

Job Aid: SCUEP Targeted Procedures

Targeted Scope Steps

Instructions

Complete the following scope areas for each risk area and document in MERIT's Execution Result section. Examiners will complete all targeted reviews unless the credit union does not offer the product or service. If a scope step does not apply, document why it does not and move on. For example: "N/A – Credit union does not offer this service." Examiners should complete the defined scope procedures outlined in 5000.20, the SCUEP Scope and the associated Scope Job Aids. If [Conditional](#) or Expanded scope procedures are triggered, these additional procedures are also required. If examiners need additional time to complete triggered Conditional or Expanded scope procedures, they must obtain and document supervisor approval for the additional time needed to complete these additional procedures in the Closed Information Questionnaire in MERIT. The expectation is that supervisors will approve additional time as needed and when warranted. If the examiner identifies other risks and wants to add scope steps above what is required, they should discuss with their supervisor prior to adding the additional scope steps.

Transaction Risk

TARGETED TR1. Supervisory Committee Audit and Member Account Verification.

Obtain the audit report directly from the auditor or Supervisory Committee using Rivio if possible and complete the Supervisory Committee Audit and Verification Review Questionnaire Scope Task.

Are any of the following true?

- The Supervisory Committee completed the audit;
- The audit was not completed timely, and the lack of timely completion is serious enough to warrant a DOR;
- The auditor lacks independence from the credit union; or
- The auditor did not reconcile the member statement report (print processor) to the shares and loans trial balance and general ledger, for the period covered.

If "yes" to any of the above, [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

Is the verification of accounts inadequate, or were control weaknesses identified?

Is the verification of accounts inadequate, or were control weaknesses identified? If "yes," [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

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TARGETED TR2. Supervisory Committee Activities and Work Paper Review.

Review work papers annually for an audit performed in accordance with NCUA regulation § 715.7, Supervisory Committee audit alternatives to a financial statement audit, performed by a credit union's supervisory committee or designated staff (i.e. internal auditor).

Once every other calendar year, obtain work papers directly from the auditor, and review work papers for a supervisory committee audit performed by other external auditors (i.e. other qualified but not state-licensed persons).

(For FISCU exams scheduled less frequently than once in a two-year period, review work papers for a supervisory committee audit performed by other external auditors (i.e. other qualified but not state-licensed persons) during every exam.)

Did the review of audit documentation and workpapers identify audit weaknesses?

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR3. Tie Loans and Shares to source documents.

- Whenever possible, observe staff create the exam share and loan download or obtain directly from the data processing vendor, even if the vendor levies a fee.
- In instances where the exam share and loan download differs from the examination effective date, tie loans and shares from the trial balance as of the download date to the general ledger as of the download date and to the exam loan and share download. Also tie the share and loan trial balance as of the examination effective date to the general ledger as of the effective date. Identify and document any reconciling items.
- Verify loans serviced by an outside vendor by tying them to an original document or subsidiary provided by the vendor. Confirm report totals by observing while the credit union staff downloads reports from the internet; requesting that the vendor fax reports directly to your Rightfax number or send to you via secure email.

TARGETED TR4. Negative share accounts.

Ensure negative shares are properly reported as loans on quarterly Call Reports. Did your review identify any of the following:

- NSF share drafts are not returned timely
- The credit union is applying fees inconsistently or outside policy.
- The credit union is not collecting or charging off uncollectible overdrafts promptly.¹

¹ Within 45 days, members must either deposit funds or obtain an approved loan to cover each overdraft. Overdraft balances should be charged off when considered uncollectible, but no later than 60 days from the date first overdrawn.

Refer to Letters to Credit Unions 05-CU-03 and 05-CU-21 and NCUA regulations § 701.21(c)(3) for more information about Overdraft Protection programs.

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- Negative shares are increasing significantly.

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR5. Internal Controls.

Review internal controls over inventory of unused checks and check-signing machine, plastic cards, and wire transfers every other calendar year.

1. Interview staff and observe controls over unused **check inventories**, travelers’ checks, money orders, **and the check-signing machine**.
 - Are all items stored in a locked container under the control of one individual or under dual control?
 - Are procedures in place to safeguard checks by storing them in a locked container during non-business hours, including those left in the printer? Are excess inventories secured in a locked container at all times?
 - Is the check-signing machine locked or stored in a locked container during non-business hours and only made available to authorized personnel during business hours?
 - Is the credit union using blank check stock from a retailer (e.g. Office Depot) for official credit union checks?
 - Does the credit union use in-house software to create temporary checks? Who has access to the software? What internal control mechanisms does the credit union use to verify how many and for whom temporary checks were created?
 - Are traveler’s checks stored in a locked container under the control of one employee?
 - If tellers keep traveler’s checks in their cash drawers, are they counted and balanced daily?
 - Are these items reconciled to vendors’ records?
2. Review controls over plastic cards. Evaluate written policies and procedures for controls over **plastic card** ordering, storage, pick-up, and authorization by members, including:
 - Dual control for handling and storing new, captured, and returned cards. Verify the following are maintained and accessed under dual control:
 - Cards returned to the credit union for incorrect addresses.
 - Captured or returned cards.
 - Express delivery cards, ordered and delivered to the credit union for pick-up by the member.
 - Blank card stock.
 - Maintenance of a log until final disposition.
 - Validation of the member’s identity prior to releasing or authorizing the card.
 - Member signature in the log as proof they received the card.
 - Can the credit union activate the card, or must the member activate it from home?
 - Proper segregation of duties for credit unions using a third party to issue the cards:

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- Who reviews the card issue report and card file maintenance reports?
 - Is that person is different from the person ordering the cards?
 - If the credit union issues its own cards:
 - Is blank credit, debit, and ATM card stock regularly inventoried and maintained inside a locked safe/vault, under dual control and access?
 - Is the plastic card encoding machine access is controlled with passwords changed regularly?
 - Are card processor reports or file maintenance reports are reviewed by someone other than the person performing the transactions? The reports should contain information about new, renewal, replacement, and additional card requests.
3. Review the volume of **wire transfers** conducted within the last 12 months. If the volume is significant, review written wire transfer procedures, and review a sample of wire orders to determine procedures are being followed. If written procedures are non-existent, weak, or not being followed, perform the following additional analysis:
- Determine whether the member's telephone number of record is used for call back verifications.
 - Determine the verification processes used to validate the member and wire instructions prior to final execution.
 - Confirm staff reviews whether sufficient funds are in the member's account before making the transfer.
 - Review whether adequate segregation of duties exists in the receipt, initiation, verification, transmission, and reconciliation of wire transfers.

TARGETED TR6. Cash Internal Controls.

Review internal controls over cash and complete the questionnaire in the scope task. Refer to the Cash Internal Controls Job Aid for additional examination procedures and common internal control deficiencies.

- Ensure vault and teller drawers are balanced daily and sheets agree to the general ledger and data processing system, by teller.
- Review the amount of cash on hand and cash usage for reasonableness, given the credit union's average cash needs, asset size, and product and service offerings. Also determine if the amount of cash on hand falls within bond coverage limits.
- Scan/review the Cash Over/Short general ledger account.

Did the review identify:

- Significant weaknesses in cash controls?
- An ongoing or unusually large unreconciled difference?
- A large cash short balance in the Cash Over/Short account?

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the [Conditional Scope Steps section](#).

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TARGETED TR7. Cash on Deposit.

Tie the general ledger to an original source document for Cash on Deposit, and review bank/Corporate reconcilements.

- Determine the involvement of the Supervisory Committee (or other party not responsible for handling cash) in reviewing bank reconciliations.
- Review Cash on Deposit transaction history for large transfers or an unusually high volume of activity.
- Agree the balance per general ledger shown on the reconciliation to the actual general ledger balance and agree the balance per statement shown on the reconciliation to an original² statement that you observed the manager download from the Internet. (Alternatively, you may request the bank or Corporate credit union fax the statements directly to your Rightfax number or send to you via secure email (for example, Zixit), or you may confirm the balances by phone. Independently verify the financial institution's address and/or phone number if credit union personnel provided this contact information.)
- Trace reconciling items to supporting documentation and confirm the clearing of those items for the proper amount in the next period or their inclusion on the next month's reconcilment.
- Sum the amount of outstanding checks to ensure the total agrees with the amount shown on the reconciliation.
- Verify that beginning balance +/- all reconciling items = ending balance on the reconciliation.
- Review payment systems and access channels, as applicable (for example, shared branch, ATM, bill pay, share drafts, ACH, wire transfers, etc.), general ledger reconcilments, and source documents to ensure posting accuracy and daily clearing.
- Verify that outstanding checks clear within 90 days or are reclassified to an accounts payable account.

Did the review identify:

- Insufficient segregation of duties or
- Bank reconcilments that are incomplete, in arrears, out-of-balance, or contain stale items?

If "yes" to any, [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

TARGETED TR8. Investments.³

Tie the general ledger to original source documents for investments. Complete the following:

² Obtain original forms if photocopied or electronic documents are provided.

³ NCUA regulations § 703.13 addresses permissible investment activities. See 'Other Supervisory Committee Audit' Minimum Procedures Guide for additional guidance on the adequacy of investment balance confirmations during an audit.

