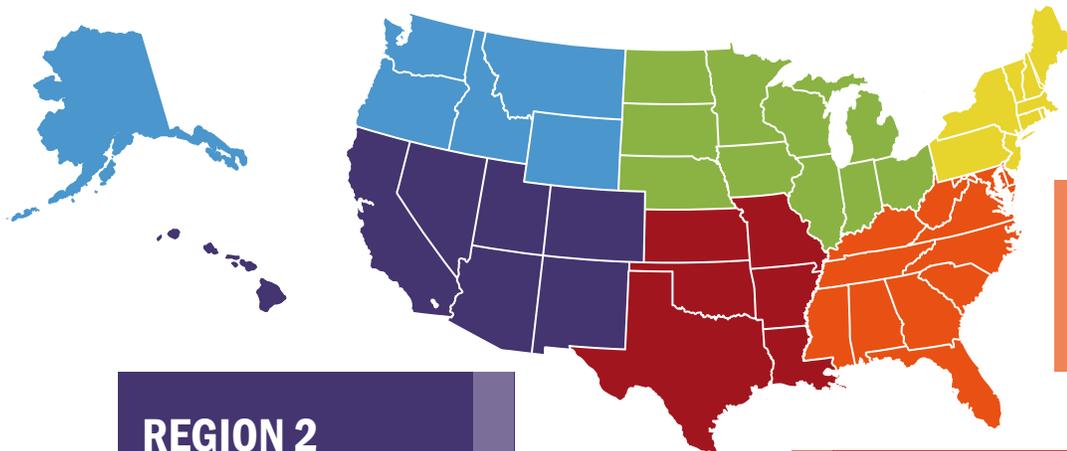
Julie Wilson
juliew@iqcu.com

REGION 3

Dean Swenson
dswenson2@wingsfinancial.com

REGION 5

Lorraine Heneka, MBA, NCCO
henel@hvfcu.org



REGION 2

Margaret Chamberlain
margaret.chamberlain@azstcu.org

REGION 6

Bobby Nichols
bobby.nichols@ncsecu.org

REGION 4

Claudia H. Rodriguez, CFE
claudia.rodriguez@gecu-ep.org

Contact these
volunteer
leaders and
get involved
in local ACUIA
activities.

CHAPTER COORDINATORS

California Chapter

Kara Giano
kgiano@golden1.com

New York City Chapter

Warren Whiteoak, CUCE, BSACS
wwhiteoak@progressivecu.org

Carolina Chapter

Roger Holcomb
roger.holcomb@sharonview.org

St. Louis Chapter

Shashawnee D. Newhouse
shewhouse@firstcommunity.com

Indiana Chapter

Patricia Richey, CFE, NCCO
prichey@fcfcu.com

Tennessee Chapter

Mark Jenkins
mjenkins@tvacreditunion.com

Minnesota Chapter

Van Sprenger, NCCO, CIA
vsprenger@toplinecu.com

Utah Chapter

Randy Mancill, CIA, CFE, CFSA
rmancill@americafirst.com

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(indicate # for each)

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Primary Member Information Privacy Information: Do not include my name in the ACUIA Directory

First Name: _____ Last Name: _____

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