BEST PRACTICES:

A GUIDE TO SUPERVISORY COMMITTEE EFFECTIVENESS

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OBJECTIVES

❖ Provide a framework for ensuring continuity over time;

❖ Present a methodology for documenting the Committee’s activities; and

❖ Address and clarify commonly misunderstood issues.
PART I:

SUPERVISORY COMMITTEE INFRASTRUCTURE
ORIENTATION PACKET

- Hard copy or electronic?

- Develop a checklist of contents for easy & consistent assembly.
PART I: Supervisory Committee Infrastructure

ORIENTATION PACKET CONTENTS

- Credit Union’s Bylaws
- Supervisory Committee Charter
- Internal Audit Charter
- Directory of Officials & Key Managers
  - Name
  - Title
  - Contact Info
- List of Credit Union Committees & Members
- Organization Chart
PART I: Supervisory Committee Infrastructure

ORIENTATION PACKET CONTENTS

- Annual Audit Plan
- Relevant Policies
  - Audit Policy
  - Privacy/Confidentiality/Nondisclosure Policy
  - Volunteer Account Policy
  - Training Policy
  - Travel Policy
  - Business Expense Policy
PART I: Supervisory Committee Infrastructure

**ORIENTATION PACKET CONTENTS**

- Job Descriptions
  - Chair
  - Secretary
  - Member
  - Chief Audit Executive
- Marketing Brochures Product & Services
- Most Recent Annual Report
PART I: Supervisory Committee Infrastructure

**ESTABLISH RECURRING MEETING DATE**

- Example: First Tuesday of every month at noon in the board room

- Reevaluate at Committee’s annual organization meeting
PART I: Supervisory Committee Infrastructure

ESTABLISH RECURRING MEETING DATE

Timing

- If before board meeting, SC chair can give timely report about Committee’s last meeting
- If after board meeting, SC chair can give SC members timely briefing about board meeting
- Somewhere in between
PART I: Supervisory Committee Infrastructure

CRITICAL DOCUMENTS

❖ Supervisory Committee Charter
❖ Internal Audit Charter
❖ Job Descriptions: Chair, Secretary, Member, Auditor
❖ Committee Calendar/Task List
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**MEETING PACKET CONTENTS**

- Agenda
- Prior Meeting Minutes
- Chief Internal Auditor’s update memo
- Internal audit reports issued since last meeting
- Other reports (e.g., NCUA, CPA, consultants) issued since last meeting
PART I: Supervisory Committee Infrastructure

MEETING PACKET CONTENTS

- Member complaints received by the Committee since the last meeting
- Other correspondence received by the Committee since the last meeting
- Any charters, policies, risk analyses, audit plans, etc. scheduled for the Committee’s review and/or approval
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MEETING PACKET CONTENTS

- First meeting after quarter end, include:
  - Internal Audit Time Utilization Report
  - Status of Annual Audit Strategy/Plan
  - Status of Outstanding Action Plans (SOAP) Report – monthly if tracking a lot of items
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MEETING PACKET CONTENTS

- Include these annual items when due for review or approval:
  - Supervisory Committee Charter
  - Internal Audit Charter
  - Job Descriptions (Chair, Secretary, Member, CAE)
  - Audit & Examination Policy
  - Annual Audit Strategy (i.e., Audit Plan)
MEETING PACKET – IMPORTANT!

If it’s in the packet, it MUST be on the agenda; if it’s on the agenda, it MUST be in the minutes!
MEETING MINUTES

- Header section includes:

  - Type of meeting (i.e., regular vs. special)
  - Meeting time, date & location
  - Committee members present & title (i.e., Chair, Secretary, Member)
  - Committee members absent – indicate whether or not excused
  - Others present – name, organization (if not the CU) and job title – note if recording secretary
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**MEETING MINUTES**

- Body of minutes includes section for each agenda item

- Record what was discussed and what was decided
  - Minutes are not a transcript of who said what, unless a member wants something noted for the record
  - When a vote was taken, record the motion, the second and the result
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**MEETING MINUTES**