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- Tie investments reported on the general ledger to the credit union's investment report, subsidiary ledger, or reconciliation.
- Confirm a sample of investment balances by observing the credit union manager or staff download statements from the Internet; requesting that financial institutions, brokers, or safe keepers fax statements or safekeeping receipts directly to your Rightfax number or send to you via secure email (for example, Zixit); confirming the balances by phone; or confirming the balances via confirmation letter. Independently verify the addresses and/or phone numbers of financial institutions, brokers, and safe keepers if credit union personnel provided this contact information.
- Verify market values to original statements.⁴
- Verify investments in other credit unions:
 - Review whether the depository credit union reported non-member deposits on its Call Report and that the amount of non-member deposits reported at least covers the amount shown on the investing credit union's general ledger. Also analyze whether the amount reported by the investing credit union is reasonable in relation to its asset size.
 - If the depository credit union did not report non-member deposits (or reported less than what the investing credit union shows), copy the documentation and contact your SE for notification of appropriate personnel within or outside your region. The district examiner of the other credit union will need to verify whether non-member deposits are being misreported or do not exist.

Did your review identify any of the following?

- Reported investments disagree with confirmation balances or the credit union's general ledger.
- Investment balances were not confirmed during the annual audit, or the audit investment confirmation process was inadequate.

If "yes" to any of the above, [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

TARGETED TR9. Retained Earnings.

Use the Financial Analytics to determine if all reserve accounts, including the Allowance for Credit Losses, undivided earnings, and regular reserves are in balance. Are any of the accounts included in the Equity and Reserves Reconciliation in Financial Analytics out of balance by a material amount?⁵

If "yes," [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

⁴ You should complete this verification process for non-member deposits, even if you confirmed the investments in other credit unions as outlined above. See NCUA regulations § 701.32 for limitations on the amount of non-member shares.

⁵ If only a small out-of-balance condition exists in any of the accounts shown on the Equity and Reserves Reconciliation, use examiner judgment to determine if the explanation provided makes sense and whether documentation adequately supports the explanation.

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TARGETED TR10. Operating Income.

Complete the following: Compare the credit union's common rates and fees to the yield on average loans, yield on average investments, and fee and other operating income ratios.

Are reported amounts of operating income unreasonable?

If "yes," [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

TARGETED TR11. Non-Operating Income.

Is it significant in relation to the size of the credit union?

If "yes," [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

TARGETED TR12. Expenses.

Perform the following:

- Review Key Ratios in Financial Analytics for material expense trends.
- Compare actual expenses year-to-date with budgeted expenses, looking for material differences.
 - Are expenses or trends unreasonable (for example, rapid increase in individual expense categories with insufficient cause), or
 - Do compensation and benefits, travel, or miscellaneous expenses appear high?

If "yes" to any, [complete the related Conditional Scope steps](#) outlined in the "Transaction Risk" Review area of the Conditional Scope Steps section.

TARGETED TR13. 5300 Call Report and Profile.

Complete the 5300 and Credit Union Profile Review Questionnaire Scope Task and perform the following:

- Tie the Call Report to the financial statements
- Tie the financial statements to the general ledger
- Tie the general ledger to the subsidiary ledgers and/or other supporting documents

TARGETED TR14. Contractual employment agreements and bonus plans.

Review contractual employment agreements and bonus plans. Determine if any of the following exist:

- Compensation and/or bonuses are tied to activities that can be manipulated (for example, loan volume, delinquency, Allowance for Credit Losses funding, and ROA).
- Changes occurred that greatly expanded or reduced/eliminated the manager's span of control.

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TARGETED TR15. Official Credit Union Checks.

Perform the following:

- Review check register, canceled checks, check carbons, or archived (or other electronic) check images for a one-week period.
- Choose the sample from a month that differs from the examination quarter-end. For high dollar checks, trace a sample to an original vendor invoice or member account, and ensure an authorized person signed the check.

Within sequence range under review above, Identify the following:

- Missing checks or carbons.⁶
- Checks made payable to cash or to an insider.
- Checks with footnotes in the comment section, such as “mortgage payment, Mary Smith,” that would identify an insider who is benefiting from the payment.
- Checks made payable jointly to the insider and another third party.
- Checks made payable for large dollar amounts.

Does it appear insiders are making withdrawals or paying personal bills with credit union funds or from share accounts owned by unrelated parties, or did you identify missing checks?

If “yes” to any, [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR16. Gramm-Leach-Bliley (Privacy) Act (GLBA) member information Security.

Review compliance with Gramm-Leach-Bliley (Privacy) Act (GLBA) member information security using the Data and Network Controls questionnaire.

- At a minimum, ensure credit unions have the following written program components, as enforced by NCUA Rules and Regulations, Part 748:
 - A risk assessment of threats to member information
 - An information security program that addresses the following:
 - Acceptable usage of technology agreement signed annually by staff and officials
 - Patch management policies and procedures to stay current on operating system (e.g., Windows and core system) updates
 - Security awareness training
 - Strong password requirements
 - Remote systems/network access for vendors and employees (if applicable)
 - Virus/malware protection

⁶ Insiders may remove or destroy checks to hamper fraud detection.

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- Disposal of hardware and sensitive documents
- A response program for unauthorized access to member information

Additionally:

- Interview staff and review policies to assess risk over data and network internal control procedures. Staff should be able to readily answer the questions in the Data and Network Controls Questionnaire, and you should verify the answers. You may need to speak with the data processing vendor directly or hold a conference call with the manager and vendor to fully answer the questions.

Does the questionnaire identify numerous weaknesses (i.e., many unfavorable answers)?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR17. File maintenance and supervisory override reports.

Obtain file maintenance and supervisory override reports covering a 30-day period if there were no prior recordkeeping concerns or red flags. If concerns exist, examiners should expand the review to a 90-day period. Review the reports for unusual activity, such as:

- Advanced payment due dates
- Changed interest rates
- Changed payment amounts or frequency
- Changed accrued interest⁷
- Changed collateral code
- Address changes: Proper change of address requests should be made in writing and signed by the member.
- Several address changes to the same address, especially if the last names are all different or if a loan due date was also changed. Also check the address against Account Concentrations Query.

Did the review of these reports identify any unusual activity?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR18. Dormant Accounts.

Review account histories for a sample of reactivated dormant accounts and dormant account overrides. If the credit union does not have a reactivated dormant accounts report, compare dormant accounts list for two time periods, and identify accounts that dropped off the later report. Complete the following:

⁷ An increase in accrued interest (debit) could involve a corresponding reduction of an insider’s loan account (credit to loan principal). On the other hand, accrued interest could be reduced to hide delinquency on a fraudulent loan. In the latter case, the accrued interest for a specific loan, as calculated by the data processing system, is changed within file maintenance to align accrued interest with the bumped due date. Reducing accrued interest to zero would result in future loan payments being applied directly to principal.

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- Review whether any withdrawals in excess of \$500 occurred since reactivation.
- Determine whether recent account activity looks unusual, such as frequent withdrawals, withdrawals ending in the same digit (for example, \$309, \$609, and \$1,009), frequent withdrawals from an ATM when the member had not previously used ATMs, or transfers made to other share or loan accounts.

Were any large withdrawals or unusual account activity detected?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

TARGETED TR19. Financial Trends and Emerging Risk.⁸

Review key ratios and financial trends to identify unrealistic changes and large increases in account balances given the size and complexity of the credit union and the most recent Fraud Indicator Report for any triggered risk areas.

Pull a live trial balance, not at month-end or quarter-end (examiner would select random date, while onsite). Compare the short G/L trial balance (G/L trial balance showing balances without the detailed activity) for two periods at least three months apart (for example, April and July) to identify any of the following:

- Debit balances in liability accounts, credit balances in asset accounts, and any unusually large balances.
- Suspense and clearing accounts that do not regularly clear to a zero balance.
- Entries made to unusual or seldom used accounts.
- Growth trends for balances that are high in relation to the peer group average for accounts such as Other Assets or Other Liabilities.
- Balances in asset or liability accounts that remain unchanged or uncleared over several statement periods.

Did the review identify:

- Unusual balances?
- Unexplained entries?
- Management delayed or been unable or unwilling to provide requested information?

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Transaction Risk” Review area of the Conditional Scope Steps section.

Unusual or Negative Trends: The review of unusual trends and ratios should include all risk areas.

- Increases in net loan losses may indicate charge-off of fraudulent loans or diversion of funds received from recoveries.

⁸ Such as key ratios, FPRs, risk reports, and the Fraud Indicator Report

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- An average cost of funds that is much higher than stated dividend rates could indicate potential embezzlement from member accounts, preferential rates for insider accounts, embezzlement perpetrated as dividend adjustments, or supplemental dividend payments posted to insider accounts.
- A disparate difference between the weighted average loan rate and the yield on average loans ratio could indicate interest on loans is not being recognized. For example:
 - 1) If the weighted average loan rate is significantly higher than the yield on average loans and the credit union does not have high delinquency, management may be bumping due dates to hide delinquency.
 - 2) If yield on average loans is disparately lower than the weighted average loan rate and delinquency is low, management may be posting loan payments directly to principal, or some loans may be improperly flagged for non-accrual.
- A big difference in the amount of interest accrued and the average monthly loan interest (generally accrued interest should be about half to one month of the average monthly loan interest) may be an indication that interest on loans is not being properly recognized or fraud is concealed in the accrued loan income account. However, the timing of members' loan payment due dates may be the cause for some of the disparity.
- High loan growth periods without subsequent increases in delinquency could indicate new loans are being made to pay off fictitious loans or loans are frequently refinanced to hide delinquency.
- Above-peer estimated loan maturity when the credit union does not have real estate loans could indicate staff is advancing due dates on loans or granting improper extensions or refinances, or collection processes are poor.

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Credit Risk

TARGETED CR1. Loan, collection, and charge-off policies and procedures.

