

FOCUS e-newsletter: Consulting
April 2014

The Keys to the Credit Union
By Victor Costa, EDS Supervisor and Malia Peel, EDS

Our series about key positions within the credit union continues. This second article is about interim audit reviews by the Supervisory Committee and focuses on reviewing loans and bank account statement reconcilements.

**Supervisory Committee Action Series (Part 2 of 4)
Reviewing Loans and Bank Account Statement Reconcilements**

As mentioned in the [first article](#) of this series: Interim audit reviews allow the supervisory committee to detect problems, errors and even fraud. To save money, the supervisory committees of many small credit unions perform these reviews directly rather than incur the expense of hiring an outside auditor. As a guide, the supervisory committee should establish an interim audit review plan and calendar schedule of the reviews it will conduct each month.

General Loan Review

The supervisory committee should review loans regularly. Chapter 10 of the [Supervisory Committee Guide for Federal Credit Unions](#) (SC Guide) provides detailed guidance and sample work papers to document the loan review. Following are the basic steps to conduct a loan review. Feel free to adopt or modify the checklists below to help in your review:

		Review Item	Review Date	Reviewed By	Comments
<input type="checkbox"/>	1.	Review the loan policy and rates approved by the Board.			
<input type="checkbox"/>	2.	Obtain a copy of the loan trial balance.			
<input type="checkbox"/>	3.	Obtain the Credit Committee or Loan Officer minutes and the new loan report.			
<input type="checkbox"/>	4.	Develop a loan review sheet to document your review, or use the sample in Appendix 10-C of the SC Guide.			
<input type="checkbox"/>	5.	Select a sample of loans to review, or in the case of a small loan portfolio, select all new loans.			
<input type="checkbox"/>	6.	Obtain a printout of the payment history and loan profile screen for each loan in your sample.			
<input type="checkbox"/>	7.	Obtain the loan files for your selected sample.			



<input type="checkbox"/>	8.	Compare the information from the profile printout to what is recorded on the official loan documents.			
<input type="checkbox"/>	9.	Review the contents of each loan file for compliance with the loan policy.			
<input type="checkbox"/>	10.	Report all findings to the Board and retain the documentation supporting your review.			

Tips for your review

- ❖ Ensure that the loan policy is up-to-date; it should be reviewed by the Board at least annually.
- ❖ Your credit union may have separate trial balances for certain types of loans such as credit cards.
- ❖ Use the criteria outlined in the loan policy as items to include on your loan review sheet.
- ❖ Interest rates charged should be as approved by the Board and must not exceed the legal limit.

General Loan Review – Internal Controls

In addition to reviewing the underwriting and loan terms, use the review as an opportunity to ensure that the following standards and internal controls are in place:

		Review Item	Review Date	Reviewed By	Comment
<input type="checkbox"/>	1.	Loan files should be stored in the credit union and contain the required documentation.			
<input type="checkbox"/>	2.	Loans must be made in accordance with the credit union’s written loan policy.			
<input type="checkbox"/>	3.	All members have an equal opportunity to apply for a loan.			
<input type="checkbox"/>	4.	Loan criteria are applied uniformly.			
<input type="checkbox"/>	5.	Members who are declined a loan should receive a denial form.			
<input type="checkbox"/>	6.	The person who approves a loan does not disburse the funds.			

Additional guidance on reviewing internal controls over loans can be found in Chapter 10 of the SC Guide and Appendix 10-A of the Guide includes a more detailed loan internal control checklist.

The next page provides guidance on monthly bank account reconcilements.

Review of Monthly Bank Account Reconcilements

Periodic review of the bank account statement reconciliation helps to enhance internal controls and detect errors before they become problems. This is especially true in small credit unions where duties are not always segregated.

Following are the basic steps to review bank account reconcilements:

		Review Item	Review Date	Reviewed By	Comment
<input type="checkbox"/>	1.	Obtain the <u>original</u> bank account (or corporate credit union) statements for the last three months.			
<input type="checkbox"/>	2.	Copy the statements and corresponding reconcilements.			
<input type="checkbox"/>	3.	Test the mathematical accuracy of the reconciliation.			
<input type="checkbox"/>	4.	Trace each entry on the reconciliation to a source document: a. Trace the balance for the account to the bank account statement. b. Trace the balance for the books to the general ledger. c. Trace all outstanding items from the reconciliation to the next month's bank statement or general ledger to make sure all items have properly cleared.			
<input type="checkbox"/>	5.	Review deposits in transit at month end. They should be among the first deposits listed on the next month's bank statement.			
<input type="checkbox"/>	6.	Review a sample of cleared checks to ensure payments are made for legitimate reasons.			
<input type="checkbox"/>	7.	Review outstanding checks. Checks outstanding for more than 90 days should be researched and moved to a payable account.			
<input type="checkbox"/>	8.	Retain documentation to support your review including a copy of the bank account statements and corresponding reconcilements.			
<input type="checkbox"/>	9.	Discuss your findings with credit union management and report the findings to the board of directors.			



Next month, this series about the Supervisory Committee will continue with the review of insider account activity.

OSCUI's Consultants may be able to advise your supervisory committee on establishing internal controls. Email us at oscuiConsulting@ncua.gov.