- Do not record how each member voted

- Do not record the number of votes “for” or “against” – the motion either carried or it failed

- DO record the name(s) of abstaining member(s)

- DO record the name(s) of dissenting voters IF the member wants his/her vote noted for the record.
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MEETING MINUTES

“Ms. Smith presented her Internal Audit Update Memo, a copy of which was included in the meeting packet and is appended to these minutes. A question and answer session followed, during which Mr. White expressed his concerns about delaying the BSA audit and Ms. Smith answered questions to the Committee’s satisfaction.”
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MEETING MINUTES

❖ “Ms. Smith presented her proposed 2014 Audit Strategy, a copy of which was included in the meeting packet. Discussion followed, which centered on the timing of IT audits and whether or not the Internal Audit Department was adequately staffed. Ms. Smith addressed questions to the Committee’s satisfaction. Mr. Doe motioned to approved the strategy as presented; Ms. Sanchez seconded. The motion carried.”
ONLINE PORTAL

- Restrict access to Committee & Internal Audit
- Internal Audit maintains portal on behalf of Committee Secretary
- If no IA, site administrator could be:
  - Executive Assistant
  - Other designated CU employee
  - Committee Secretary
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL

- Respect copyrights & licenses – post permissions with document

- Review all materials & links annually to make sure they are current – delegate to IA

- Intuitive layout

- No portal? Consider archiving in binders or CDs
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL — SAMPLE LAYOUT

- Credit Union Administration
- Annual Planning Documents
- Audits & Examinations
- Meeting Packets
- Meeting Minutes
- Complaints & Investigations
- Training Materials, Guides & Other Resources
PART I: Supervisory Committee Infrastructure

**Online Portal – Sample Layout**

- Credit Union Administration
  - 071696 XYZ Federal Credit Union Bylaws.pdf
  - 022212 Organization Chart.pdf
  - 050513 Directory of Officials & Key Managers.pdf
  - 050513 Board Committee Assignments.pdf
  - 123113 Annual Report.pdf

- Charters
- Job Descriptions
- Policies
PART I: Supervisory Committee Infrastructure

**ONLINE PORTAL – SAMPLE LAYOUT**

- Annual Planning Documents
  - mmddyy Risk Analysis Methodology.pdf
  - mmddyy Risk Analysis Results.pdf
  - mmddyy Annual Audit Strategy Methodology.pdf
  - mmddyy Annual Audit Strategy.pdf
- 2013 Planning Documents
- 2012 Planning Documents
- 2011 Planning Documents
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL – SAMPLE LAYOUT

Audits & Examinations 2013 Planning Documents
  Financial Statement-CPA Audits
    2014 Audit
      mmddyy Engagement Letter
      mddyy Report
      mddyy Management Response
  RFPs & Due Diligence
    2013 Audit
    2012 Audit
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL – SAMPLE LAYOUT

- Audits & Examinations
  - Financial Statement-CPA Audits
  - Internal Audits
    - 011514 Bank Secrecy Act Report
    - 020114 Midwest Branch Audit Report
    - 031014 ACH Audit Report
  - 2013 Internal Audit Reports
  - 2012 Internal Audit Reports
- Outsourced Audits
- NCUA Examinations
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL – SAMPLE LAYOUT

Meeting Packets
012114 Meeting Packet
022014 Meeting Packet
033214 Meeting Packet
adora 2013 Meeting Packets
adora 2012 Meeting Packets
adora 2011 Meeting Packets
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL – SAMPLE LAYOUT

- Meeting Minutes
  - 012114 Meeting Minutes
  - 022014 Meeting Minutes
  - 033214 Meeting Minutes
  - 2013 Meeting Minutes
  - 2012 Meeting Minutes
  - 2011 Meeting Minutes
ONLINE PORTAL – SAMPLE LAYOUT

- Complaints & Investigations
- 022314 Smith Complaint
- 040114 Doe Investigations
- 2013 Complaints & Investigations
- 2012 Complaints & Investigations
- 2011 Complaints & Investigations
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL — SAMPLE LAYOUT