Complete the following:

- Determine if policies are adequate for the type and complexity of the loans granted.⁹
- Verify that policies are periodically reviewed and updated.
- Confirm policies are approved by the board.

TARGETED CR2. Management changes in lending or collections since the prior exam or contact.

Did any material management changes occur in these areas?

If “yes,” complete the related Conditional Scope steps outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

⁹ Loan, collection, and charge-off policies should contain the following elements:

- Types of lending programs in which the credit union engages.
- Maximum percentage of total loans in relation to total assets.
- Trade area and the circumstances under which loan officers may extend beyond the usual trade area.
- Guidelines which address portfolio mix, risk diversification, and loan concentrations.
- Guidelines regarding loans to insiders.
- Guidelines for loan participations, if applicable.
- Lending authority of each loan officer, loan committee, or executive committee.
- Guidelines under which unsecured loans will be granted.
- Guidelines for collateral requirements, pricing, and the terms of repayment for the types of loans offered.
- Loan to value limitations for different collateral types.
- Guidelines for obtaining and reviewing appraisals and evaluations of real estate, if applicable.
- Standards for loan underwriting and credit presentation.
- Documentation requirements for different types of lending.
- Requirements for ongoing documentation review and maintenance of complete and current credit files on each borrower.
- Guidelines addressing the credit union’s determination, assessment, and review of the ALLL.
- Guidelines addressing loan modifications, troubled debt restructurings, and non-accrual loans, including accounting requirements.
- Guidelines addressing collection and workout procedures.
- Guidelines addressing repossessed assets and other real estate owned (OREOs).
- Guidelines addressing charge-off practices, timing of charge-offs and appropriate follow-up for potential recovery.

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TARGETED CR3. Loan Queries.

Review the standard loan queries in MERIT (or credit union management reports, if a download cannot be obtained). Did the review identify any anomalies in need of additional review?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

The following are some of the standard AIREs Queries. The title of the query is followed by information on how to review and common issues found during the review:

Accrued Interest > Payment or Balance

Loans in this query should be delinquent. If they aren’t, you should research payment histories. Common issues:

- Payments applied to principal only
Numerous or long-term extensions
- Deficiency balances
- Loan workouts

Balance Unchanged After 90 Days

Eliminate single pay loans, interest only payment loans, and delinquent loans. Focus your review on loans that are not delinquent. Common issues:

- Loan workouts
- Small payment versus large balance
- Numerous or long-term extensions

Current Balance > Original Balance

Eliminate line of credit loans. Focus on loans that are not delinquent. Common issues:

- Capitalization of interest
- Force-placed insurance
- Negatively amortizing loans

Interest Rates <5% and > 18%

Sort by interest rate from lowest to highest. Eliminate short-term, small amount (STS) loans. Look for zero interest rate loans or unusually low interest rates. Common issues:

- Input error during loan setup
- Loan workouts
- Refinanced repossessions

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- Bankruptcies

Paid Ahead Loans

Sort by last activity date. Review payment histories for loans without recent activity. Common issues:

- Deficiency balances
- Due date extensions

Current # of Payments Remaining Exceeds Original Term

Eliminate line of credit loans. Focus on loans that are not delinquent. Common issues:

- Loan payments lower than original terms
- Force-placed insurance

Last Activity Date = Last File Maintenance Date

Look for loans where the original balance and the current balance are different. Review file maintenance report or payment history to see what was changed. Common issues:

- Due date extensions
- Unauthorized address changes
- Lowering of interest rates or payments

Loans with \$0 balance last activity date within 15 days of exam

Sort by account number or name. Look for multiple payoffs to one name or account. Common issues:

- Moving fictitious loans from member to member
- Refinancing loans to hide delinquency

Date of last payment > 3, 6, or 12 months

Eliminate single pay notes that are not delinquent. Review payment histories. Common issues:

- Due date extensions
- Deficiency balances

Loans Granted within 30 or 60 days of exam with a \$0 balance

Sort by account number. Sort by name. Common issues:

- Moving fictitious loans from member to member

P. O. Boxes

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Sort by address. Verify loans with the credit union's address are in bankruptcy. Sample "Do Not Mail" accounts to see if the credit union has a written agreement on file. Review signature cards for multiple loans to multiple members at a non-credit union P. O. Box. Review payment histories. Common issues:

- Bankruptcy accounts
- Fictitious accounts
- Illegal loans

If the credit union cannot obtain a download, refer to the AIREs User's Manual for more information about the manual loan input worksheet. Whenever possible, you should observe credit union staff create the AIREs download or obtain the download directly from the data processing vendor, even if the vendor levies a fee for producing the download. The download date (i.e., exam effective date or date the download was created) is less important than observing the creation of the download or obtaining it directly from the vendor. Thus, it is acceptable to use a date other than the exam effective date to avoid requiring the credit union to pay a fee, as long as the integrity of the download is maintained. Obtaining and tying out the AIREs download is also addressed in the Recordkeeping section. The download only needs to be obtained once during the exam, unless problems with the original download are identified.

TARGETED CR4. Lending system controls.¹⁰

Select and review a recent sample of all loan types.

- The loan review sample¹¹ should include, at a minimum:
 - New loan programs
 - Programs with significant growth
 - Complex loan types that present higher levels of risk (for example, real estate, MBLs,¹² participations, indirect, and student loans)
 - Loans to employees, officials, and related parties: Assess whether any evidence of preferential treatment¹³ exists, in loan terms or in the approval process. Ensure

¹⁰ Check system controls to ensure no one has the ability to complete all the steps associated with a loan:

- take the loan application
- approve it
- put it into the system
- disburse funds
- perform file maintenance on the loan after disbursement

Alternatively, if staffing levels preclude complete segregation of duties, review what controls the credit union has in place to detect if a fraudulent loan was booked.

¹¹ Examiners should incorporate information obtained during reviews of Call Reports, FPRs, Risk Reports, Loan and Share Analytics queries, etc. to develop targeted samples covering all areas of concern.

¹² Refer to the Exam Procedures in the Commercial and Member Business Loans section of the Examiner's Guide for guidance on reviewing member business loans.

¹³ NCUA regulation § 701.21(d)(5) prohibits federal credit unions from granting loans with more favorable rates, terms, or conditions to officials or their family members. However, reduced loan rates may be offered as a benefit to credit union employees.

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employees are not performing transactions on, or approving, their own loans or loans to family members.

- Share-secured loans to ensure pledges shares exist and are restricted in the data processing system. Also review what controls are in place to prevent withdrawal of restricted shares.
- A few single payment loans to ensure they are not refinanced every time they are due.
- If readily identifiable, cash payment loans (those not on payroll deduction), as cash payments can be used to hide fraudulent loans or launder money.
- Determine that:
 - Loan files contain all necessary and properly executed documentation.¹⁴
 - Loans are consistent with policies and approval guidelines (for example, loan approval does not exceed policy limits, credit limit increases and new advances were properly approved, etc.).
 - Loans are underwritten in a safe and sound manner.¹⁵
 - The required minimum payment amount is sufficient to amortize the loan over a reasonable period.
 - Loan rates are consistent with policy and the rate sheet in effect at the time the loan was granted.¹⁶

¹⁴ Documentation should generally include a Note, application with housing information, verification of income, credit report, acceptable debt ratio and loan-to-value ratio, collateral valuation, lien, proof of insurance, loan officer approval, and any disclosures required by law or regulation.

¹⁵ Documentation and underwriting safety and soundness:

- Loan documentation. A credit union should establish and maintain loan documentation practices that:
 - Enable the institution to make an informed lending decisions and to assess risk, as necessary, on an ongoing basis;
 - Identify the purpose of the loan and the source of repayment, and assess the ability of the borrower to repay the indebtedness in a timely manner;
 - Ensure that any claim against a borrower is legally enforceable;
 - Demonstrate appropriate administration and monitoring of the loan; and
 - Consider the size and complexity of the loan.
- Credit underwriting. A credit union should establish and maintain prudent underwriting practices that:
 - Are commensurate with the types of loans the institution makes and outline the terms and conditions under which they will be granted;
 - Consider the nature of the markets in which loans will be made;
 - Contemplate, prior to credit commitment, the borrower's overall financial condition and resources, the financial responsibility of any guarantor, the nature and value of any underlying collateral, and the borrower's character and willingness to repay as agreed;
 - Establish a system of independent, ongoing credit review and appropriate communication to management and to the board of directors;
 - Take into account concentration of credit risk; and
 - Are appropriate to the size of the institution and the nature and scope of its activities.

¹⁶ Changes to interest rates on insider loans reviewed during previous exams can be detected by reviewing file maintenance reports as part of the Internal Controls review.

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- Collateral is fully documented, and both of the following are true:
 - The credit union's interest is properly perfected; and
 - For vehicle loans, valuation is based on the model, VIN, and features detailed on the invoice.
- Document in the exam any loan files that cannot be located and follow up with the Supervisory Committee.
- Did the loan review identify any insider or internal control concerns?
If "yes," **complete the related Conditional Scope steps** outlined in the "Credit Risk" Review area of the Conditional Scope Steps section.

