Best Practices in Branch Auditing

Amy Schaefer, CIA, CUCE, CUERME
Senior Internal Auditor
Royal Credit Union - Eau Claire, WI
My Background

- Bachelors in Accounting
- Over 13 years in credit union auditing
- Certified Internal Auditor (CIA)
- Credit Union Compliance Expert (CUCE)
- Credit Union Enterprise Risk Management Expert (CUERME)
- ACUIA Board Member
Background

• Why do we complete branch audits?
  – Examiner expectations
  – Cash is a liquid asset
    • “Mysterious Disappearance of Cash” – CUNA Mutual
  – Internal control deficiencies
Background

• Branch Audits:
  – Changed over time
  – Completed on a surprise basis
    • Arrive before any branch staff
  – Established relationships with Supervisors
    • Courteous
    • Respectful

“We’re going to parachute in and do a surprise audit, but I want to keep the whole thing low key.”
Learning Objectives

• **Branch Risk Assessment**
• Quarterly Self-Audits
• Guest Auditors
• Audit Program
• Audit Report
• Follow-up
• Annual Recognition
Branch Risk Assessment

• Which offices should be audited and how often?
  – It depends on the size of your credit union

<table>
<thead>
<tr>
<th>Royal CU</th>
<th>2001</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Size</td>
<td>$532M</td>
<td>$1.4B</td>
</tr>
<tr>
<td>Branches</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td># of Branches Audited</td>
<td>10</td>
<td>Based on Risk Assessment</td>
</tr>
<tr>
<td>In School Branches</td>
<td>Not included in scope</td>
<td>Include a sample from 27 sites</td>
</tr>
</tbody>
</table>
Risk Assessment Basics

• What is a risk assessment?
  – Tool to evaluate the likelihood and impact of an event occurring

• Why a risk assessment?
  – Limited resources

• Real Life Examples:
  – Crossing the street
  – Riding a bike to work
Branch Risk Assessment

- Make it easy
- Customize it
- Update annually

![Branch Risk Assessment Table]

**Branch Management Turnover (since January 1st of prior year):**

1. No Changes in BM, TS
2. One Change in BM or TS
3. Change in both BM & TS

**Prior Audit Opinion:**

1. Well Controlled
2. Satisfactory
3. Needs Improvement or Observation Scope was completed in prior year
4. Unsatisfactory
5. Non-Existential or not audited in prior year

**Last Audit Scope:**

1. Full Scope Audit
2. Limited Scope Audit
3. Observation Review
4. Not audited in prior year

**Date of Last Internal Audit:**

<table>
<thead>
<tr>
<th>Branch</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
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</thead>
<tbody>
<tr>
<td>BM</td>
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<td>SM</td>
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<tr>
<td>TS</td>
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Royal Credit Union
Learning Objectives

- Branch Risk Assessment
- **Quarterly Self-Audits**
  - Guest Auditors
  - Audit Program
  - Audit Report
- Follow-up
- Annual Recognition
Quarterly Self-Audits

- What happens between branch audits?
  - Self audits conducted by Branch Managers
  - Control descriptions vs. “yes/no” answers
Learning Objectives

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- Quarterly Self-Audits
- **Guest Auditors**
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Guest Auditors

• Who?
  – Branch Supervisors
  – Accounting students
  – Anyone who is interested in auditing
Guest Auditors

Joe Johnston
RCU Branch Manager
Osceola, WI
Guest Auditors

• Why?
  – New viewpoint
  – Great assistants
  – Learn new processes for their branch
Guest Auditors

Missy Kostman, RCU Vice President of Branch Operations
Learning Objectives

• Branch Risk Assessment
• Quarterly Self-Audits
• Guest Auditors

• **Audit Program**
  • Audit Report
  • Follow-up
  • Annual Recognition
Audit Program

• What do you look at?
• Objectives:
  – Effectiveness and efficiency of operations
  – Compliance with credit union policies and procedures
  – Safeguarding of staff, members, negotiable items and information
  – Reliability of internal and vendor information
Common Findings

• Security – Member info., physical

• Inaccurate internal records

• Computers not locked when away from their workstations
Common Findings

- Teller drawers not locked when unattended
- Dual control not maintained in over night deposit or vault
- Shoulder surfing
Learning Objectives

• Branch Risk Assessment
• Quarterly Self-Audits
• Guest Auditors
• Audit Program

• **Audit Report**
  • Follow-up
  • Annual Recognition
Audit Report

- How do you report your findings?
- Reports written to the reader
  - Detailed report for Branch Manager, Management Team
  - Summary (primarily) for Audit Committee

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**Objective**

To determine the following:
- Effective risk and efficiency of operations
- Compliance with ROU policies and procedures
- Safeguarding of staff, members, negotiable items and information
- Reliability of internal and external information

**Scope**

A risk assessment was completed for the office, including support areas, average cash levels, average number of office transactions, prior audit conditions, etc. The results of the risk assessment determined the branch would receive a full scope, limited scope, or no scope review. In addition, the branch completed a comparison of their quarterly documentation of internal controls to review for sufficient detail and adequacy of controls in place.

The branch office received a full scope audit on August 7, 2013.
Learning Objectives

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• **Follow-up**
• Annual Recognition
Follow-up

• How do you follow-up on prior audit conditions?
  – Wait until next audit
  – Stop into the office
  – Obtain assistance from regional managers
Follow-up

“Partnering with Audit Services for the audit follow-ups creates a team approach while making the process more effective...

...It can create a sense of pride if there are no findings, and of ownership to get resolved when there are findings…”

Rachel Risberg,
RCU Executive Vice President - Member Experience
Follow-up

Status of Recommendations
Branch Name
Original Review: 08/12
Follow-up Date(s): 05/13

**Recommendations Fully Implemented**

<table>
<thead>
<tr>
<th>Issue/Department</th>
<th>Recommendation</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Confidential information can be viewed on the receptionist desk’s computer monitor by unauthorized individuals.</td>
<td>Determine if privacy screens should be implemented in other areas of the credit union to reduced view of confidential Member or RCU information.</td>
<td>The Branch Manager has installed a privacy screen on the monitor at the receptionist desk.</td>
</tr>
<tr>
<td>2. An employee did not consistently lock her PC when away from her workstation.</td>
<td>All RCU staff members need continuous education about why they need to lock their PC’s when unattended.</td>
<td>During a follow-up visit, all team members were observed locking their PC when unattended.</td>
</tr>
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</table>

**Recommendations Partially Implemented**

*Further action will be coming*

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<tbody>
<tr>
<td>Used if there is an issue that was addressed, but how it was addressed did not eliminate the problem and additional action will be taken.</td>
<td></td>
</tr>
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• Annual Recognition
Annual Recognition

• Branch Audit Awards
  – Coordinated with Operations Leadership
  – Made it FUN!
Key Take-a-ways

- Keep risk assessments simple
- Update audit programs annually
- Implement a guest auditor program
- Develop a relationship with auditees
- Write audit reports to the appropriate reader
- Follow-up on audit issues
- Recognize positive controls, attitudes
Additional Discussion

- Any other best practices that anyone would like to share?
- Other comments or questions?
Contact Information

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