- Training Materials, Guides & Other Resources
  042413 List of Useful Links.pdf
- Guides & Handbooks
  mmddyy Financial Performance Rpt User’s Guide
  mmddyy NCUA’s Federal Credit Union Handbook
  mmddyy NCUA’s Supervisory Committee Guide
  mmddyy NCUA Examiner’s Guide
  mmddyy FFIEC IT Examination Handbook
- In-House Training
- Off-Site Training & Conferences
PART I: Supervisory Committee Infrastructure

ONLINE PORTAL – SAMPLE LAYOUT

- Training Materials, Guides & Other Resources
  - 042413 List of Useful Links.pdf
- Guides & Handbooks
- In-House Training
  - 012114 In-House Risk Assessment Training.pdf
  - 012114 In-House Audit Strategy Training.pdf
  - 021414 In-House BSA_OFAC Training.pdf
- 2013 In-House Training
- Off-Site Training & Conferences
  - 2014 ACUIIA Annual Conference
OTHER CONSIDERATIONS

- SC page on CU’s website
  - List SC member names & photos
  - Summary of SC’s role
  - Who to contact for information if interested in serving on the SC
  - Link to report concerns to SC

• Include instructions & link to report questions through normal channels first
PART I: Supervisory Committee Infrastructure

OTHER CONSIDERATIONS

- CFPB expectation to track complaints and analyze for trends will trickle down to CUs within next few years – make sure management & SC is prepared

- Ethics Line
PART II:

FINANCIAL STATEMENT AUDIT OVERSIGHT
SELECTING A CPA FIRM

- Send Requests for Proposals (RFPs) every 5 years, even if intend to retain current firm
  - Keeps current firm competitive
  - Keeps Committee abreast of what other firms are doing
  - Rotating firms provide “fresh eyes” (if retain current firm, insist on partner rotation)
Selecting a CPA Firm

Send RFPs to:

- Your current firm, if satisfied with its performance
- ACUIA vendor partners (see ACUIA.org)
- ACUIA conference sponsors, presenters & exhibitors
- Another source: Callahan & Associates’ 2014 Guide to Credit Union CPA Firms
SELECTING a CPA FIRM

- Perform due diligence
  - Evidence of professional liability coverage
  - Most recent peer review results
  - Results of reference checks
  - Confirm CPA license in good standing
PART II: Financial Statement Audit (CPA Audit) Oversight

QUESTIONS FOR YOUR CPA FIRM

❖ See CPA question slides from Macpage’s “Roles & Responsibilities of Supervisory Committees”

❖ Also ask:

➢ Did you review internal audit’s risk assessment, the annual audit plan and/or any internal audit workpapers?

➢ If so, did you notice any shortcomings?
PART II: Financial Statement Audit (CPA Audit) Oversight

CPA OPINION — WHAT IT MEANS

“In our opinion, the financial statements present fairly, in all material respects, the financial position of XYZ Federal Credit Union and Subsidiaries as of December 31, 2012 and 2012 and the consolidated results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.”
PART II: Financial Statement Audit (CPA Audit) Oversight

CPA OPINION — WHAT IT DOESN’T MEAN

❖ “Adequate internal controls are in place and operating effectively”

➢ If the firm is expected to render an opinion on internal controls, this must be spelled out in an engagement letter

➢ Letter must specify which controls are in scope

➢ Usually a separate project from financial statement audit
PART II: Financial Statement Audit (CPA Audit) Oversight

**CPA OPINION — WHAT IT DOESN’T MEAN**

- “There is no fraud.”
- A financial statement audit is not a fraud audit
- The auditors are alert to fraud red flags and consider fraud risk when performing their procedures

- Be careful what you say in the SC Report to the Membership!
Debunking Myths

“We can’t hire a CPA firm from out of state. They won’t be as well-versed about our state requirements.”