TARGETED CR5. Real Estate Loan Program

- Review written real estate policies to ensure they address minimum policy standards.¹⁷
- Review whether a system for file documentation has been established, including:
 - Checklist to ensure lending staff obtain required documents.¹⁸
 - Tickler file to ensure insurance and taxes are current,¹⁹ and to facilitate follow-up on any missing documents.
- Determine if the credit union has an Errors and Omissions Policy,²⁰ either separately or as part of its bond coverage.
- Ensure the credit union is required to be named as loss payee on insurance policies.
- Review the credit union's process for handling escrow accounts for taxes, insurance, etc. (if applicable):
 - Does the credit union have a system to ensure taxes and insurance are paid timely?
 - Does the credit union maintain a disbursement log to document each item paid?
- Review the credit union's written appraisal policy to ensure compliance with NCUA regulations part 722 and 2010 Interagency Appraisal and Evaluation Guidelines.²¹

¹⁷ Written real estate loan policies should define:

- Geographic area;
- Acceptable property types;
- Lending authority of loan officers;
- Minimum loan application requirements;
- Appraisal standards;
- Maximum LTVs;
- Maximum loan maturity;
- Sound review standards and documented underwriting analysis and decisions;
- Minimum standards for loan documentation;
- Limitations on the amount of loans to one borrower; and
- Written schedule of fees, rates, terms, and collateral requirements.

¹⁸ See the Examiner's Guide, Appendix 10E for the full Real Estate Documentation Checklist.

¹⁹ Alternatively, determine whether the credit union has adequate blanket insurance coverage.

²⁰ E&O coverage is necessary to protect against mistakes, which can be costly in real estate lending. Not carrying E&O insurance may be considered an unsafe and unsound business practice.

²¹ Appraisal policy review questions:

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- Determine the following, related to Home Equity Lending:
 - Is the amount to be loaned based on 80 percent or less of the appraised value, less other liens, rather than 80 percent of the value after subtracting other liens?
 - Does the credit union accept a lien position lower than second?

TARGETED CR6. Member Concentrations

Review Account Concentrations in MERIT for any concentrations to members, including credit union insiders. Such concentrations could be indicators of potentially fraudulent activity or preferential treatment. Identify any of the following:

- Large concentrations to a single borrower or group of associated borrowers.
- Concentrations of loans to different members at the same address.²²
- Concentrations to different members with the same PO Box address or the same member with different PO boxes.
- Concentrations of three or more real estate loans to a single member, which could be an indication of rental real estate and member business lending activity.
- Concentrations of auto loans where loan maturities exceed 7 years, loan-to-value ratios are high, loans are subprime or near subprime, or indirect lending programs are involved.
- Did the concentration review identify any large loan concentrations in need of further review?

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

TARGETED CR7. Risk management practices and reporting systems.

The size, level of complexity, and risk profile of the loan portfolio may require enhanced risk management practices, monitoring, and reporting systems. A more complex and riskier loan portfolio may include:

- Commercial or member business loans;
- Indirect loans;
- Student loans;
- Loan participations;
- Risk-based lending program (not simply a risk-based pricing program); and/or
- Foreclosed and repossessed assets, including OREOs.

-
- Was the policy approved by the board of directors?
 - Is the policy in compliance with the requirements of NCUA Regulations part 722?
 - Are loan approval and appraisal functions separate?
 - Are appraisal reports prepared at the request of the credit union?
 - Does the credit union refrain from using borrower-supplied appraisals?
 - Does the board of directors have an approved appraiser list, or are appraisers approved before use?

²² This type of concentration may be of concern if the address is not multi-family housing, and loans are to unrelated parties.

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Credit risk management and reporting may include some or all of the following, depending on the risk profile of the loan portfolio:

- Results of independent loan reviews;
- Analysis and adequacy of the ALLL account and methodology;
- Charge-off and recovery trends;
- Trends regarding OREOs and repossessed assets;
- Loan approval/denial rates and renewals of matured balloon notes or lines of credit;
- Credit score migration analysis;
- MBL risk-rating migration analysis;
- Loan extensions, modifications, TDRs, and non-accrual reporting;
- Monitoring of unfunded commitments;
- Loan participation program management and due diligence;
- Tracking and proper approval processes for loans granted outside of policy or outside the usual lending territory; and
- Loan concentration limits and compliance monitoring.

TARGETED CR8. New and Expanding Loan Programs

Does the credit union have any new lending programs or loan programs with significant growth?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the **Conditional Scope Steps** section.

TARGETED CR9. Loan Modification and Extension Program

Review the credit union's loan modification and extension program. Ensure the following fundamental components are addressed:

- Realistic assessment of the risk to net worth;
- Overall strategy for managing or reducing risk;
- Prudent policies, procedures, and controls,²³ for administering the program; and
- Process for monitoring, measuring, and reporting the program’s results to the board.

Review growth trends in loan modifications and extensions.²⁴

Complete the following:

²³ See NCUA regulations part 741, Appendix C, and Supervisory Letter 13-02, Examiner Review of Loan Workouts, Nonaccruals and Regulatory Reporting of Troubled Debt Restructured Loans.

²⁴ Exclude skip-a-payment programs offered to borrowers who are current on their loans.

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- Interview management to determine the reason(s) for the direction in modification and extension growth trends and management's plans for mitigating risk. Assess the safety and soundness of any program changes and the sufficiency of risk mitigation plans.
- Obtain a list of the loan modifications and extensions granted since the prior exam or contact; compare the system-generated list to the Loan and Share Analytics loan queries for any unexplained differences.
- Are modification and extension growth trends large or unusual, leading to concerns about poor credit practices or possible manipulation?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

TARGETED CR10. Delinquency and Charge-off Trends

Review delinquency and charge-off trends in the overall portfolio and for individual loan types. Review the following:

- Trends in the 60+ day and 30 - 60 day delinquency categories;
- The reasons for any increases (or material declines) in delinquency levels and negative trends²⁵ and management's plans for mitigating risk;
- The accuracy of \$0 in reported delinquency or charge-offs;
- Charge-off trends; and
- Whether loan charge-offs were properly reported to, and approved by, the Board of Directors: Tie charged-off loans to approval in the board minutes and data processing records to ensure fictitious or fraudulently granted loans are not being charged off.
- Were any unusual or material changes in trends (positive or negative) noted, or is delinquency or charge-off reporting inaccurate?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

TARGETED CR11. Collection Practices and Oversight

Determine whether adequate segregation of duties²⁶ exists. If not, ensure sufficient oversight is in place over the collections area. Such oversight would typically involve a review by the Supervisory Committee or another independent party. Are collection practices and oversight insufficient, or is segregation of duties inadequate?

If “yes,” [complete the related Conditional Scope steps](#) outlined in the “Credit Risk” Review area of the Conditional Scope Steps section.

²⁵ For example, reasons may include layoffs in the field of membership, change(s) in management, new programs, less stringent underwriting requirements, etc.

²⁶ Ideally, the collector should not have any cash handling duties.

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TARGETED CR12. Allowance for Credit Losses (ACL) Account

Ensure the ACL account is adequately (and not materially over- or under-) funded.

Assess the following significant aspects of ACL methodologies and documentation practices:²⁷

- Application of Generally Accepted Accounting Principles (GAAP) and full and fair disclosure requirements;
- Policies and procedures;
- Methodology, including a summary of the components (pooling and individual impairment, any environmental factors, etc.) and consolidation of the loss estimates to determine the amount required in the ACL; and
- Process for validating the ACL methodology.

TARGETED CR13. Foreclosed and Repossessed Assets

If the credit union completed any foreclosure actions or repossessions since the last exam or contact, complete the following:

- Review a sample of loans through the collection, repossession, valuation, and disposition process for consistency with policies/procedures and compliance with GAAP:
 - Review repair invoices, condition reports, physical inspection reports, and storage location information (for example, warehouse, consignment lot, etc.) for repossessed collateral.
 - Review all bids for sales of repossessed collateral for evidence of kickbacks or inappropriate insider activity.
 - Ensure the sale of foreclosed and repossessed assets are properly recorded,²⁸ documented, and reported to the Board of Directors.
- For foreclosures, also complete the following:
 - Determine whether credit union staff and any third parties have appropriate experience to manage the foreclosure process.
 - Review whether the credit union avoids dual tracking (simultaneously pursuing foreclosure and modification),²⁹ which can add to borrower confusion and delay foreclosure actions.
 - Review whether the credit union documents its decisions to foreclose or take other action, such as pursuing modifications, short sales, or deeds in lieu of foreclosure.
 - Determine whether any litigation is ongoing between the credit union and a member or mortgage-related third party that presents an elevated risk to net worth or the credit union's reputation.

²⁷ See Chapter 11 of the Examiner's Guide, *Allowance for Loan and Lease Losses*, Letter to Credit Unions 02-CU-09 (IRPS 02-3), and Accounting Bulletin 06-AB-01.

²⁸ The credit union should be listed as the owner of foreclosed real estate and repossessed vehicles.

²⁹ Some states prohibit pursuing both courses of action simultaneously.

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Reputation Risk

TARGETED RR1. Insider Account Review

Obtain a list of all employees and officials, their family members,³⁰ and significant others (in the same household as the employee or official). If you think the list provided to you may be incomplete, you can ask another staff person if they know of any accounts that might have been omitted. You can also use MERIT queries to look for other accounts with the same surnames or addresses.

Review the past 3 to 12 months' activity³¹ in a sample of insider accounts for all subaccounts including regular share, share draft, loan, and credit card accounts. If the credit union has off-system loans, including these in your sample.

- Trace a sample of deposits made to selected insider accounts (including family member accounts and accounts on which insiders are joint owners) during the chosen review period to source documentation, such as copies of checks, payroll records, teller daily work, transfers from other accounts, etc.
- Trace a sample of insider loan payments during the selected review period to their source (for example, copy of check; teller daily work, such as checks, receipts, or wire transfers; ACH report; transfers from other accounts; etc.).
- Determine which Supervisory Committee members or officials review employee accounts and the frequency of such reviews. Determine whether the reviewer is or was responsible for reviewing accounts held by their own family members. Examine any documentation of insider account reviews.
- Assess concerns found during the Insider Review. Did the review identify any of the following:
 - Loan payments applied directly to principal?³²
 - Credit limits that were increased without proper loan officer approval?
 - Skipped loan payments for loans that do not appear on the delinquency report?
 - Advanced loan due dates?
 - Loan balances that were paid off just prior to or during the course of the examination (potentially to avoid detection of preferential terms, delinquency, or fraudulent activity)?
 - Reversed interest payments, reversed late fees, or reversed NSF fees?

³⁰ Not limited to those in the same household as the employee or official. Generally this includes mother, father, siblings, children, and grandchildren, regardless of where they live, and anyone else living in the same household.

³¹ If you review hard copies, you must ask for account histories and not copies of the member statements. Account histories contain more information than member statements, such as reversed entries, teller ID codes, etc. Further, reviewing account histories in the data processing system, (with data processing controls set to prohibit the examiner from making changes or posting entries), is preferred over reviewing printouts provided by credit union staff.

³² Extra principal payments made at the same time as the scheduled payment would usually be applied directly to principal (assuming the loan is current and accrued interest is \$0 after posting the scheduled payment) and would not generally indicate a concern.

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- Preferential dividend rates³³ to insiders?
- Frequent deposits indicative of check kiting?³⁴
- Transfers to or from unrelated accounts (accounts that are not subaccounts under the same account number)?
- Frequent overdrafts without approval for courtesy pay?
- Unusually high volume of account activity, including a high number or dollar amount of deposits that would not be typical based on the insider's income?

If “yes” to any of the above, [complete the related Conditional Scope steps](#) outlined in the “Reputation Risk” Review area of the Conditional Scope Steps section.

Strategic Risk

TARGETED SR1. Marketing, Business, and/or Strategic Plans

For FCUs with community-wide FOMs with potential members of less than 1 million granted on or after 7/26/10 (including both community expansion and community conversion approvals), review the

³³ Preferential rates could include dividend rates paid to insiders that are higher than those paid to the general membership for the same type of account or an account category paid above-market dividend rates where insiders have significant participation in the program.

³⁴ Check kiting occurs when a depositor with accounts at two or more financial institutions draws checks against the uncollected balance at one institution to take advantage of the float (the time required for the depository institution to collect from the paying institution), and the depositor initiates the transaction with the knowledge that sufficient collected funds will not be available to support the amount of the checks drawn on all of the accounts.

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marketing, business, and/or strategic plans submitted with their FOM expansion request for the first three calendar years after the year in which a community FOM is approved.³⁵

Appendix B to Part 701 of the NCUA Rules and Regulations (Chartering and Field of Membership Manual) requires the evaluation of the Business Plan for credit unions which converted to or expanded a community charter every year for 3 years after approval.

The Business Plan Review is a required scope item for all community charter actions (expansion or conversion) when the potential members are less than 1 million. CURE is responsible for the review when the FCU's potential membership is 1 million or greater. This review is required to be completed every year, for 3 years following the community charter action approval. The first review should not be completed until at least one full year has elapsed since the community charter action.

NCUA can take supervisory action if we determine the federal credit union has failed to satisfy the terms of its approved business and marketing plan. Supervisory action will be determined on a case by case method and determined by an agreement between the district examiner and regional management. In most cases, the initial action would include a DOR item or Examiner's Finding.

Federal credit unions should maintain a copy of the business plan. Management should be performing a regular review to ensure they are following the approved plan. For some community expansions, FCUs may have a submitted a streamlined business plan. The streamlined plan is typically not as detailed as a full business plan and the Examiner should note that in the comment sections.

TARGETED SR2. Disaster Recovery Plan

Once every other calendar year, review the disaster recovery plan.³⁶ (For FISCU exams scheduled less frequently than once in a two-year period, complete this review during every exam.)

TARGETED SR3. Board Minutes

Review board minutes and annual meeting minutes since the last exam and document any material

³⁵ Regional field staff are only required to complete this review if the credit union's potential membership is less than one million. The central office is responsible for this review when the FCU's potential membership is one million or greater.

³⁶ NCUA Guidance regarding Disaster Recovery and Business Continuity Planning includes Letters to Credit Unions and Risk Alerts:

- 10-CU-10 2010 Hurricane Season and Ongoing Disaster, Emergency and Pandemic Preparedness and Planning
- 09-CU-13 Hurricane Preparedness and Pandemic Planning
- 08-CU-07 FFIEC Release of Updated Business Continuity Planning Examination Handbook
- 08-CU-01 Interagency Statement on Pandemic Planning
- 06-CU-12 Disaster Preparedness & Response Examination Procedures
- 06-CU-11 Interagency Guidance Lessons Learned by Institutions Affected by Hurricane Katrina
- 06-CU-06 Influenza Pandemic Preparedness
- 06-Risk-01 Disaster Planning and Response
- 01-CU-21 Disaster Recovery and Business Resumption Contingency Plans

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issues discussed in the minutes.

For FCUs, “material issues” to be documented include discussions about potential mergers, names of other credit unions that may have approached the FCU about a merger, and details about any preliminary merger agreements or financial arrangements (such as retention bonuses or other financial incentives to senior management; or seats for the merging or continuing credit union’s board of directors, supervisory committee, and/or credit committee members), regardless of whether credit union management decided to proceed with further merger discussions.

TARGETED SR4. Performance Comparison

For recently-chartered federal credit unions only: Compare actual performance and operations to the approved Business Plan.

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Compliance Risk

TARGETED CO1. Prior Exam Concerns - (Pre-Exam Planning Questionnaire, review item 1)

Determine if prior DOR and Examiner's Findings items are resolved, unresolved, or no longer applicable. Document the DOR status within the DOR module.

TARGETED CO2. Waivers and Administrative Action - (Pre-Exam Planning Questionnaire, review items 5 and 6)

Review compliance with all outstanding waivers, plans (e.g., RBP, NWRP, special assistance workout plan, etc.), and administrative actions. Appropriately, document results within the Status Update.

TARGETED CO3. Bank Secrecy Act

Review compliance with Bank Secrecy Act and complete the Bank Secrecy Act questionnaire.

TARGETED CO4. Flood Disaster Protection Act

Review compliance with Flood Disaster Protection Act and complete the Flood Act questionnaire.

TARGETED CO5. Fidelity Bond Coverage

Review fidelity bond coverage to ensure it meets minimum regulatory limits in accordance with NCUA Rules and Regulations Part 713; review any outstanding bond claims.

- Determine if bond coverage meets minimum regulatory limits and provides coverage for fraud and dishonesty by all employees, directors, officers, supervisory committee members, and credit committee members.
- Ensure the company is an authorized provider of fidelity bond coverage for credit unions, as listed on the NCUA website.
- Review any outstanding bond claims:
 - What led to the claim?
 - What are the credit union's expectations of payment?
 - Has management instituted controls to ensure the issue does not recur, if applicable?

TARGETED CO6. Consumer Compliance Workbook(s) (located in the Job Aid Repository)

Examiners will use the current year's Consumer Compliance Workbook for the current year consumer compliance exam scope activities. For credit unions that did not receive a regular examination in the preceding year, or that did receive an examination with limited scope for the applicable preceding year's consumer compliance exam scope activities, examiners may complete the preceding year's Consumer Compliance Workbook in addition to the current year's Consumer Compliance Workbook based on their examiner judgement. Requirements are outlined in the current NCUA Instruction 5000.20. The completed workbook(s) should be attached to this scope

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task to document work performed. You may comment “see workbook” in the Work Performed and Results of Review fields below. The Consumer Compliance Workbooks are located in the Job Aid Repository.

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Interest Rate Risk

Targeted IRR1. Interest Rate Risk

All asset sizes must complete question 1 in the Questionnaire section and the Execution Results section. Document the results of the Estimated NEV Tool (ENT) Report in Financial Analytics to support the IRR rating.³⁷

³⁷ The ENT is updated quarterly using the most recent Call Report data. Exam staff should verify the accuracy of the Call Report data before using the ENT results as a basis for the IRR Supervisory Rating.

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Conditional Scope Steps

Instructions

Complete the following scope areas for each risk area and document in MERIT's Execution Result section. Examiners will complete all targeted reviews unless the credit union does not offer the product or service. If a scope step does not apply, document why it does not and move on. For example: "N/A – Credit union does not offer this service." Examiners should complete the defined scope procedures outlined in 5000.20, the SCUEP Scope and the associated Scope Job Aids. If Conditional or Expanded scope procedures are triggered, these additional procedures are also required. If examiners need additional time to complete triggered Conditional or Expanded scope procedures, they must obtain and document supervisor approval for the additional time needed to complete these additional procedures in the Closed Information Questionnaire in MERIT. The expectation is that supervisors will approve additional time as needed and when warranted. If the examiner identifies other risks and wants to add scope steps above what is required, they should discuss with their supervisor prior to adding the additional scope steps.

Transaction Risk

CONDITIONAL TR1. Supervisory Committee Audit and Member Account Verification.

Perform a full scope general ledger review (Conditional TR1a-TR1I) if 1) there are any deficiencies with the audit, 2) any Red Flags are present during the Pre-exam planning and scoping, or 3) there are ongoing recordkeeping issues or prior CAMEL 3, 4, or 5 ratings related to the general ledger or recordkeeping.