The financial statement audit is concerned with GAAP. Any differences among states is nominal. A out of state CPA firm who is licensed to practice in your state will be familiar with your state requirements. For additional comfort, have them provide references from clients in your state.
PART II: Financial Statement Audit (CPA Audit) Oversight

**Debunking Myths**

- “Our CPA’s report and communications to the SC are boilerplate. We aren’t getting personalized service.”

- CPAs must adhere to Generally Accepted Auditing Standards (GAAS). These standards are very specific as to what an auditor’s report and other communications to the Supervisory Committee must say. All such reports, regardless of firm, will contain essentially the same language. Typically, only the audit findings will appear to be tailored to your credit union. This is to be expected.
PART III:

INTERNAL AUDIT OVERSIGHT
PART IV:

SUPERVISORY COMMITTEE TESTS OF INTERNAL CONTROLS
PART IV: Supervisory Committee Tests of Internal Controls

SUPERVISORY COMMITTEE AUDITS

- An alternative to a CPA opinion audit available to small credit unions

- See Non-Opinion Exam slides in Macpage’s “Roles & Responsibilities of Supervisory Committees” presentation

- See NCUA’s Supervisory Committee Guide for procedures and workpapers
SUPERVISORY COMMITTEE AUDITS

Workpapers should contain:

- Name of person performing test & test date
- Objective of test
- Time period covered
- Description of how sample was selected
- Description of work performed
- Test results and conclusions

Create a workpaper folder for SC’s online portal
“Our Committee needs to perform all of the procedures in the NCUA’s Supervisory Committee Guide, even though we have an internal auditor.”

Typically, the internal auditor is hired to perform internal control testing on the Committee’s behalf. Most likely, it isn’t necessary for the Committee to perform testing as well.
“We haven’t fulfilled our responsibilities if our internal auditor doesn’t perform all of the procedures in the Supervisory Committee Guide.”

The Guide was written for very small, non-complex CUs. Most likely, if you’ve hired an internal auditor, your CU has outgrown the supervisory committee audit provided in the Guide. (Cont...)
Examiners are not concerned with ensuring that all of the procedures in the Guide were performed. Instead, they are concerned with ensuring that your internal auditor – on your behalf – is performing risk-based testing appropriate for the size and complexity of your CU. Your internal auditor knows how to make such determinations. (Cont...)
In the end, over a three- to five-year audit cycle, your internal auditor will have performed some variation of the procedures listed in the Guide to the extent that they are appropriate for your CU’s risk environment, size and complexity.
PART V:
RESOURCES
PART V: Resources

NCUA

- www.ncua.gov/Legal/Pages/
  - Federal Credit Union Act
  - NCUA Rules & Regulations
  - Letters to Credit Unions
  - Letters to Federal Credit Unions
  - NCUA Examiner’s Guide
  - NCUA Supervisory Committee Guide
PART V: Resources

NCUA

- www.ncua.gov/DataApps/
  - Financial Performance Reports (FPRs)
    - Includes peer group comparisons
  - FPR User’s Guide
  - Call Report (aka “5300”) Filings
PART V: Resources

OTHER CREDIT UNION GROUPS

- Credit Union National Association (CUNA)
  - www.cuna.org/Training_And_Events/Products/Credit_Union_Supervisory_Committee_Handbook


- Your state credit union league – Google it!
PART V: Resources

AUDIT GROUPS

- ACUIA.org

- Institute of Internal Auditors
  - www.theiia.org: Internal Audit Standards
  - www.theiia.org/periodicals/Pages/Tone-at-the-Top.aspx: free subscription to “Tone at the Top” designed for audit/supervisory committees
PART V: Resources

AUDIT GROUPS

❖ Institute of Internal Auditors

➢ www.theiia.org/about-us/about-ia/Pages/Promoting-the-Profession.aspx for free PowerPoint presentations for in-house SC training:

• Getting to Know Internal Auditing
• Your Internal Audit Team
• Adding Value Across the Board
WRAPPING UP

- Framework for ensuring continuity over time?
- Methodology for documenting the Committee’s activities?
- Commonly misunderstood issues?
Thank you for this opportunity! Feel free to contact me anytime with your questions or to exchange ideas.

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