Contact your SE to determine the appropriate supervisory actions if the audit does not meet the requirements of NCUA Regulations Part 715.³⁸

- Examples of audit weaknesses include, but are not limited to, the following:
 - Material parts of the audit are not fully complete;
 - Audit workpapers evidencing the work was performed do not exist (for example, no documented review of the bank reconciliation, no reconciliation of shares or loans, no confirmation of bank/corporate balances and investments purchased during the testing period, etc.):
 - Workpapers do not support the auditor's findings; or
 - Major areas of credit union operations (for example, loans, shares, investments, etc.) are unaudited.

³⁸ Refer to NCUA Instruction 4016.1 if you find and document substandard performance quality by a licensed person in relation to professional standards as part of the Supervisory Committee's responsibilities to meet NCUA Regulations Part 715.

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If the verification of accounts is inadequate or internal control weaknesses were identified, require the Supervisory Committee to correct identified weaknesses, which may require redoing the verification of accounts or obtaining a new verification. Complete the following:

- Require the Supervisory Committee to redo the verification, correcting the identified weaknesses; or
- If there is suspicion of fraud or the Supervisory Committee is incapable of, or unwilling to, perform an acceptable verification, require the committee to hire an external auditor to verify 100% of accounts; or
- If the original verification was completed by a third party, require the credit union to obtain a new verification of member accounts, performed by a different third party. If a licensed person is involved, consult NCUA Instruction 4016.1
- Ensure the verification includes reconciling the member statement report (print processor) to the shares and loans trial balance and general ledger, for the period covered

CONDITIONAL TR2. Supervisory Committee Activities and Work Papers Review.

Perform a full scope general ledger review (Conditional TR1a-TR1l) if 1) there are any deficiencies with the audit, 2) any Red Flags are present during the Pre-exam planning and scoping, or 3) there are ongoing recordkeeping issues or prior CAMEL 3, 4, or 5 ratings related to the general ledger or recordkeeping.

Contact your SE to determine the appropriate supervisory actions if the audit does not meet the requirements of NCUA Regulations Part 715.³⁹

- Examples of audit weaknesses include, but are not limited to, the following:
 - Material parts of the audit are not fully complete;
 - Audit workpapers evidencing the work was performed do not exist (for example, no documented review of the bank reconciliation, no reconciliation of shares or loans, no confirmation of bank/corporate balances and investments purchased during the testing period, etc.):
 - Workpapers do not support the auditor's findings; or
 - Major areas of credit union operations (for example, loans, shares, investments, etc.) are unaudited.

CONDITIONAL TR1a. Foreclosed and Repossessed Assets

- Tie the general ledger to a subsidiary list of foreclosed and repossessed assets. If the credit union does not have a subsidiary list or ledger, review the account history for reasonableness.
- Does the reported amount of foreclosures and repossessed assets disagree with the subsidiary ledger, or does the account history contain unusual activity?

³⁹ Refer to NCUA Instruction 4016.1 if you find and document substandard performance quality by a licensed person in relation to professional standards as part of the Supervisory Committee's responsibilities to meet NCUA Regulations Part 715.

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If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1b. Review Fixed Assets

- Tie the general ledger to a detailed subsidiary list for fixed assets. If the credit union does not have a detailed subsidiary list or ledger, review the account history for reasonableness.
- Does the reported amount of fixed assets disagree with the subsidiary ledger, or does the account history contain unusual activity?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1c. Review Accrued Interest on Loans.

- Tie accrued interest on loans to the loan trial balance summary.
- Determine that accrued interest on delinquent loans >90 days is excluded from total accrued income.
- Review accrued interest reported by third-party vendors for loans with outsourced servicing.

CONDITIONAL TR1d. Verify Accrued Interest on Investments.

- Review the reconciliation, subsidiary, or third-party documentation.
- Does the interest accrued on investments appear unreasonable?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1e. Review Receivables.

- Review the reconciliation or general ledger history to ensure the items are not stale-dated, and they are still collectible.

CONDITIONAL TR1f. Review Prepaid Expenses.

- Review the subsidiary ledger or general ledger history for unusual balances or entries.
- Review for proper classification and amortization period.
- Test the amortization to verify the proper balance (you may use the optional Prepaids worksheet within the General Ledger Review Workbook in MERIT).
- Did the review identify concerns with the amount of prepaid expenses reported on the balance sheet?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1g. Review Other Assets⁴⁰ for appropriateness.

- Verify balance using statements from vendors, CUSOs, etc.

⁴⁰ See 5300 Call Report Instructions for examples of Other Assets.

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CONDITIONAL TR1h. Review Borrowed Funds for compliance with the regulatory limits in NCUA Regulations § 741.2,⁴¹ board approval, and purpose.

- Verify board approval in the board minutes.
- Determine the purpose of the borrowed funds and the board’s plans for repayment. Borrowings should be used for a specific purpose that management can readily explain.
- Verify the amount borrowed, interest rate charged, and term of the note payable against the original agreement (or confirm with the issuing institution).
- Review requirements for underlying collateral, if applicable.

CONDITIONAL TR1i. Review Accounts Payable.

- Review for old or unusual items. Ensure accounts payable general ledger balances clear regularly (for example, payroll taxes payable should clear at least quarterly).
- Search for, and determine the reason behind, any debit balances.⁴² Trace entries back to their source.
- Did the review identify any Accounts Payable weaknesses or findings?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1j. Review Accrued Expenses.

- Review dividend accruals for reasonableness. Multiply the average dividend rate for each type of share or certificate account by the total outstanding balance for that account type, considering the time period accrued – compare to the amount reported.
- Review other accrued expenses for reasonableness by comparing last year’s expense to this year’s accrual.
- Review for unusual or old items.
- Do accrued expenses appear unreasonable, or were unusual or stale items identified?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR1k. Review Other Liabilities.⁴³

- Review reconcilements or account histories for appropriateness and clearing.

CONDITIONAL TR1l. Review Suspense and Clearing Accounts.

- Review reconcilements and account histories to make sure these accounts clear continuously⁴⁴ and that no old items exist. A zero or small balance could be deceiving, as offsetting debits and credits could net to zero or a small amount.

⁴¹ The credit union may borrow an aggregate of up to 50 percent of paid-in and unimpaired capital and surplus.

⁴² A debit balance in accounts payable may indicate concealment of personal expenditures paid with credit union funds.

⁴³ See 5300 Call Report Instructions for examples of Other Liabilities.

⁴⁴ These accounts could be used to conceal out-of-balance conditions.

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- Determine how the account clears and trace the clearing entries back to their source.
- Do suspense and clearing accounts carry a balance (in other words, they don't clear regularly), are debits or credits to the accounts unusual, or is the source of the clearing atypical?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR4. Negative Share Accounts

Review a sample of negative balance share account histories to determine what caused them to go negative. Complete the following:

- Pull negative share reports for the middle of the month and the last few days of the month and select a sample of negative balance share accounts from these reports.
- Review the account histories for the sample to identify the reason the accounts are overdrawn. If you see accounts that fluctuate (in other words, from positive to negative balances), review the account histories to determine the reason for the overdrafts and how they were paid (in other words, sources of funds).
- Compare the end-of-month report to MERIT.

CONDITIONAL TR6. Cash on Hand

Observe credit union staff or officials perform surprise cash counts and counts of cash shipments. Also observe internal controls over replenishing ATM cash.

CONDITIONAL TR7. Cash on Deposit

Test a sample of deposit transactions. Complete the following:

- Match a sample of daily work to daily deposit slips and receipts from financial institutions.
- Test a sample of deposits by tracing them through to the statement to ensure they clear timely (not longer than a few business days) and for the correct amount.
- If the credit union had a significant number or dollar amount of wire transfers, trace a sample to source documents and the member's account.

CONDITIONAL TR8. Investments

- Require an independent verification of all investment balances and reconcile any differences between the confirmation balance and the general ledger balance.
- Determine whether the difference is related to unposted interest or valid deposits in transit.
- Examiners should request additional examination time from their Supervisory Examiner to complete this scope step.
- Do any discrepancies still exist?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

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CONDITIONAL TR9. Retained Earnings

Review general ledger activity and adjusting entries for Undivided Earnings, Regular Reserves, and ALLL accounts. Complete the following:

- Review general ledger activity for adjusting entries; ensure they are properly classified and approved.
- If there is a difference in the Equity Reconciliation in Financial Analytics, or, if the credit union has a formal reconciliation that ties charge-offs, recoveries, and Provision for Loan Loss expense to the general ledger each month, review this reconciliation for accuracy.

CONDITIONAL TR10. Operating Income

- Compare actual income year-to-date with budgeted income, looking for material differences.
- Discuss with management to determine whether differences and trends are reasonable.
- Are explanations insufficient or cannot be verified?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR11. Non-Operating Income

- Review the account history for Non-Operating Income (for example, gifts, donations received, grants, etc.) to determine what types of transactions are running through this account and what makes up the balance.
- Discuss large-dollar entries with management.
- Review Non-Operating Income for proper classification, and tie the amount reported year-to-date back to the source of the income.

CONDITIONAL TR12. Expenses

Review expense account general ledger histories for unusual entries; review charges to the credit union's corporate credit card for appropriateness.

Complete the following for a selected 90-day period:

- Review a sample of expenses for appropriate classification, and review expense account general ledger histories for unusual entries.
- Review a sample of charges to the corporate credit card (for example, travel expenses) for appropriateness, compliance with board policies, and proper approval.
- Did the review identify any unusual expense entries in need of further review?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR15. Official Credit Union Checks

Follow up on missing and voided checks and review unusual insider transactions. Complete the following:

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- Ask for missing checks (voided checks might be stored apart from other disbursements).
- Verify that the accounting entry posted to void a check appropriately reverses the original entry.
- Verify that the check did not clear on the bank statement.
- For official credit union checks payable to an insider or with an insider's name in the comment section, review the transaction to determine the source of the funds (the debit side of the entry). If the debit is a withdrawal from the insider's account, a valid expense reimbursement that is fully documented and approved, or regular employee compensation/payroll check, no additional review is required.
- Are checks still missing, or is the source of the funds paid to insiders unusual?

If "yes," refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR16. Information System and Technology Controls

Review risk assessment over data and network controls and review a sample of "Do not mail" accounts. Complete the following:

- Determine whether the manager or board has completed a risk assessment of this area. If so, evaluate the adequacy of the assessment and risk mitigation measures.
- Obtain a list of "Do not mail" accounts from the data processing system. Review a sample of these accounts for unusual activity.

CONDITIONAL TR17. File Maintenance

Review loan files and account histories based on the unusual activity identified in Targeted procedures. Complete the following:

- Review activity in the accounts involved.
- Review the loan file:
 - Determine if a properly approved extension agreement or subsequent action form exists to substantiate changes in loan terms.
 - Determine whether the loan file contains skip-a-pay documentation and that such documentation is in accordance with policy.
 - Determine if appropriate authorization is on file for release of, or changes in, collateral.
- For several address changes to the same address, use Google Earth or another search engine to determine whether the address is a valid residence (vs. an empty lot or non-existent).

Do the identified concerns remain?

If "yes," refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR18. Reactivated Dormant Accounts

- Review the transactions that reactivated dormant accounts to determine if the member received the proceeds of the withdrawal.
- Review the transactions to determine the following:

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- Did the member sign a withdrawal slip, and does the signature match the signature card on file?
- Was a check issued, with the member listed as payee? Review canceled checks or archived check images – does the endorsement match the signature card on file?
- If the member's address was changed near the time the account was reactivated, is a signed authorization for the address change on file? (Address change may be identified during your review of file maintenance reports.)

Did the number of supervisory overrides/reactivations look unusual, or were other problems identified?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of General Ledger Accounts.

CONDITIONAL TR19. Financial Trends and Emerging Risk

Review general ledger account histories or balances for accounts with questionable activity, and trace back to source documents. Complete the following:

- For an increase in net loan losses, review the ALLL account general ledger history for charge-offs and the JCR for the other side of the entry. Also review the loan file for validity.
- For a disparity in the average cost of funds compared to stated dividend rates, review the dividend expense account for additional dividend payment entries. Trace anything manually posted to dividend expense back to source documents.
- For a disparate difference between the weighted average loan rate and the yield on average loans ratio, combined with low reported delinquency, compare the delinquent loan report to delinquency on the Call Report for underreporting. Also review file maintenance reports for bumped due dates and review the nonaccrual report to determine if loans that do not appear on the delinquency list have been placed into nonaccrual status.
- For a disparate difference between the amount of interest accrued and the average monthly loan interest, review the accrued interest on loans general ledger account history for unusual entries, and review the process for loan interest income recognition. Also review file maintenance reports for bumped due dates.
- For high loan growth without a corresponding increase in delinquency:
 - Select a sample of recently granted loans and determine if the proceeds were used to pay off unrelated (and potentially fictitious) loans.
 - If a loan was disbursed by check and appears unusual (for example, high amount compared to type of loan), review the disbursement check to determine if it was made payable to an employee or to a different member than the borrower identified on the loan documents.
 - Review the paid off loan report and the new loan report to determine if loans are being refinanced with the advance of new funds. If there is a high frequency of refinancing, review a sample of paid off loans to ensure they were not delinquent at the time of refinancing.

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Credit Risk

Conditional CR2. Management Changes in Lending and Collections

Determine reason for material management changes and review qualifications of new management. Complete the following:

- Determine why the lending or collections manager left or was replaced.
- Review the qualifications of new management personnel in lending or collections. Does new management have experience, training, and education consistent with the type and complexity of lending and collections programs at the credit union?
- Are there any concerns with the reason for departure or new management's qualifications? If “yes”, assess the impact of material management changes on lending and collection practices, loan quality and losses, due diligence, monitoring, and compliance with lending regulations. Specifically, assess the impact of material management changes on:
 - Loan and collection policies and practices;
 - Loan quality;
 - Loan losses;
 - New program due diligence;
 - Lending program monitoring activities;
 - Compliance with lending regulations; and
 - Collections effectiveness.

Conditional CR3. Loan Queries - Review Anomalies

Review payment histories of the loans identified in Targeted procedures (payment histories may be reviewed electronically on a credit union’s data processing system or using a paper printout from the DP system):

- Assess the impact of the anomalies on credit quality, delinquency reporting, loan losses, and ALLL.
- Determine the reason for the anomalies and identify evidence of potential improper activity. Also consider reviewing the transaction codes associated with the payment activity.
- Did the review of payment histories identify concerns with paid ahead loans? If “yes”, perform additional analysis of the paid ahead loans with anomalies.

Determine the following:

- Is the number of required payments or the frequency of payments per the data processing system different than the note?⁴⁵
- Is paid ahead status inaccurate when compared to the scheduled amortization and calculated delinquency?

⁴⁵ For example, if the system lists 52 required monthly payments rather than 52 required weekly payments, the loan would inappropriately show as paid ahead.

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- Is the loan appropriately shown as paid far in advance, but the member has not made recent payments? If so:
 - Review the account history to determine if the member was regularly making extra payments, consistently making larger payments than required, or if a large lump-sum payment was applied to the account.
 - If a large lump-sum payment was made, trace the source of the large payment.⁴⁶
 - If you determine a large lump-sum payment may be from a questionable source, review whether the account is flagged as “Do not mail” or “Hold for pick-up.”⁴⁷

Conditional CR4. Lending System Controls

Complete the following enhanced internal control procedures:

- Insider loans:
 - Determine whether procedures are in place to review insider loans within a reasonable period after origination.
 - Determine whether insider loans are being repaid in accordance with the note (in other words, payments are for the proper amount and at the required frequency).
- For all loan types:
 - Verify loan signatures to signature cards for both the borrower(s) and any associated insider(s).
 - Ensure that authorized credit union personnel witness co-maker signatures. If the loan documents are not signed in person, a notary must witness the signature.

Conditional CR6. Large Member Concentrations

Pull a sample of loan files from the member concentration and identify the source of repayment.

Complete the following:

- For concentrations to PO boxes, trace the PO boxes to their physical locations.
- Review loan documents, signature cards, and OFAC checks, comparing the information to ensure it is consistent.
- Identify the source of repayment.
- Review whether the credit union established a concentration risk policy⁴⁸ to identify, measure, monitor, and control concentration risk within the loan portfolio.

⁴⁶ Sources indicative of potential fraud include payment derived from loan proceeds (possible pyramiding of fraudulent loans), a transfer from another member’s share account, and a credit to a suspense account or other general ledger account, or recoveries on charged off loans received from an outside collector or another member. Sources indicative of delays in charging off losses include insurance payment (leaving a deficiency balance) or a partial charge-off.

⁴⁷ If insider fraud is involved, flagging an account would give the individual control over the statement.

⁴⁸ The credit union should develop and implement a concentration risk program consistent with the recommendations set forth in Letter to Credit Unions 10-CU-03, Concentration Risk, and commensurate with the size and complexity of the credit union’s portfolio. Concentration risk policies should address:

- Acceptable risk limits for each loan product on an individual and aggregate basis;

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- Review whether the credit union’s concentration risk program identifies any concentrations that present a high risk of exposure (in other words, >100 percent of net worth).

Does the credit union have high risk exposure without an established concentration risk mitigation program? If “yes”, assess whether management’s actions to identify, measure, monitor, and control high risk concentrations are adequate, given the level of concentration risk exposure present.

Conditional CR8. New and Expanding Lending Programs

Review management’s due diligence prior to implementing any new programs; review the reason for significant growth in existing loan programs. Complete the following:

- Determine whether the credit union performed adequate due diligence⁴⁹ and implemented appropriate policies before offering new programs:
 - Review policies, underwriting practices, internal controls, and concentration limits to ensure appropriate risk mitigation exists within the new program.
 - Ensure the credit union’s strategic plan addresses the new program
 - Ensure the credit union’s legal counsel reviewed contracts for the new program.
- If the credit union experienced significant growth in any products, review the cause of such growth, and:
 - Ensure management has established appropriate concentration risk limits.
 - Ensure the credit union has adequate liquidity and secondary sources of liquidity for new and expanding loan programs.
 - Ensure management has considered the impact of portfolio growth on the balance sheet and income statement, including the impact on interest rate risk.
- Did the review of new and expanding programs identify liquidity or interest rate risk monitoring concerns? If “yes”, complete the appropriate part(s) of the Liquidity Questionnaire (Part A, B, and C, as appropriate). Review results of IRR reviews documented in MERIT; contact your SE to determine if scope expansion and additional hours are needed to appropriately evaluate the impact of new and expanding loan programs on the credit union’s IRR.⁵⁰

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- Management’s assessment of net worth based on the aggregate potential exposure from all forms of concentration risk;
 - Reports on the individual and aggregate exposure to concentration risk;
 - Predetermined actions to take when risk limits are reached;
 - The credit union’s system of identifying, measuring, monitoring, and controlling concentration risk, which should be commensurate with the level of potential concentration risk exposure; and
 - Compliance with NCUA Regulations § 701.21, which limits aggregate loans to one member to no more than 10 percent of unimpaired capital and surplus.

⁴⁹ Refer to Letter to Credit Unions 07-CU-13, Evaluating Third Party Relationships.

⁵⁰ NCUA Regulations § 741.3(b)(5) exempts all federally insured credit unions with assets of \$50 million or less from interest rate risk rule requirements (i.e., the requirements for a written interest rate risk policy and effective interest rate risk management program). NCUA regulation § 741.12(a) requires federally insured credit unions with

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Conditional CR9. Loan Modifications and Extensions

Review a sample of loan modifications and extensions. Complete the following:

- Assess whether loan modifications and extensions are consistent with policies and practices.
- Determine whether the borrower has the ability to repay the loan under the modified structure, or if such agreements are being used to hide delinquent or non-accrual loans.
- Compare the signature on the modification or extension agreement to the signature on the member's signature card. Unsigned agreements are a red flag.⁵¹

Conditional CR10. Delinquency and Charge-off Trends

Review watch lists and repossession, bankruptcy, and foreclosure logs; review a sample of delinquent loans and charge-offs. Complete the following:

- Review key underwriting data by program type, such as debt-to-income and LTV ratios:
 - Identify underwriting changes and weaknesses.
 - Determine what procedural modifications could have prevented the higher delinquency level.
- Determine if the credit union monitors a watch list of loans requiring special attention.
- Review repossession, bankruptcy, and foreclosure logs to evaluate credit union controls.
- Pull a sample of delinquent loans:
 - Determine whether staff follows established collection policies and procedures.
 - Identify weaknesses within the collection policy or process.
- Pull a sample of charge-offs:
 - Determine why the loan was charged-off.
 - Assess whether the credit union collects, monitors, and evaluates charge-off data and trends to enhance loan programs, underwriting, and collection efforts.
 - Review credit score data for charged-off loans. Assess whether scoring cut-offs are consistent with risk pools.⁵²
- Evaluate any patterns that suggest underwriting or program changes are needed to reduce credit risk.
- Do anomalies identify concerns with the accuracy of delinquency reporting? If "yes" Validate reported delinquency status by completing the Delinquency Calculator worksheet in the Exam Testing Workbook.⁵³ Complete the Delinquency Calculator worksheet in the Exam Testing

assets of less than \$50 million to maintain a basic written liquidity management policy and a list of contingent liquidity sources that can be employed under adverse circumstances.

⁵¹ If an unsigned agreement is identified, additional procedures may include reviewing the loan payment history; reviewing the teller code to see which employee conducted the transaction; tying the activity to the file maintenance report for the same day; reviewing whether an OFAC check was completed; using Google, MapQuest, or a similar Internet tool to check the address on the loan application or subsequent agreement, etc.

⁵² For example, high amounts of charge-offs in A and B pools may indicate scoring cut-offs are too low, underwriting is inadequate for the level of risk present, or pricing is inappropriate.

⁵³ The Delinquency Calculator will work for closed-end loan products only.

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Workbook, using applicable fields from the delinquency query in the MERIT loan module.

Answer the questions below:

- Is the estimated APR on the delinquency calculator materially different from the stated APR in the credit union's data processing system? If so, review the loan documents to determine if the APR input into the system is lower than what is stated on the note.⁵⁴
- Is reported delinquency inaccurate when compared to the scheduled amortization and calculated delinquency?⁵⁵
- If you determine delinquency status has been manipulated or a large lump-sum payment (that brought a delinquent loan current) may be from a questionable source, review whether the account is flagged as "Do not mail" or "Hold for pick-up."

Conditional CR11. Collection Practices and Oversight

Review a sample of collection notes and determine whether collection activities are effective and appropriate for the credit union's size and complexity. Complete the following:

- Review collection actions for consistency with policy requirements and best practices.⁵⁶
- Ensure the adequacy of documented collection efforts.⁵⁷

⁵⁴ A lower interest rate could be the result of preferential treatment to an insider or used to minimize the cash flow necessary to service a fraudulent loan.

⁵⁵ Inaccuracies may be the result of bumped due dates or extended first payment due dates.

⁵⁶ See Examiner's Guide, Chapter 10 – Collections and Collection Program Controls.

⁵⁷ At a minimum, documentation should include: dates of contact, names, summaries of conversations with the borrower, actions taken, promises made, follow-up dates, and anticipated next action(s).

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Reputation Risk

Conditional RR2. Insider Accounts - For concerns noted during Targeted procedures related to loan payments applied directly to principal, review loan documents, terms, and approval.

Complete the following:

- Review loan documents for terms; determine whether the loan was written at a 0 percent rate.
- If so, determine if the 0 percent rate was properly approved and the reason for approving it.

Do the loan terms reflect something other than a 0 percent rate, were the terms improperly approved, or is the reason(s) for approval unreasonable?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR3. Insider Accounts - Determine when overstated credit limits were input and by whom. Complete the following:

- Determine if the credit limit was overstated at the time the loan was originated or increased later.
- Review teller codes to determine which employee input the inflated credit limit or improperly increased it later.

Conditional RR4. Insider Accounts - Skipped Payments

- Review account histories and loan files for the current loans with skipped payments.
- Review account history to determine if some payments exceeded the required amount, or if more frequent payments were made for a time, to compensate for the skipped payments.
- Review the loan file for a properly approved extension agreement or skip-a-pay agreement.
- Determine if the insider paid skip-a-pay fees, if applicable.
- Were only required payments (or less) made, and/or a loan extension agreement or skip-a-pay agreement is lacking in the file for the loans with skipped payments?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR5. Insider Accounts - Advanced Due Dates

Review account histories and loan files for insider loans with advanced due dates. Complete the following:

- Determine if the insider made additional or larger payments to substantiate the advanced due date (in other words, paid ahead status).
- Pull the loan file to determine whether the first payment due date was inappropriately extended; review the frequency of contractual payments.

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- Determine if a properly approved extension agreement is on file.
- Are the advanced due dates inadequately explained?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR6. Insider Accounts - Loan Account Histories

Review loan files, account histories, and payoff documents for recently paid off insider loans. Complete the following:

- Pull the loan file and determine if there are any preferential terms, if the loan is written outside of policy, and whether the loan officer properly approved the loan.
- Review loan activity to determine if the member missed any payments but was never reported as delinquent.
- Review appropriate documentation to determine the source of the payoff (for example, new loan, check, transfer from another member's share account, debit to another general ledger account, etc.).
- Did the review identify concerns with preferential treatment, missed payments, or documentation?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR7. Insider Accounts - Reversed Payments or Fees

Review accounting entries for reversed payments or fees and written policies. Complete the following:

- Determine whether the entry is an error correction.
- Review written policies to determine if the activity occurred outside of approved policy or if policies allow preferential treatment of officials in violation of NCUA Regulations § 701.21(d)(5).
- If the preferential treatment involved an employee and an exception to policy, determine if the activity was properly approved by the manager or the board of directors and the reason for the approval.
- Are correcting entries invalid, outside policy, or improperly approved?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR8. Insider Accounts - Dividends

- Discuss the reasons for the pricing with management and determine if preferential treatment exists or an input error occurred.

Conditional RR9. Insider Accounts - Potential Kiting

Review the credit union's internal control procedures for identifying potential kiting.

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- Are check kiting detection procedures insufficient?⁵⁸

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR10. Insider Accounts - Joint Account Holders

Determine whether the insider is a joint account holder and the source or disposition of any transfers. Complete the following:

- Pull the signature card to determine if the insider is a joint account holder on the unrelated account.
- Determine the source of any incoming transfers and the reason any outgoing transfers were made.
- Does documentation indicate the insider is not a joint account holder on the unrelated account?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

Conditional RR11. Insider Accounts - Negative Shares/Overdraft Policy

Review overdraft policies, monitoring procedures, and the status of overdrawn accounts. Complete the following:

- Review the written Negative Share/Overdraft policy.⁵⁹
- Determine if the credit union has procedures in place to monitor overdrawn accounts.
- Determine what caused the overdrafts:
 - What is on the other side of the transaction – where did the money go? Are loan payments involved?
 - Were shares deposited into another member’s account to replace stolen funds or to be accessed by an insider later?
 - Are other general ledger accounts affected?
 - Are fees being paid?
 - How long does the account remain in overdrawn status?
 - Are the credit union's policies and internal controls inadequate?

If “yes,” refer to Job Aid: SCUEP - Expanded Review of Insider Accounts.

⁵⁸ Examples of insufficient check kiting procedures include not performing the procedures timely (such as only once a month), or system parameters set in a manner which may not identify check kiting activity (such as only monitoring activity over a two-day period).

⁵⁹ Refer to Letters to Credit Unions 05-CU-03 and 05-CU-21 and NCUA Regulations, § 701.21(c)(3) for more information about Overdraft Protection programs.

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Conditional RR12. Insider Accounts - Deposited Funds

Review source documentation and complete an enhanced review of insider share accounts. Complete the following:

- Determine the source of the deposited funds by reviewing source documents, such as checks, teller receipts for cash deposits, ACH reports, transfers from another member's account, etc. The Journal and Cash Record (JCR) may be helpful in determining the other side of the entry and the appropriate source document to request.
- Expand review of subject account(s) to cover a longer period, and review family member accounts.
- Is a SAR necessary based on the identified concerns?⁶⁰

If "yes," refer to Job Aid: SCUEP - Expanded Review of Insider Accounts

⁶⁰ The 2010 BSA Anti-Money Laundering Handbook requires a mandatory SAR filing for criminal violations involving insider abuse in any amount.